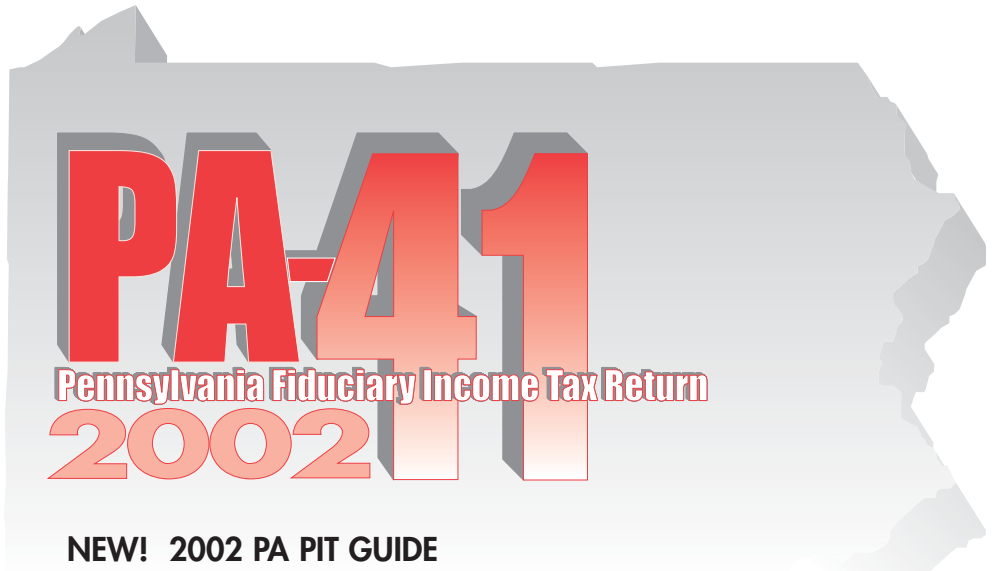


2002  
PA Fiduciary  
Income  
Tax Forms &  
Instructions  
for Resident  
and Nonresident  
Estates or Trusts



**NEW! 2002 PA PIT GUIDE**

The Department has produced a Pennsylvania Personal Income Tax Guide that provides comprehensive explanations of PA PIT requirements and differences between Pennsylvania and the Internal Revenue Code. Since PA PIT rules generally apply to individuals, estates, trusts, PA S corporations, and partnerships, a fiduciary will find additional information to report Pennsylvania's classified income (loss), and to claim allowable credits. Link to **PA PIT Guide** from the Department's home page at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**WHO MUST FILE A FIDUCIARY INCOME TAX RETURN, PA-41?**

- The fiduciary of a resident estate or irrevocable trust that received taxable income during its taxable year.
- The fiduciary of a nonresident estate or irrevocable trust that received taxable income allocable to Pennsylvania during its taxable year.

If two or more fiduciaries are acting jointly, one of the fiduciaries must file the return. For grantor and revocable trusts, see the instructions on page 3.

**TAX RATE**

For calendar year 2002 and fiscal years beginning in 2002, the PA tax rate is 2.8 percent (0.028).

**IDENTIFICATION LABEL**

This booklet contains an insert with a preprinted label for the estate or trust. Verify the Federal Employer Identification Number (EIN), or decedent's Social Security Number (SSN), if you do not have an EIN. Verify the name and other information on the label. Affix this label to the 2002 **PA-41**, if it is correct. If the label is incorrect, do not use it. Print the correct information on the **PA-41**.

**PA AND FEDERAL SCHEDULES AND FORMS**

Estates or trusts must classify income and losses according to PA law. A loss in one class of income may not reduce income in another class. Use PA schedules to report the correct PA amounts. Read the instructions for each income class. This booklet includes **PA Schedules OC, L, A, B, J, and D/DD**. Other PA schedules are available from the Department's home page or one of the **Forms Ordering Services** below.

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REVENUE



Bureau of Individual Taxes  
Harrisburg, PA 17128-0505

**IMPORTANT.** Amounts from the Federal Form 1041 may not be correct for the **PA-41**. See the instructions for each class of income to determine when a federal schedule is appropriate. Read all instructions carefully before completing the **PA-41**.

**CAUTION.** If starting with the amounts from the Federal 1041 Schedules B, C, F, and/or E, provide a detailed statement of the nature and amount of any adjustments made for PA purposes.

## **PAYMENT VOUCHER**

This booklet includes a **Form PA-V** for paying any PA Fiduciary Income Tax due. When filing, place the **Form PA-V** and check in the same envelope with the **PA-41**. The Department uses this form for automated payment processing. If any of the preprinted information on the **Form PA-V** is incorrect, do not use it. Follow the **Form PA-V** instructions. Do not use the **Form PA-V** for any other tax payment – discard it. If the estate or trust did not receive a preprinted **Form PA-V** from the Department, submit its payment with the **PA-41**. Please do not staple the check to the **PA-41** or to the **Form PA-V**.

## **REMINDERS FOR FILING 2002 PA-41 TAX RETURNS**

- Use the label, if it is correct.
- If using tax preparation software, do not use the label.
- If any of the information on the label is wrong, do not use it – destroy it. Then, complete all the information.
- Print all information inside the boxes. Use UPPER CASE.
- Print one number or letter in each box.
- Print in black ink. Do not use red ink or pencil.
- If the name, address, or city begins with a prefix (Mc, Van, O', etc.), do not enter a space or a punctuation mark.
- Leave a blank box between words.
- There is one line for the address. If there is a suite, room number, floor, etc., use the postal format for the mailing address.
- Fill in all the appropriate ovals completely.
- Do not use staples.

## **FORMS ORDERING SERVICES**

To obtain another **PA-41** booklet, forms not included in this booklet, or other PA Personal Income Tax forms and schedules, use one of these services.

**Toll-free 24-hour FACT & Information Line**  
(including forms by fax)

**1-888-PATAXES (1-888-728-2937)**  
touch-tone service required.

**Toll-free 24-hour Automated Forms Ordering Message Service**  
**1-800-362-2050**

serving taxpayers without touch-tone phone service

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

For written requests:  
PA Department of Revenue  
Tax Forms Service Unit  
711 Gibson Blvd.  
Harrisburg, PA 17104-3200

The Department's home page offers filing options & information at [www.revenue.state.pa.us](http://www.revenue.state.pa.us)

E-mail us at  
[parev@state.pa.us](mailto:parev@state.pa.us)

Visit the Department's district office nearest you, see page 12.

### **Taxpayer Service & Information Center**

Personal tax assistance is available during normal business hours by calling (717) 787-8201.



# GENERAL INFORMATION

**Estate.** For PA Personal Income Tax (PIT) purposes, an estate is the estate of a deceased individual. An estate for PA purposes does not include the estates of incompetents, bankrupts, or insolvents.

**Trust.** For PA PIT purposes, a trust includes a trust created by a will and all irrevocable express trusts taking effect during the lifetime or after the death of the settlor. A trust for PA purposes does not include:

- A revocable trust (see **Grantor Trusts and Revocable Trusts** below)
- A charitable trust (see **Charitable Trust** below)
- A resulting or constructive trust created by operation of law
- A trust created exclusively for the benefit of creditors
- A principal and agent relationship
- A business trust or real estate investment trust
- A trust created exclusively for the benefit of employees, their families, or appointees under an employee benefit plan
- A pension trust or profit-sharing trust
- A trust that is a common trust fund for Federal Income Tax purposes
- A trust:
  - (a) For which no part of the income or corpus may possibly benefit any PA Personal Income Tax taxpayer;
  - (b) For which no part of the property consists of property transferred to it (or another trust) by any PA Personal Income Tax taxpayer; and
  - (c) Created by an entity or enterprise other than a PA Personal Income Tax taxpayer.

**NOTE.** For purposes of (a), (b), and (c), a PA taxpayer means any individual, estate, trust, partnership, or PA S corporation.

**Charitable Trust.** A charitable trust is one operated exclusively for religious, charitable, scientific, literary, or educational purposes. A trust is a charitable trust only if all of the net earnings for the taxable year and remaining life of the trust are for distribution for such purposes. No part of the earnings of a charitable trust may benefit any private individual.

Federally qualified charitable remainder annuity trusts and charitable remainder unitrusts are not charitable trusts if, during the current taxable year:

- a) Any part of the trust's retained earnings may benefit any private individual in subsequent years; or
- b) Any part of the trust's income is required to be currently distributed or is distributed or credited to any private individual.

A charitable trust does not include trusts for the care, maintenance, or improvement of the burial lots of the settlor, testator, or his/her family.

Trusts for the general care, maintenance, or improvement of public or church cemeteries are charitable trusts.

## Grantor Trusts and Revocable Trusts.

PA law varies from federal law regarding grantor trusts. The federal rules do not apply for PA Fiduciary Income Tax preparers.

PA law imposes the Fiduciary Income Tax on grantor trusts according to the same PA Personal Income Tax rules that apply to irrevocable trusts, unless the grantor trust is a revocable trust. A revocable trust is:

- A tentative or Totten trust; or
- An express trust when the governing instrument reserves in the settlor:
  - (a) The power to revoke the trust as an entirety without the declaration of new uses or the consent of any other party; and
  - (b) The concurrent power to revest in himself or herself legal title to the corpus of the trust, without the consent of any other party.

A grantor trust generally files a **PA-41**. The beneficiaries of the trust, including the grantor if he/she receives income from the trust, report the income as beneficiaries on their **PA Schedule(s) J**. However, the person (settlor) who estab-

lished the revocable trust (including grantor trusts that are revocable) does not file a **PA-41** if under the governing instrument he/she retains authority to:

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

In this case, the settlor reports the income/loss in the appropriate income class or classes on his/her **PA-40**.

**Estates, Irrevocable Trusts, and Beneficiaries.** The taxable income of an estate or irrevocable trust is the current income that it retains for future distribution or disbursement or currently applies to discharge, satisfy, or reduce any person's or its own obligations.

Each estate or irrevocable trust must classify and report all income, gain, and losses realized in the appropriate PA income classes. The estate or trust must also submit with its **PA-41** a **PA Schedule L** showing all of the distributions to each of its beneficiaries. The estate or trust must also provide each beneficiary with a **PA Schedule L**, showing that beneficiary's share of the 2002 PA income that the estate or trust under its governing instrument and applicable state law distributed (or must distribute), credited, or paid to each beneficiary. Each beneficiary reports the PA taxable income from the **PA Schedule L** when filing his/her/its PA tax return. The instructions for **PA Schedule L** begin on page 10.

An irrevocable trust (and its beneficiaries) and an estate (and its beneficiaries) are not subject to tax on income that is set aside exclusively for charitable purposes.

**Common Trust Funds and their Participants.** Income of a common trust fund, maintained by a bank in its capacity as trust or administrator, is taxable to and reportable by each participant in the common trust fund as Estate or Trust Income, whether distributed or not.

**Members of Partnerships and PA S Corporations.** If the estate or trust is a member of a partnership or a PA S corporation, it must report its share of the income or loss, whether distributed or not, in the same class in which the partnership or PA S corporation reported the income. Each resident estate or trust must submit the **PA Schedule RK-1** from the partnership or PA S corporation. Each nonresident estate or trust must submit the **PA Schedule NRK-1** from the partnership or PA S corporation.

**IMPORTANT.** Federal income rules relating to federally qualified Subchapter S trusts and federally electing small business trusts do not apply for PA purposes. PA law taxes qualified Subchapter S trusts and federally electing small business trusts according to the same rules that apply to other irrevocable trusts.

**Resident Estates or Trusts.** A resident trust is:

- a) A trust created by the will of a decedent who at the time of death was a PA resident individual; or
- b) A trust consisting of property transferred to a trust by a person who at the time of such transfer was a PA resident; or
- c) A trust created by a person who at the time of such creation was a PA resident.

A resident estate is the estate created by an individual who at the time of his or her death was a PA resident.

Pennsylvania taxes the income of a resident estate or trust from sources both inside and outside Pennsylvania. A resident estate or trust may claim a Resident Credit, if it is subject to and pays income tax to another state or country on income taxable, in the same taxable year, to both Pennsylvania and the other state or country. This credit cannot exceed the amount of PA tax the estate or trust owes. To claim the Resident Credit, the estate or trust must submit a complete **PA Schedule G**. Obtain this schedule from one of the **Forms Ordering Services** on page 2, and follow the instructions on the schedule.

**Resident Beneficiaries.** The taxable income of a resident beneficiary from a resident or nonresident state or irrevocable trust is the taxable income received by the estate or trust for the taxable year that under the governing instrument and applicable state law, the estate or trust distributed currently, credited, or paid to the PA resident regardless of the source of the income.

**Nonresident Estates or Trusts.** A nonresident estate or a nonresident trust is any estate or irrevocable trust that is not a PA resident estate or PA resident trust. An inter vivos trust is also a nonresident if all of the following conditions are met:

- The assets of the trust currently consist in no part of real property or tangible personal property located within the Commonwealth, or intangible personal property, the documents, certificates or other instruments evidencing which are physically located, or have a business situs, within the Commonwealth.
- The trust is taxable as a resident elsewhere for the period in question.
- The trust has no resident fiduciary, beneficiary, or remainderman.
- All administration, accounting, bookkeeping, sales, and purchases currently take place outside Pennsylvania, and
- The settlor is no longer a resident of Pennsylvania or died a nonresident of Pennsylvania.
- The settlor is not a resident at the times when during his or her lifetime:
  - (a) An application is made to a court concerning the trust; or
  - (b) He or she or another might have exercised a reserved power of revocation.
- A Pennsylvania court having jurisdiction of the trust has directed that the situs of the trust be changed to a place outside the Commonwealth, and the courts of such place have assumed jurisdiction to adjudicate disputes involving the trust or order accountings to protect the trust corpus, beneficiaries, and remaindermen.

PA law imposes the Fiduciary Income Tax on the income of a nonresident estate or trust from Pennsylvania sources. A nonresident estate or trust must ignore items of income, loss, cost, expense, and liability that are not directly related to Pennsylvania when computing its PA taxable income.

**Nonresident Beneficiaries.** The taxable income of a nonresident beneficiary from a resident or nonresident estate or irrevocable trust is the taxable income received by the estate or trust for its taxable year that:

- Under the governing instrument and applicable state law, the estate or trust distributed, currently credited, or paid to the beneficiary; and
- Is taxable income to nonresidents from PA sources.

**Taxable Income.** Estates or trusts must report taxable income, or loss, realized from the following six classes:

- Interest Income (see page 5)
- Dividend Income (see page 5)
- Net Income or Loss from the Operation of a Business, Profession, or Farm (see page 6)
- Net Gain or Loss from the Sale, Exchange, or Disposition of Property (see page 6)
- Net Income or Loss from Rents, Royalties, Patents, or Copyrights (see page 7)
- Estate or Trust Income (see page 8)

Special rules apply to each of the following:

- Net gains or income or loss, derived through PA S corporations, partnerships, and other estates or trusts
- Net income or loss from the operation of a business, profession, or farm
- Net gain or loss from the disposition of tangible property
- Net gain or loss from the disposition of intangible personal property
- Net income or loss from the ownership of property

**Costs and Expenses.** A fiduciary may deduct only the ordinary, necessary, and reasonable costs and expenses directly incurred in realizing income or loss from:

- The operation of a business or farm;
- The sale, exchange, or other disposition of property; and
- The receipt of rental or royalty income.

Such expenses are deductible in determining the amount of net profits, net gains, and net rental, royalty, patent, and copyright income.

A fiduciary may not deduct:

- Expenses and fees related to administering the estate or trust
- Costs and expenses attributable to earning or receiving interest and dividend income
- Costs and expenses attributable to receiving income from other estates or trusts
- Inheritance, succession, estate, gift taxes, or taxes based on income
- Funeral expenses
- Expenses for preservation or maintenance of non-income producing property
- Expenses related to exempt income
- Satisfaction of personal debts of the decedent

**Gains or Losses.** Estates or trusts cannot offset income in one PA income class with a loss in any other PA income class. Estates or trusts cannot carry income or loss back or forward to other tax years. Attach the appropriate completed schedule for the income, gain, or loss reported.

**IMPORTANT.** If the estate or trust realized a net loss in an income class, enter the amount of the loss on the appropriate line on the **PA-41** and completely fill in the oval next to that line.

**Tax Year.** For Pennsylvania, an estate or trust must use its federal taxable year.

## GENERAL INSTRUCTIONS FOR PA-41

**Governing Instrument.** The Department does not require a copy of the governing instrument with the **PA-41**, but the estate or trust must make it available upon request.

**Special Rules.** Determine all of the following under the terms of the governing instrument and the laws applicable to the administration of estates or trusts:

- Whether an item of receipt or expense is allocable to corpus or income; **and**
- What part, if any, of the undistributed net income of a trust (for administrative purposes) is required to be added to corpus; **and**
- Whether property distributed in kind is distributed as a gift or bequest of specific property; **and**
- Whether an amount is properly paid out of corpus as a gift or bequest of a specific amount of money; **and**
- Whether payment of a distribution is directed without reference to the existence or absence of income; **and**
- Whether the estate or trust must distribute an amount, and whether it pays such amount out of income or corpus, or it may pay such amount out of either income or corpus.

The provisions of the governing instrument control when it specifically provides the source from which amounts are to be permanently set aside or used. In determining whether an amount is set aside or used for a purpose includes particular items of income received by an estate or trust. In the absence of specific provisions in the governing instrument, the amount shall be deemed to consist of the same proportion of each class of the items of income of the estate or trust as the total of each class bears to the total of all classes.

In determining whether income derived from a partnership, PA S corporation, estate, or trust is required to be distributed currently, or is distributed or credited to a beneficiary, the excess of the PA taxable income derived through such partnership, PA S corporation, estate, or trust over the amount of distributions or withdrawals therefrom shall be considered to be income that is required to be retained, accumulated, or set aside.

Amounts disbursed to pay taxes measured by the income for another taxable period may not be treated as set aside from current income. Amounts disbursed to pay nondeductible trustee commissions, legal, and accounting expenses and other current expenses that do not reduce the amount of taxable or nontaxable



income or gain of the trust for the taxable year, shall be treated as nontaxable income or gain for the taxable year which is required to be accumulated, retained, or set aside, if total distributions for the year do not equal or exceed the excess of total taxable and nontaxable income received by the trust for the taxable year over total taxable and nontaxable income received by the trust or estate for the taxable year, which is required to be accumulated, retained, or set aside for future distribution. If total distributions for the year do equal or exceed the excess of total taxable and nontaxable income received by the trust for the taxable year over total taxable and nontaxable income received by the trust or estate for the taxable year, which is required to be accumulated, retained or set aside for future distribution, the amounts shall be treated as distributions by the trust or estate and beneficiaries.

If a trust consists in part of intangible investment property, such as stock or securities, or tangible investment property, such as real estate located outside Pennsylvania transferred to it by a person who at the time of the transfer was a nonresident, the income or gains realized from such property shall be excludable from tax by the trust.

**When to File?** The filing due date for a calendar year estate or trust is midnight, Tuesday, April 15, 2003. The U.S. Postal Service postmark date on the envelope is proof of timely filing. The due date for a fiscal year estate or trust is midnight of the 15th day of the fourth month following the close of the fiscal year. The **PA-41** for a short year is due the 15th day of the fourth month following the close of the short year.

## INSTRUCTIONS FOR COMPLETING THE PA-41

**Identification Number.** Enter the EIN of the estate or trust on all schedules.

**Name and Address.** If you do not have a preprinted label, or the label information is not correct, print the name of the estate or trust, as described below, the name and the title of the fiduciary, the fiduciary's complete address, and daytime telephone number. Print the name and EIN of the estate or trust on each schedule attached to the **PA-41**.

Please enter the name of the estate or trust in this format:

For an estate . . . Taxpayer's last name, first name and middle initial

**EXAMPLE . . . TAXPAYER, JOHN T. ESTATE OF**

For a trust . . . . Taxpayer's last name, first name and middle initial

**EXAMPLE . . . TAXPAYER, MARY S. TRUST**

**Estate or Trust Identification Change.** Fill in this oval if any of the identification or filing information is different from the 2001 PA-41, or if the estate or trust did not file a 2001 PA-41. Destroy the label if it is incorrect.

**Extension Enclosed.** Fill in this oval if you obtained an extension to file your 2002 PA-41. Read the instructions on page 11.

**Amended PA-41.** Fill in this oval only if you are amending your 2002 PA-41. Read the instructions on page 11.

**Fiscal Year.** If this return is for a period other than a calendar year, including a short year, fill in this oval. Enter the beginning and closing dates of the taxable year.

**Residency Status.** Fill in only one oval. Enter the name of the other state or country, if a nonresident estate or trust.

**Final Return.** Fill in this oval if this is the final **PA-41** that the estate or trust must file. Enter the ending date. Record any income and distributions from the beginning of the year to the date of closing. Submit a statement explaining the reason for the final return, such as termination or transfer of jurisdiction.

To facilitate the settlement and distribution of a decedent's estate, the Department accepts the final return of the estate as a request for final determination of Personal Income Tax liability. Upon payment of the tax, interest and penalty liability determined to be due, the fiduciary shall be discharged from personal liability except upon proof of fraud, misrepresentation, or nondisclosure of a material fact.

**Do You Want a 2003 PA-41 Booklet?** If the fiduciary or tax professional does not use the forms provided by the Department, fill in this oval. The Department

will not mail a 2003 **PA-41** booklet to the estate or trust, but will send the estate or trust a **Form PA-V, Payment Voucher letter**.

## LINE INSTRUCTIONS FOR PA-41

**Line 1. Interest Income.** The **PA Schedule A** instructions are on page 9. Report interest received during the taxable year from bank deposits, bonds, certificates of deposit, interest-bearing checking accounts, tax refunds, or other obligations, etc.

**CAUTION.** Report dividends paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions on deposits, or withdrawals from accounts, as interest. Also include in interest income any interest from an installment sale that PA law does not permit, such as an installment sale of intangible property.

Generally, Forms 1099 issued by financial institutions will indicate the amount of interest from such institutions. Interest from GNMA and FNMA certificates is PA taxable income. Interest received from obligations of other states and countries is PA taxable income. Also include interest from **PA Schedules RK-1**. If the estate or trust received only a Federal Schedule K-1, classify interest income according to PA rules.

**PA Tax Exempt Interest.** Do not report interest received from direct obligations of the Commonwealth of Pennsylvania, or its political subdivisions. Do not report interest from direct obligations of the United States, such as Series E, F, G, H, I, and EE bonds, federal treasury bills and notes, etc. Interest received from obligations of federal instrumentalities is not taxable. Request **Form REV-1643, Tax Exempt Obligations for PA Personal Income Tax Purposes**, for a complete list of exempt obligations.

**Distributions from Money Market Funds, and Mutual Funds, and Other Investment Companies.** Estates or trusts must report distributions from the earnings and profits of money market or mutual funds, investment trusts, and investment companies as dividend income on Line 2, not as interest income.

**Forfeited Interest Penalty.** Estates or trusts may use forfeited interest penalty, incurred for premature redemption or withdrawal of a time savings account or certificate of deposit, to offset only the interest income from that account or certificate. It may not offset other interest income. If the total penalty exceeds the interest on an account or certificate, the excess is a loss on **PA Schedule D**.

**Interest Received by Nonresident Estates or Trusts.** Generally, interest received by nonresident estates or trusts is not taxable even when paid by a PA bank. Interest is taxable to a nonresident only if derived from the ownership or disposition of real or personal tangible property in PA, or received in connection with doing business in PA.

**Line 2. Dividend Income.** The **PA Schedule B** instructions are on page 9. Report dividend income received during the taxable year on Line 2. A resident estate or trust that is a shareholder of a corporation, other than a PA S corporation, must report as taxable dividend income distributions by a business corporation or business association out of its earnings and profits, without regard to the manner in which the business derived the income. For PA purposes, a business association is an unincorporated business enterprise, organized in a manner similar to a business corporation. Business corporations or business associations include, but are not limited to, business trusts, federally qualified real estate investment companies, mutual funds and other federally regulated investment companies. **CAUTION.** Report capital gain distributions from mutual funds and regulated investment companies as dividend income for PA purposes, even though reported on Schedule D for federal purposes.

**IMPORTANT.** If the estate or trust is a shareholder in a Subchapter S corporation in another state that is not also a PA S corporation, report only the cash or property actually received as dividend income on the **PA-41**. A corporation that elects S status in another state, but does not elect PA S status in Pennsylvania, is a C corporation for PA purposes. Do not report the amount of distributable income and do not claim a credit for any tax paid to the other state on this income.

**Mutual Funds, Money Market Funds, and Investment Trusts.** Distributions, including dividends in the form of capital gains, received from mutual funds and money market funds, real estate investment trusts, and other investment trusts,

except for ordinary dividends from exempt PA obligations and exempt federal obligations, are fully taxable as dividends unless they are a return of capital.

**Dividend Income Does Not Include:**

1. Dividends distributed by a corporation to its stockholders in the form of stock, when the distribution is not taxable as income for federal purposes.
2. Distributions designated as a return of capital by a utility company or other corporation. Once such distributions reduce the basis of the stock to zero, further distributions are taxable as gain from the sale or disposition of property on **PA Schedule D**.
3. Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. Report these payments as PA taxable interest income on Line 2.
4. Ordinary dividends paid by a mutual fund or a registered investment company that the fund/company statement designates as being exempt-interest dividends. Use the percentage of the total dividend income that is from exempt PA and exempt federal obligations.
5. Income from an estate or trust, even if reported on a Federal Schedule K-1. Report such income on **PA Schedule J**.
6. Dividends from PA tax-exempt obligations. You can request **Form REV-1643, Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes** for a list of exempt obligations.
7. Dividends distributed under a charitable gift annuity are not taxable. However, after you recovered the amount you donated, you must report further distributions as taxable gains on **PA Schedule D**.

**Dividends Received by Nonresident Estates or Trusts.** Generally, dividends received by nonresident estates or trusts are not taxable even when paid by a PA corporation.

**Line 3. Net Income or Loss from the Operation of a Business, Profession, or Farm.** Complete and file a separate **PA Schedule C** or **PA Schedule F** for each business or farm that the estate or trust operates. If not filing a separate PA business schedule, submit **PA Schedule C-F**. This schedule starts with the federal amounts and allows the adjustments necessary to determine PA taxable income or loss. Obtain a **PA Schedule C-F** from one of the **Forms Ordering Services** on page 2.

If the estate or trust is a partner or a PA S shareholder, submit its **PA Schedule RK-1** or **NRK-1**. If the estate or trust receives only a Federal Schedule K-1, classify the income according to PA rules.

**What is a Business or Profession?** A business or profession has certain features and must meet **each** of the following:

1. Markets its products, goods, and/or services to its customers in a marketplace; **and**
2. Regularly and continuously conducts its commercial activities; **and**
3. Does not limit or restrict its commercial activities to certain related or unrelated customers.

Report all net income or loss on the **PA-41**. If the estate or trust realizes a net loss, enter that amount on Line 3 and fill in the oval next to the line. Do not use brackets or a minus sign.

**Income Not Derived in the Ordinary Course of Business.** Unless the estate or trust realizes the following kinds of income in the ordinary course of operating its business, profession, or farm, the estate or trust reports these kinds of income in other PA income classes on its **PA-41**. The estate or trust may not deduct expenses attributable to these classes of income on its **PA Schedule C, F, or C-F**. Follow these rules for reporting other income:

- Report the gain or loss from the sale of an asset used in business, other than inventory or stock-in-trade, on **PA Schedule D**.
- Report interest income on **PA Schedule A**.
- Report dividend income on **PA Schedule B**.
- Report rent and royalty income on **PA Schedule E**.

**Allowable Business Expenses.** Allowable expenses are those ordinary, necessary, and reasonable expenses currently paid or incurred during the taxable

year that are directly related to and necessary for operating a business, profession, or farm. Social Security and Unemployment Compensation Taxes paid for employees are allowable expenses.

- Do not deduct any Federal Income Tax, estate, inheritance, legacy, succession and gift taxes, or assessments for any improvements or betterment.
- Do not deduct taxes on dwellings or household property and other taxes not related to the business.

**ACRS, Federal Accelerated Cost Recovery System.** PA accepts as allowable depreciation expenses the deductions allowable under ACRS, including the IRC Section 179 additional first-year depreciation allowance for small businesses. PA law does not permit the depreciation election under IRS section 168(k).

**Line 4. Net Gain or Loss from the Sale, Exchange, or Disposition of Property.** The instructions for **PA Schedule D** begin on page 9. You must report each sale, exchange, or disposition of any kind of property, including real estate, tangible personal property, and intangible property such as stock or ownership interests in business enterprises, bonds, annuities, and contract of insurance with refundable accumulated reserves payable upon lapse or surrender. However, if a sale, including an installment sale, is a routine transaction in the ordinary course of operating a business, profession, or farm, include the gain or loss, and any interest realized in determining net business income or loss.

Report gain on the disposition of property in the taxable year in which the amount realized from the conversion of the property into cash or other property exceeds the adjusted basis of such property.

You recognize a loss only:

- With respect to transactions entered into for profit.
- In the taxable year in which it closes and completes the transaction by some identifiable event that fixes the amount of such loss, so that there is no possibility of any eventual recovery.

**Installment Sales.** Obtain and complete **PA Schedule D-1 (REV-1689)**. Enter on Line 3 of **PA Schedule D**, the total gain realized from **PA Schedule D-1**. The estate or trust must elect the installment method if it receives at least one payment in any taxable year after the taxable year of the sales transaction. The estate or trust must submit **PA Schedule D-1**.

**IMPORTANT.** The estate or trust may not use the installment method for:

- Reporting gains from the sale of intangible personal property, such as stocks, bonds, partnership interests, etc.; or
- Transactions where the object is the lending of money or the rendering of services.

Once the estate or trust makes the election to report on an installment basis, it may not change its method of reporting in subsequent years.

Follow the instructions for **PA Schedule D-1**. Submit **PA Schedule D-1** with the **PA Schedule D**.

**IMPORTANT.** Report interest incidental to an installment sale, directly from the sale contract or agreement, on **PA Schedule D-1**.

**Repossession of Property.** If an estate or trust repossesses property from an installment sale because the buyer defaulted, the estate or trust must adjust the basis of the recovered property by the amount of any previously reported gain. The estate or trust may not amend its tax return for the taxable year of the original installment sale.

**CAUTION.** Report capital gain distributions from mutual funds and regulated investment companies as dividend income for PA purposes, even though reported on Schedule D for federal purposes.

**Federal and PA Obligations.** Since 1993, PA law treats net gains and losses from the sale, exchange, or disposition of the following obligations differently depending on the original issue date of these obligations:

1. Direct obligations of the United States, such as Series E, F, G, H, I, and EE bonds, federal treasury bills, and treasury notes;
2. Direct obligations of certain agencies, instrumentalities, or territories of the United States;
3. Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions.

If the original issue date was before February 1, 1994:

- The net gain is not subject to PA tax; and
- A loss may not offset other gains; and
- Expenses incurred may not reduce other taxable gains.

If the original issue date was on or after February 1, 1994:

- The net gains are PA taxable income; and
- Losses may offset other PA taxable gains, but not income in other PA income classes.

**CAUTION.** *The sale of a mutual fund or a fixed investment portfolio-trust is not exempt for PA purposes.*

**Obligations of Other States.** Net gain from the disposition of obligations of other states or countries is always PA taxable income.

**Taxable Distributions from a C Corporation.** As a shareholder in a C corporation, the estate or trust must report as taxable gain the excess of the fair market value of a distribution (other than a dividend) in excess of current or accumulated earnings and profits over the adjusted basis of its stock. Decrease the basis of the stock or shares, but not below zero, by any distribution that is not taxable as a dividend on Line 2 of the **PA-41**. **EXAMPLE:** B Corp distributes from its capital account \$100,000 to the estate of John Estate, the only stockholder. The estate's adjusted basis in the stock is \$75,000. The distribution is not from the regular corporation's earnings and profits, so it is not a taxable dividend. The estate must reduce its basis from \$75,000 to zero, then report \$100,000 on the "Enter total distribution" line, and \$75,000 on the "Minus adjusted basis" line. The estate reports the remaining \$25,000 as a gain on its **PA Schedule D**.

**Property Acquired Before June 1, 1971.** Obtain and complete **PA Schedule D-71 (REV-1742)**. Report on Line 5 of **PA Schedule D** the total net gain or loss from **PA Schedule D-71**.

**Partnership or PA S Corporation Income.** If the estate or trust is a partner or PA S shareholder, it will receive a **PA Schedule RK-1** or **NRK-1** showing its share of any net gain or loss realized by the sale, exchange, or disposition of property. Submit all such schedules to support the amount reported on **PA Schedule D**. If the estate or trust is a partner and receives a Federal Schedule K-1, you must classify the income and losses from the Federal Schedule K-1 according to PA rules.

**Disposition of Principal Residence.** A sale or other disposition of a decedent's principal residence will not qualify for the principal residence exclusion unless the disposition is pursuant to an executory contract made prior to death by an individual that met the ownership and use requirements. Include the sale of a decedent's residence on Line 1 of **PA Schedule D**.

#### **Line 5. Net Income or Loss from Rents, Royalties, Patents, or Copyrights.**

The estate or trust must complete and file a separate **PA Schedule E** to report its income or loss. **PA Schedule E** and its instructions are in the 2002 **PA-40** booklet.

Rental income includes the amounts the estate or trust received for the use of, or the right to use, its real or personal property.

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

Report the total income or loss from all **PA Schedules E** and all **PA Schedules RK-1** or **NRK-1**.

Generally, the estate or trust must use **PA Schedule E**, but may use Federal Schedule E, if using only Part 1, and making the following adjustments:

- Report passive rental/royalty loss in full, rather than carry it over to future years.
- Add any capital gains/distributions.
- Do not take any depreciation expense on Sales Tax that it elected to currently expense for PA PIT purposes.

- Optional. Deduct Sales Tax on acquired property as an expense currently rather than add it to the basis of the property as required for federal purposes.

**IMPORTANT.** If currently expensing Sales Tax, the basis of that property will differ from the federal basis. Adjust the depreciation expense accordingly, because the estate or trust cannot expense Sales Tax and still take depreciation. If not expensing Sales Tax, add such Sales Tax to the cost basis of the property and depreciate the aggregate cost plus Sales Tax.

- Separately show its share of any rental or royalty gain (loss) realized as a partner, a shareholder of a PA S corporation, or other entity.

#### **Rental and Royalty Receipts and Allowable Expenses.**

Gross rents and royalties include all items of gross receipts from rents, royalties, patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and similar property except:

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

Deduct those expenses that were paid or incurred during the taxable year that are ordinary and necessary for:

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

See the **PA Schedule E** instructions for the allowable expenses.

#### **Rents or Net Profit from the Operation of a Business.**

Rental activity is a business activity the estate or trust reports on a **PA Schedule C**, when:

1. The estate or trust offers the use of its property on a commercial basis to others in a marketplace; and
2. It provides significant services (see below) to the lessee primarily for the lessee's convenience, and not customarily provided in connection with renting property; and
3. At least one of the following three (3) conditions applies:
  - (a) The average period of customer use is 30 days or less; or
    - i. The property is customarily made available for use only during defined business hours; or
    - ii. The estate or trust incurs significant operating expenses in making the property available for lease; or
    - iii. The leasing activity is incidental to a real estate sales business; and
  - (b) It offers the use of its property intending to realize a profit; or
  - (c) The leasing of its property is a regular and continuous activity.

#### **Significant Services.**

Providing housekeeping service, room service, valet parking, decorating assistance, delivery services, transportation services, and concierge services are significant services. However, providing heat, lighting, electric service, elevators, cleaning public access and exit areas, collecting trash, and maintaining the property in a usable rental condition are not usually significant services.

#### **Rents or Net Gain from the Sale, Exchange, or Disposition of Property Lease with an Option to Buy.**

A lease-with-an-option-to-buy may be a purchase contract under accepted accounting principles and practices. If it is, the payments you received under the contract are payments of the purchase price and are not includable as rental income. Report such income on **PA Schedule D**.

#### **Selling Mineral Interests, Patents, or Copyrights.**

If giving up all rights to mineral interests, patents, or copyrights, the amounts the estate or trust received are considered payments for the sale or exchange of property. Report such income on **PA Schedule D**.

**Line 6. Estate or Trust Income.** Currently paid, distributable, or credited income from another estate or trust is PA taxable income on the **PA-41**. This estate or trust will receive a **PA Schedule L** from the other estate or trust. Cash and property received from another estate or trust by gift, bequest, devise, or inheritance is not taxable.

Report the PA taxable income from other estates or trusts on **PA Schedule J**. If the other estate or trust provides a Federal Schedule K-1, report the total distributed and distributable income, but not losses, on **PA Schedule J**.

If a resident estate or trust, enter the amount reported as your Resident Taxable Income on the **PA Schedule L** provided by the other estate or trust on Line 6. If a nonresident estate or trust, enter the amount reported as your Nonresident Taxable Income on the **PA Schedule L** provided by the other estate or trust on Line 6.

**Line 7. Total Taxable Income.** Add Lines 1 through 6. You cannot offset income and losses on these lines to calculate Line 7.

**Line 8. Deductions from PA Schedule DD.** Complete the **Distribution Deduction Schedule, PA Schedule DD**, to determine the allowable deductions for distribution made to beneficiaries of the estate or trust. The instructions for **PA Schedule DD** are on page 9.

**Line 9. Adjusted Taxable Income.** Subtract Line 8 from Line 7.

**Line 10. Total PA Tax Liability.** Multiply the amount on Line 9 by 2.8% (0.028). This amount is the PA tax before adjustments for payments and credits.

**Line 11. 2002 Estimated Payments and Credits.** Enter on Line 11 the total of:

- Any credit carried over from the 2001 **PA-41**; **and**
- All 2002 installment payments of estimated tax; **and**
- Any payment made with a 2002 request for extension of time to file.

**Line 12. Total Credit for Taxes Paid by PA Resident Estates or Trusts to Other States or Countries.** PA resident estates or trusts having income subject to both the PA tax and the Fiduciary Income Tax of another state or country may claim a credit for all or a portion of the tax paid to the other state or country. Submit a signed photocopy of the tax return, or other evidence, filed in the other state or country with the **PA Schedule G**.

**IMPORTANT.** PA law does not provide rules that allow an estate or trust to pass through the Fiduciary Income Tax it pays to another state or country on behalf of its beneficiaries. Therefore, the estate or trust may adjust the income it reports on the **PA Schedules L** that it provides to its beneficiaries by the **amount of Fiduciary Income Tax that it paid** to another state or country on the income it distributes to its beneficiaries. The estate or trust **must** submit an explanation for its adjustment and the signed copy of the other state (country) tax return or other evidence of the tax due to the other jurisdiction.

**Line 13. Total Other Credits.** Enter the total allowable credits from Line 4, **PA Schedule OC**. The instructions for **PA Schedule OC** begin on page 10.

**Line 14. 2002 Payments and Credits.** Add Lines 11, 12, and 13.

**Line 15. Tax Due.** If Line 10 is more than Line 14, enter the tax due.

**Line 16. Penalties and Interest**

- **Estimated Underpayment Interest Penalty.** If Line 15 is more than 10 percent of Line 10, the estate or trust is liable for an estimated underpayment penalty. PA law requires estimated PA PIT payments if the estate or trust earned, received, or realized more than \$8,000 of PA taxable income. PA law does provide specific exceptions (safe harbors) to this penalty, and the estate or trust can calculate its penalty at the applicable interest rates on **Form REV-1630, Underpayment of Estimated Tax by Individuals**. Obtain this form from one of the **Forms Ordering Services** on page 2, or visit the Department's home page, link to this form, and calculate your penalty.
- **Late Filing and Underpayment Penalty and Interest.** If paying the tax after the due date, the estate or trust must also pay applicable penalty and interest. The penalties are described on page 11. Obtain the applicable interest rate for filing in 2003 by going to the Department's home page. Include the applicable penalty and interest on Line 16. The Department will apply the payment to tax, interest, and penalty as prescribed by PA law.

**IMPORTANT.** If the estate or trust does not owe any penalty or interest, enter zero on Line 16.

**Line 17. Total Payment**

Add Lines 15 and 16. This is the 2002 amount due with the **PA-41**. Pay the total due, in full, on or before April 15, 2003. Use the **Form PA-V**.

**Line 18. Overpayment**

If Line 14 is more than Line 17, enter your overpayment.

**Line 19. Refund.** For a refund of the amount of Line 18, enter that amount.

**Line 20. Credit.** For a credit to the 2003 estimated account of the estate or trust, enter the amount from Line 18.

**IMPORTANT.** For a refund and a credit, enter the amounts on Lines 19 and 20; the total of these lines must equal Line 18.

**Review the PA-41.** Check the **PA-41** carefully. Did you report all PA taxable income and losses, and claim all allowable credits? Also, check all entries for accuracy. An error will delay the processing of the **PA-41**.

**Math Check.** Double check all calculations before filing the **PA-41**.

**Resident Estate or Trust.** The Resident Taxable Income should equal the estate's or trust's distribution deductions on Line 15, **PA Schedule DD**.

**Nonresident Estate or Trust.** The Nonresident Taxable Income should equal the estate or trust's distribution deductions on Line 15 of **PA Schedule DD**.

**Signature and Verification.** Be sure to sign the **PA-41**. An unsigned **PA-41** is not a valid tax return. The signature on the **PA-41** verifies by written declaration, under penalties of perjury, that the fiduciary personally has examined the **PA-41**, and its accompanying schedules, and to the best of his or her knowledge, the **PA-41** is true, correct, and complete. If someone other than the fiduciary or officer representing the fiduciary prepared the **PA-41**, the preparer may enter his or her name, or the company name, and the telephone number on the return.

**How to Pay.** The estate or trust must pay the balance of tax due shown on the **PA-41** by April 15, 2003. Make the check or money order payable to **PA Dept. of Revenue**. The estate or trust must file a **PA-41** even if no payment is due. Do not staple the check to the **Form PA-V** or to the **PA-41**. Use the **Form PA-V** on the insert to make the payment with the **PA-41**. If the fiduciary does not have a preprinted **Form PA-V**, include the check with the **PA-41**, but do not staple the check to the **PA-41**.

**Bad Check.** If a financial institution returns a check unpaid, PA law imposes an additional charge equal to 10 percent of the amount of the payment. The minimum charge is \$25, and the maximum charge is \$500. This is in addition to possible criminal prosecution and other penalties and interest. This addition to tax is also subject to applicable penalty and interest. The estate or trust may also face possible criminal prosecution.

## MAILING INSTRUCTIONS

If there is **Tax Due** on Line 15 of the **PA-41**, mail the return, check, and **PA-V** to:

**PA DEPARTMENT OF REVENUE  
BUREAU OF IMAGING AND DOCUMENT MANAGEMENT  
DEPT. 280413  
HARRISBURG, PA 17128-0413**

If there is an **Overpayment** on Line 18 of the **PA-41**, mail the return to:

**PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
DEPT. 280505  
HARRISBURG, PA 17128-0505**

If there is **No Tax Due** or **Overpayment**, mail the **PA-41** to:

**PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
DEPT. 280506  
HARRISBURG 17128-0506**

## SCHEDULE INSTRUCTIONS

Submit all required schedules. Enter the name of the estate or trust and its EIN, or the decedent's SSN, on all schedules.

### PA Schedules A and B

If the estate or trust has total taxable interest income of \$2,500 or less, report the income on Line 1 of the **PA-41**. If the estate or trust has total taxable dividend income of \$2,500 or less, report the dividend income on Line 2 of the **PA-41**. The Department does not require a schedule when the interest income and/or dividend income is less than \$2,500.

If the taxable interest income and/or dividend income is more than \$2,500, the Department allows these filing options:

1. If the federal and PA taxable income are the same, enter that amount on **PA Schedule A** and/or **B**;
2. Submit a copy of the federal schedule from Form 1041, instead of submitting **PA Schedule A** and/or **B**;
3. Complete **PA Schedule A** and/or **B** with the payer name and PA taxable interest income and/or PA taxable dividend income from each Form 1099 or other statement.

The Department does not require the federal schedule with a **PA Schedule A**, and/or **B**.

**IMPORTANT.** Capital gain distributions are dividend income, not capital gains as for federal purposes.

### PA Schedule D.

PA law does not recognize the deemed sale election that the IRS permitted on 2001 federal returns.

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

1. Columns a through f:
  - a) List and describe the property sold or otherwise disposed of for cash or other property.
  - b) Enter the month, day, and year acquired.
  - c) Enter the month, day, and year sold.
  - d) Enter the gross sales price or fair market value of cash and/or property received, less applicable expenses of sale.
  - e) Enter the Adjusted Basis of the property sold.
  - f) Determine whether the property was either I or II, and follow the appropriate instructions:
    - I If the property is income-producing property acquired as an investment, such as capital stock, an interest in a partnership or other business, a rental property, a patent or copyright, etc., or the estate or trust held the property in connection with a business, profession, or farm, and the property is not inventory or an operational asset:
      - Subtract Column (e) from Column (d) and enter the gain, loss, or zero in Column (f);
    - II If the property was other than income-producing property:
      - If the Adjusted Basis is less than or equal to Column (d) enter the gain, or zero in Column (f);
      - If the Adjusted Basis is greater than Column (d), the estate or trust does not realize a loss. Enter zero in Column (f).
2. Add Column (f) and enter the total. Gains and losses may be offset to calculate this line.
3. Enter the amount from **PA Schedule D-1**.
4. Enter the total Taxable distributions from C corporations. See the instructions on page 7.
5. Enter the total amount from **PA Schedule D-71 (Form REV-1742)**.

6. **Net Partnership Gain or Loss.** Report the taxable gain or loss from **PA Schedules RK-1** or **NRK-1**.
7. **Net PA S Corporation Gain or Loss.** Report the taxable gain or loss from **PA Schedules RK-1** or **NRK-1**.
8. **Taxable Distributions from Partnerships.** Report any gain realized from other partnership distributions that exceed the estate or trust's ownership basis in that partnership. Complete and submit **PA Schedule D (P/S)**.
9. **Taxable Distributions from PA S Corporations.** Report any gain realized from other PA S corporation distributions that exceed the estate or trust's ownership basis in that PA S Corporation. Complete and submit **PA Schedule D (P/S)**. See the **PA PIT Guide** for instructions for this schedule.
10. **Total PA Taxable Gain.** Add Lines 2 through 9. Include the net gain or loss on Line 4 of the **PA-41**.

### PA Schedule DD

#### 1a. Total Income from PA-41.

**Resident Estate or Trust.** Enter under Column A the income reportable from Line 7 of the **PA-41**.

**Nonresident Estate or Trust.** Enter under Column A the income that would have been reportable on Line 7 if it were a resident estate or trust. For the purposes of Line 1a, a nonresident estate or trust must compute its total income from sources both within and outside Pennsylvania.

#### 1b. Nonresident Estate or Trust.

Enter under Column B the amount reportable from Line 7 of the **PA-41**.

**Resident Estate or Trust.** Enter under Column B the amount that would be reportable on Line 7 if it were a nonresident estate or trust. For the purposes of Line 1b, a resident estate or trust must compute its total income in the same manner as a nonresident estate or trust.

#### 2a. Enter under Column A the dollar amount of gross income which, pursuant to the terms of the governing instrument or under applicable law, is unconditionally required to be either retained, accumulated, or set aside for future distribution or disbursement or currently applied to discharge, satisfy, or reduce any person's legal obligations. Include in this line amounts from Line 16 that are permanently set aside for future distribution to a purely religious, charitable, scientific, literary, or educational organization.

#### 2b. Enter under Column B the dollar amount of gross income allocable to Pennsylvania, which pursuant to the terms of the governing instrument or under applicable law is unconditionally required to be either retained, accumulated, or set aside for future distribution or disbursement or currently applied to discharge, satisfy or reduce any person's legal obligations. Include in this line amounts from Line 16 that are permanently set aside for future distribution to a purely religious, charitable, scientific, literary, or educational organization.

#### 3a and 3b – Self-explanatory.

#### 4a. Enter the amount of the estate or trust's nontaxable gross receipts for the taxable year that are both:

- Not required under laws applicable to the administration of estates or trusts or the governing instrument to be retained for future distribution or disbursement or to be currently applied to discharge, satisfy, or reduce any person's legal obligations; and
- Derived from the ownership or disposition of an obligation issued by the federal government, Pennsylvania or their instrumentalities (but only to the extent of the gain therefrom), or life insurance, annuity, and endowment contracts.

#### 5a. Add Lines 3a and 4a.

This is the amount of income available for distribution.

#### 6a. Divide Line 3a by Line 5a.

This is the percentage of the total taxable and nontaxable income available for distribution that represents distributable taxable income from all sources.

#### 7b. Divide Line 3b by Line 5a.

This is the percentage of the total taxable and nontaxable income available for distribution that represents distributable taxable income allocable to Pennsylvania.

**IMPORTANT.** If you are filing for an estate, enter zero on Lines 8a, 9a, and 10a and proceed to Line 11a.

8a. A trust enters the total of all amounts, if any, specifically required under the governing instrument to be distributed during the taxable year, whether actually distributed or not.

9a. A trust enters the total of all amounts, if any, specifically required under the governing instrument to be distributed during the taxable year that:

- Have been actually distributed; or
- Have not been actually distributed, but, under the governing instrument, are to be paid exclusively out of corpus.

10a. **Subtract Line 9a from Line 8a.** Total amount of undistributed income that the estate or trust must distribute currently.

11a. Estates or trusts enter the total dollar amount of cash distributions made to beneficiaries during the taxable year, exclusive of amounts properly paid out of corpus as a gift or bequest of a specific sum of money or required distributions in any prior taxable year.

12a. Estates or trusts enter the total market value of property distributions made to beneficiaries during the taxable year, exclusive of property distributed in kind as a gift or bequest of specific property.

13a. **Add Lines 10a, 11a, and 12a.** Total amount distributed/distributable by the estate or trust.

14a. and 14b - **Self-explanatory**

15. **Resident Estate or Trust.** Enter the lesser of Line 3a and Line 14a.

**Nonresident Estate or Trust.** Enter the lesser of Line 3b and Line 14b.

**Charitable Distribution Deduction – Special Instructions for Line 16.** An estate or trust qualifies for a charitable distribution deduction if it is unconditionally required under applicable law, or its governing instrument, to retain and permanently set aside all or a determinable part of its retained total income for the taxable year exclusively for the benefit of a purely religious, charitable, scientific, literary, or educational organization. This line contains only the portion of the income from Lines 2a, 2b, or both, that satisfies the conditions in the preceding sentence. No amount included on Lines 2a or 2b of **PA Schedule DD** will be considered to be permanently set aside, or to be used, exclusively for the benefit of such organizations unless, under applicable law, or the terms of its governing instrument and the circumstances of the particular case, the possibility that the amount set aside, or to be used, will not be disbursed, distributed, or used for the benefit of such an organization is so remote as to be negligible. For example, where there is a possibility of the invasion of corpus of a charitable remainder trust in order to make payment of the annuity amount or unitrust amount, the estate or trust may not take a deduction.

**Computation of Charitable Distribution Deduction.** If applicable law or governing instrument specifically provides the source from which the estate or trust shall set aside proceeds or receipts exclusively for charity, the amount of the charitable deduction is the amount which would be properly reported on Line 1a of **PA Schedule DD**, or Line 1b in the case of a nonresident trust or estate, where such receipts or proceeds are the only items of income for the year. Otherwise, the charitable deduction is that portion of the amount reported on Line 2a of **PA Schedule DD**, or Line 2b in the case of a nonresident estate or trust, which the amount actually retained, accumulated, and set aside for the taxable year exclusively for the benefit charity bears to the total amount actually retained, accumulated, and set aside for the taxable year.

16. **Resident Estate or Trust.** Enter the amount of taxable income included in Line 2a of **PA Schedule DD** for which a charitable distribution deduction is allowed.

**Nonresident Estate or Trust.** Enter the amount of taxable income included in Line 2b of **PA Schedule DD** for which a charitable distribution deduction is allowed.

17. **Total Deduction from PA Schedule DD.** Add Lines 15 and 16. Enter the result here and on Line 8 of the **PA-41**.

### PA Schedule L

The estate or trust must submit with its **PA-41** a **PA Schedule L** that identifies all the beneficiaries. This **PA Schedule L** must also show the PA taxable

income that the estate or trust distributed or was required to distribute to each beneficiary.

The estate or trust must also provide to each beneficiary a **PA Schedule L** showing only his/her/its share of the PA taxable income. The Department does not accept Federal Schedule(s) K-1 because that schedule does not properly reflect the classified PA taxable income amounts.

Enter on **PA Schedule L** the name, complete address, and identification number (EIN or SSN) of each beneficiary to whom the estate or trust made, or was required to make, a distribution during the taxable year, or to whom amounts were credited and payable during the taxable year. Follow **Steps 1, 2, and 3** below to compute and enter the amount of each beneficiary's Resident Taxable Income and Nonresident Taxable Income.

**Step 1.** Compute the total dollar amount of:

- Cash and property distributions actually made to the beneficiaries during the taxable year; and
- Undistributed amounts that are either credited and payable or required to be currently distributed to the beneficiary during the taxable year.

**IMPORTANT.** Do not take into account:

- Amounts that are properly paid out of corpus as a gift or bequest of a specific amount of money; or
- Amounts that were required to have been distributed in any prior taxable year; or
- The market value of property distributed in kind as a gift or bequest of specific property.

**Step 2.** To compute the beneficiary's Resident Taxable Income, multiply the amount computed in Step 1 by a fraction. The numerator is the lesser of Line 3a or Line 14a of **PA Schedule DD**. The denominator is Line 13a of **PA Schedule DD**.

**Step 3.** To compute the beneficiary's Nonresident Taxable Income, multiply the amount computed in Step 1 by a fraction. The numerator is the lesser of Line 3b or Line 14b of **PA Schedule DD**. The denominator is Line 13a of **PA Schedule DD**.

### PA Schedule OC

**Line 1. Employment Incentive Payments Credit.** Estates or trusts employing welfare recipients may be eligible for this credit. Submit a completed **PA Schedule W** with copies of the Certification Form from the PA Department of Labor and Industry for each employee. If a partner or a PA S corporation shareholder, enter the credit amount from the **PA Schedules RK-1 or NRK-1** the estate or trust received.

**Line 2. Jobs Creation Tax Credit.** Enter the amount of approved credit from the PA Department of Community and Economic Development certification the estate or trust received. If a partner or a PA S corporation shareholder, enter the credit amount from the **PA Schedules RK-1 or NRK-1** the estate or trust received.

**Line 3. Research and Development Tax Credit.** Enter the amount from the PA Department of Revenue certification the estate or trust received. If a partner or a PA S corporation shareholder, enter the credit amount from the **PA Schedules RK-1 or NRK-1** the estate or trust received.

**Line 4. Total Allowable Credits.** Add Lines 1 through 3 and enter the total here and on Line 13 of the **PA-41**.

### PA Schedule I

Under certain conditions, Pennsylvania accepts the same amounts that you report on the 2002 Federal Form 1041. See the instructions for each income class. If you believe that the federal amounts reported on the Form 1041 are correct for PA purposes, obtain **PA Schedule I** from one of the **Forms Ordering Services** on page 2. If you use this schedule, you do not have to attach either a PA or federal schedule. The Department exchanges information with the Internal Revenue Service. **CAUTION.** *If the estate or trust is a shareholder in a PA S corporation or a partner in a partnership, you may not use PA Schedule I. You must provide the PA Schedule RK-1 or NRK-1. If you use PA Schedule I and subsequently amend the Form 1041, you must amend the PA-41.*

# APPENDIX

**Extension of Time to File.** The estate or trust must submit its **Form REV-276, Application for Extension of Time to File** with its **PA-41**. Obtain the **Form REV-276** from one of the **Forms Ordering Services** on page 2. Follow the instructions on the PA extension form. Pennsylvania also accepts the federal extension of time to file the Form 1041. Fill in the Extension Enclosed oval on the **PA-41**.

**IMPORTANT.** An extension of time to file the **PA-41** does not extend the time to pay the Fiduciary Income Tax due. An extension cannot exceed six months, unless the fiduciary is outside the United States. If the fiduciary expects the estate or trust to owe tax, the fiduciary must submit the extension form (and pay the tax due) in sufficient time before the due date so the Department may consider and act upon it. Include the extension payment on Line 11 of the **PA-41**.

The Department will not send a letter granting the extension, but will write if there is a question concerning the request.

The Department will assess an underpayment penalty if:

- The estate or trust does not pay at least 90% of the 2002 tax due by April 15, 2003; and
- The estate or trust does not pay the remaining tax with a timely filed **PA-41**.

The Department will charge interest on the amount not paid by April 15, 2003.

**2003 PA Estimated Fiduciary Income Tax Requirements.** If the estate or trust expects more than \$8,000 of PA taxable income in 2003, the fiduciary must file a declaration of PA Estimated Tax and make installment payments.

**CAUTION.** *If the estate or trust paid \$224 or more on the 2002 PA tax return and expects the same income in 2003, it must make estimated tax payments. The Department sends estimated tax forms to estates and trusts that paid 2002 estimated taxes. If the estate or trust does not receive its 2003 estimated tax forms, contact the nearest Department district office. If making estimated tax payments for the first time, request Form PA-40ESR (F/C), instructions REV-413F, and worksheet REV-414F.*

**Penalties for Not Filing or Filing a Late Return.** If the estate or trust does not file its **PA-41** timely, PA law imposes a penalty, unless the estate or trust can show reasonable cause for late filing. The penalty is 5 percent of the tax liability for each month or fraction of a month that the **PA-41** is late. The maximum penalty is 25 percent. The minimum penalty is \$5. Any estate or trust that attempts to evade or defeat their PA Fiduciary Income Tax responsibility is subject to prosecution.

**Interest for Nonpayment or Late Payment of the Tax.** If the estate or trust does not pay its tax by the due date, PA law imposes interest from the due date to the date of payment. The annual interest rate is the rate established by the U.S. Secretary of the Treasury that is in effect on January 1 of each calendar year.

**Other Penalties.** PA law also imposes:

- a) A 5 percent underpayment penalty, if the estate or trust does not pay the full amount of its tax due by the original due date.
- b) An additional penalty of 25 percent of the tax due on the unreported income, if the estate or trust does not report an amount of taxable income that is more than 25 percent of the taxable income that it reported on the **PA-41**.

The Department will charge these penalties if the underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud.

**IMPORTANT.** The Department may assess both late filing and underpayment penalties if the fiduciary files the **PA-41** after the due date, or extended due date, and does not pay the tax due by the original due date.

PA law also may impose:

- a) An addition of 50 percent of the underpayment to the tax due, if any part of the underpayment is due to fraud.

- b) A \$500 penalty if the estate or trust:
  - Files a return that does not contain sufficient information on which to determine its correct liability; and
  - Files a return that contains information that indicates the liability is significantly incorrect; and
  - Files a return frivolously, or in a manner to delay or impede the administration of the tax law.
- c) A penalty of \$50 for each instance when any person required to furnish an information return either furnishes a false or fraudulent return, or fails to furnish an information return.

**Filing Amended Returns.** It is not necessary to attach a complete copy of the original **PA-41**. Use a **PA-41** from the same tax year the fiduciary must amend. To amend for 2001, use another **2001 PA-41**, and

Fill in the Amended oval on the **PA-41** and follow these steps:

1. Enter the amounts from the original **PA-41** that are not changing.
2. Enter the amended amounts, and submit an explanation/reason for amending the original **PA-41** and the forms or schedules supporting the amended amounts
3. Calculate the amended Net PA Taxable Income.
4. Calculate the PA Tax Liability. If the estate or trust received a refund on its original **PA-41**, add that amount to the PA Tax Liability.
5. Calculate the Total Payments and Credits. If the estate or trust paid tax with its original **PA-41**, add that payment to the Total Credits and Payments.
6. Calculate the amended Tax Due or Overpayment. If an overpayment, be sure to complete Lines 19 and/or 20.

The Department will take the original refund or payment into account when reviewing the amended **PA-41**. Be sure to sign the amended return. Mail the amended return, with all explanations and attachments to:

**PA Department of Revenue  
Bureau of Individual Taxes  
Dept. 280502  
Harrisburg, PA 17128-0502**

**Overpaid PA Fiduciary Income Tax.** If the estate or trust overreported its income, or did not claim allowable credits on its original **PA-41**, the fiduciary must file an amended **PA-41** within three years of the original due date.

**IMPORTANT.** Do not file an amended **PA-41** after the Department issues an assessment if the amendment relates to the same taxable year and assessed item of income, gain, deduction, or loss. In this instance, either file a timely petition for reassessment, or pay the assessment and file a timely petition for a refund. To order the **Petition, Form REV-65**, see the **Forms Ordering Services** on page 2.

**Underreported Income.** If, at any time after filing the **PA-41**, the estate or trust discovers that it underreported the tax, or erroneously claimed unallowable credits or deductions as a result of incomplete information, the fiduciary must correct the error within 30 days by filing an amended **PA-41**. The estate or trust must pay the additional tax, plus applicable penalty and interest.

**Records Must Be Maintained.** All amounts reported on the **PA-41** and accompanying schedules are subject to verification and audit by the Department. The fiduciary must retain books and records for at least four years after filing to verify any information reported on the **PA-41**.

# PA DEPARTMENT OF REVENUE DISTRICT OFFICES

**In Person** – The Department of Revenue and the IRS are again sponsoring joint offices where you can obtain Pennsylvania and federal tax assistance. See the list of district offices below, and call or visit the office nearest you.

**NOTE.** The location of a district office may change. Please call to verify the address.

**Temporary Revenue District Offices** – Each year the Department of Revenue establishes temporary offices to help taxpayers. Your local newspaper may list office locations. You may also find them on the Department's home page, or by calling the district office nearest you.

## **Altoona**

(Blair, Centre, Fulton,  
Huntingdon, and Mifflin)  
Ste. 204  
Cricket Field Plz.  
615 Howard Ave.  
Altoona, PA 16601-4867  
**(814) 946-7310**

## **Bethlehem**

(Lehigh and Northampton)  
44 E. Broad St.  
Bethlehem, PA 18018-5998  
**(610) 861-2000**

## **Bradford**

(Cameron, Elk, Forest,  
McKean, Potter, and Warren)  
600 Chestnut St.  
Bradford, PA 16701-2292  
**(814) 368-7113**

## **Doylestown**

(Bucks)  
Ste. 104  
600 Louis Dr.  
Warminster, PA 18974-2847  
**(215) 443-2990**

## **Erie**

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

## **Greensburg**

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

## **Harrisburg**

(Cumberland, Dauphin,  
and Perry)  
Lobby  
Strawberry Sq.  
Harrisburg, PA 17128-0101  
**(717) 783-1405**

## **Indiana**

(Armstrong, Clarion, Indiana,  
and Jefferson)  
Canterbury Office Stes.  
2263 Philadelphia St.  
Indiana, PA 15701-1595  
**(724) 357-7600**

## **Johnstown**

(Bedford, Cambria, Clearfield, and  
Somerset)  
Third Fl.  
345 Main St.  
Johnstown, PA 15901-1614  
**(814) 533-2495**

## **Lancaster**

(Lancaster and Lebanon)  
Ste. 201  
315 W. James St.  
Lancaster, PA 17603-2911  
**(717) 299-7581**

## **New Castle**

(Beaver, Butler, Lawrence,  
Mercer, and Venango)  
Rm. 201  
101 S. Mercer St.  
New Castle, PA 16101-3837  
**(724) 656-3203**

## **Newtown Square**

(Chester and Delaware)  
Ste. 1  
90 S. Newtown Street Rd.  
(Route 252)  
Newtown Square, PA 19073-4090  
**(610) 353-4051**

## **Norristown**

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

## **Philadelphia**

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

## **Pittsburgh**

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

## **Pottsville**

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

## **Reading**

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

## **Scranton**

(Lackawanna, Monroe, Pike,  
Susquehanna, and Wayne)  
Rm. 305  
Samters Bldg.  
101 Penn Ave.  
Scranton, PA 18503-1970  
**(570) 963-4585**

## **Sunbury**

(Columbia, Juniata, Montour,  
Northumberland, Snyder,  
and Union)  
535 Chestnut St.  
Sunbury, PA 17801-2834  
**(570) 988-5520**

## **Washington**

(Fayette, Greene, and  
Washington)  
Ste. 145 UL  
Millcraft Center  
90 W. Chestnut St.  
Washington, PA 15301-4524  
**(724) 223-4550**

## **Wilkes-Barre**

(Luzerne and Wyoming)  
Ste. 201  
Thomas C. Thomas Bldg.  
100 E. Union St.  
Wilkes-Barre, PA 18701-3200  
**(570) 826-2466**

## **Williamsport**

(Bradford, Clinton, Lycoming,  
Sullivan, and Tioga)  
440 Little League Blvd.  
Williamsport, PA 17701-5055  
**(570) 327-3475**

## **York**

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