

1999 PA-40

What's New for 1999...

DO SOMETHING DIFFERENT...GO PAPERLESS! (see inside for details)

Contents

FORMS ORDERING SERVICE	2
CUSTOMER SERVICES AND TAXPAYER ASSISTANCE	4
REMINDERS FOR FILING YOUR 1999 PA-40	5
BEFORE YOU BEGIN	5
GENERAL INSTRUCTIONS	6
SPECIAL REPORTING RULES	8
PA-40 LINE INSTRUCTIONS	9
MAILING INSTRUCTIONS	15
SCHEDULE INSTRUCTIONS	15
NONRESIDENTS AND PART-YEAR RESIDENTS	22
APPENDIX	25
INDEX	28

"Are you paying too much in tax?"

The Tax Forgiveness Program has expanded again to help working families keep more of what they earn. The dependent allowance was raised to \$6,500 per dependent. Read Schedule SP instructions carefully for details. Also, a free brochure is available to answer the most commonly asked questions about this program. Ask for REV-631 to learn more.

Change in Estimated Tax Requirement.

The income limit for estimated tax payments has increased to \$8,000. Look for more details on this taxpayer friendly adjustment on page 25.

News you need to know! Don't send us your W-2s.

If you file a paper return, we have included a new Schedule W-2S on which you should report your W-2 information. Simply copy the information requested from your W-2s onto Schedule W-2S and keep the actual W-2 forms for your records. We will cross reference your W-2 information with your employer. Plus, less paper means faster processing!

Two Deadlines in April 2000.

This year, there are two important deadlines in April: *April 1 is Census Day; April 17 is tax day.*



"Pennsylvanians Count" and for very important reasons. Decisions about our state are developed from the Census. Federal funding, voting districts, and other local planning details rely on Census information. Without counting you, all of Pennsylvania may lose out. Be sure to be counted by returning your Census form by April 1, 2000.

And, April 15, 2000 falls on a weekend. You have two extra days to file your PA tax return. This year's deadline is Monday, April 17, 2000.

Special Filing Opportunities & Services near you.

Between February and April, PA Department of Revenue staff (along with IRS representatives) will be available to assist taxpayers at malls around the Commonwealth with questions about the Department's paperless filing options. We will also answer basic Personal Income Tax questions, and provide forms. Bring your PA Telefile booklet or PA-V Payment Voucher letter, showing your PIN, to one of the mall locations, file a paperless PA return, and receive a special "thank you" for choosing a paperless option while at the mall.

MALL	AREA	DATES
Monroeville Mall	Pittsburgh	February 08 - 10
Millcreek Mall	Erie	February 15 - 18
Century III Mall	Pittsburgh	February 21 - 24
Nittany Mall	State College	Feb. 29 - March 02
Lycoming Mall	Muncy	March 07 - 09
Wyoming Valley Mall	Wilkes Barre	March 13 - 16
Lehigh Valley Mall	Whitehall	March 21 - 23
Willow Grove Park Mall	Willow Grove	March 27 - 28
Montgomery Mall	North Wales	March 29 - 31
Plymouth Meeting Mall	Plymouth Meeting	April 04 - 06

** Mall locations are available for your convenience. Assistance will be available during mall hours. You are not required to go to a mall location to use a paperless option.*

Continued on page 2.

BULK RATE
 U.S. POSTAGE
 PAID
 COMMONWEALTH
 OF
 PENNSYLVANIA
 DEPARTMENT OF
 REVENUE



Bureau of Individual Taxes
 Harrisburg, PA 17129-0005

More options make filing easy, fast, and safe.

Paperless options make filing easy, fast, and it's the safest, most secure way to know that you have filed accurately and timely with the PA Department of Revenue. Options available through the PA Department of Revenue are free, too. To use any of these options, just look for your Personal Identification Number (PIN) along with your preprinted Social Security Number (SSN) in your booklet.

Benefits of a paperless, electronic option:

- you will receive confirmation that you filed correctly, whatever option you choose;
- the math calculations will be done for you;
- **faster refunds!** Paperless filings can be processed much faster; refunds are processed in a few days rather than weeks. Remember, there is no need to send us a paper copy when you choose one of the paperless options. However, do record your confirmation number that is given once you have finished filing, and keep a copy of your return or worksheet for your records.

The newest free, paperless option from the PA Department of Revenue is [pa.direct.file](#) on the Internet.



Over 20,000 people in Pennsylvania filed over the Internet last year with no purchase. This year, the Department has a free option. If your Social Security Number that is printed on your label is correct, and you have a Personal Identification Number, simply log-on www.revenue.state.pa.us and click on [pa.direct.file](#). Read the instructions and start preparing your ic payments and direct deposit are available with this option.



TeleFile is back and even better! This year, this simple filing option also allows for direct deposit of your tax refund. Nearly 500,000 taxpayers used this free telephone service last year! If you:

- have a simple return;
- didn't move or change your filing status from last year;
- chances are **you can TeleFile**. Complete the simple worksheet and call toll-free 1-88-4PAFILE (1-888-472-3453). Filing will take just about 10 minutes. Remember to use your PIN when filing TeleFile.



There are two paperless options to file your federal and state returns simultaneously. Confirmations from both agencies, plus electronic payments or direct deposit of refunds make filing easy and safe.

- If you have a paid preparer complete your returns, ask them to send it electronically with e-file. This joint initiative with the IRS allows for the simultaneous filing of your state and federal tax returns.
- Purchased software, from a store or from the Internet, allows you to file your state and federal returns together.

FORMS ORDERING SERVICES

To obtain another PA-40 booklet, single copies of any PAPersonal Income Tax form, and any of the pamphlets listed in this booklet, use one of these services. If you have a correct label and the Personal Identification Number(s) assigned by the Department and believe you can use PA **TeleFile**, you may also request a 1999 **TeleFile** Booklet.

FACT & Information touch-tone telephone service (including forms by fax)
1 - 888 - PATAXES (1-888-728-2937)


Toll-free Forms Ordering Message Service
1-800-362-2050 *serving taxpayers without touch-tone phone service.*


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


Tax Forms Service Unit for written requests:
PA Department of Revenue • Tax Forms Service Unit • 711 Gibson Boulevard
Harrisburg, PA 17104-3200


Department's Internet home page offers filing options & information at
<http://www.revenue.state.pa.us>


E-mail us at
parev@revenue.state.pa.us
◆ Visit the Department's district office nearest you ◆

New for this year

ELECTRONIC PAYMENT.

If tax is owed,
you can electronically pay
with e-file making
this option totally paperless!

Whatever option you choose,
you will have the assurance that
your return was completed
accurately and filed timely.

Free!

The Department has developed a number of brochures to provide information about PA taxes. For a current list of brochures available, please see page 24 or check our web site.

YOUR USE TAX RESPONSIBILITY

Individuals who buy items subject to Sales Tax, and for which the seller does not include tax in the invoice (or receipt), are personally responsible for remitting the tax directly to the PA Department of Revenue. This tax is called USE TAX.

Purchases made over the Internet, through toll-free numbers (800, 888, and 877) and purchases from mail order catalogs, or any other purchase from an out-of-state location are generally examples of purchases that would be subject to USE TAX. The tax rate is the same as the Sales Tax: 6% state and 1% local tax if the purchaser is located in Philadelphia or Allegheny County. The tax is to be

reported on an Individual Use Tax Return, form PA-1, that can be obtained from any Department of Revenue district office or see Forms Ordering on page 2.

Pennsylvania statutes exclude from Sales and Use Tax items such as clothing, most foods purchased from a grocery store, and prescription medicines. Examples of taxable items include computers, sports and recreational equipment, and formal clothing. A more complete list of taxable and exempt items can be obtained from a district office, or call the Taxpayer Service and Information Center at 717-787-1064.

PA DEPARTMENT OF REVENUE DISTRICT OFFICES

(Counties each office serves)

Altoona

(Blair, Centre, Fulton, Huntingdon, and Mifflin)
Cricket Field Plaza
615 Howard Avenue
Altoona, PA 16601-4867
(814) 946-7310

Bethlehem

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

Bradford

(Cameron, Elk, Forest, McKean, Potter, and Warren)
Second Floor
86 Boylston Street
Bradford, PA 16701-2011
(814) 368-7113

Doylestown

(Bucks)
Suite 104
600 Louis Drive
Warminster, PA 18974-2847
(215) 443-2990

Erie

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

Greensburg

(Westmoreland)
Second Floor
15 West Third Street
Greensburg, PA 15601-3003
(724) 832-5386

Harrisburg

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

Indiana

(Armstrong, Clarion, Indiana, and Jefferson)
835 Water Street (Rear)
Indiana, PA 15701-1705
(724) 357-7600

Johnstown

(Bedford, Cambria, Clearfield, and Somerset)
Third Floor
345 Main Street
Johnstown, PA 15901-1614
(814) 533-2495

Lancaster

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

New Castle

(Beaver, Butler, Lawrence, Mercer, and Venango)
Room 201
101 South Mercer Street
New Castle, PA 16101-3837
(724) 656-3203

Newtown Square

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

Norristown

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

Philadelphia

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

Pittsburgh

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

Pottsville

(Carbon and Schuylkill)
110 East Laurel Blvd.
Pottsville, PA 17901-2527
(570) 621-3175

Reading

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

Scranton

(Lackawanna, Monroe, Pike, Susquehanna, and Wayne)
Room 305
Samters Building
101 Penn Avenue
Scranton, PA 18503-1970
(570) 963-4585

Sunbury

(Columbia, Juniata, Montour, Northumberland, Snyder, and Union)
335 Market Street
Sunbury, PA 17801-3466
(570) 988-5520

Washington

(Fayette, Greene, and Washington)
Room 204
Landmark Building
75 East Maiden Street
Washington, PA 15301-4963
(724) 223-4550

Wilkes-Barre

(Luzerne and Wyoming)
Suite 201
Thomas C. Thomas Building
100 East Union Street
Wilkes-Barre, PA 18701-3200
(570) 826-2466

Williamsport

(Bradford, Clinton, Lycoming, Sullivan, and Tioga)
322 Locust Street
Williamsport, PA 17701-6085
(570) 327-3475

York

(Adams, Franklin, and York)
Second Floor
130 North Duke Street
York, PA 17401-1113
(717) 845-6661

CUSTOMER SERVICES

CUSTOMER SERVICES AND TAXPAYER ASSISTANCE

Language Service

The Department can assist non-English speaking taxpayers during the 2000 tax season through an interpretation service. Assistance is available in 140 languages, including Spanish, Italian, and German – the most common languages, other than English, spoken in PA households.

El Departamento de Impuestos puede ayudar los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos 1999. La asistencia esta disponible en 140 idiomas incluyendo español, italiano y alemán, además de inglés, los idiomas más comunes en los hogares del estado.

Toll-free FACT and Information Number

1-888-PATAXES (1-888-728-2937) is an automated, 24-hours-a-day service for taxpayers with touch-tone phone service. If in the local Harrisburg area, you may call 717-772-9739. This service provides:

- Answers to some of the most commonly asked tax questions;
- Balance of your PA estimated tax account;
- The status of a filed PA Personal Income Tax return or Property Tax or Rent Rebate claim; and
- Tax Forms Ordering by mail or fax. **NOTE.** The Department does not have all forms available by fax.

Services for Taxpayers with Special Hearing and Speaking Needs

1-800-447-3020 (TT only)

Taxpayer Service and Information Center

Call (717) 787-8201 for PA Personal Income Tax help during normal business hours.

Temporary Offices

Each year the Department establishes temporary offices to help taxpayers. Local newspapers may list office locations, or you may call the Department district office nearest you, see page 3.

Free Income Tax Preparation Service

If you are a senior citizen, on a fixed income, disabled, or housebound, you can receive free assistance in preparing uncomplicated, nonbusiness federal, state, and local income tax returns. Volunteers working through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs provide this assistance. Contact the Department's district office nearest you for information, or call the Internal Revenue Service toll free number (1-800-829-1040) for the location of assistance sites.

Free Federal Tax Assistance from the Internal Revenue Service

The IRS provides:

- Federal tax account or technical information: 1-800-829-1040;
- Recorded Tele-Tax Service on 150 federal tax topics or 1999 tax refund information 1-800-829-4477;
- Federal tax forms/publications ordering: 1-800-829-FORM (3676);
- Taxpayers who are unable to solve federal tax account problems through normal contacts: Problem Resolution Program: 1-800-829-1040;

Faster IRS refunds through Electronic Filing: 1-800-829-1040 (information only).

Taxpayers' Rights Advocate

The PA Department of Revenue has a Taxpayers' Rights Advocate that provides assistance to taxpayers whose problems and concerns have not been resolved through normal administrative procedures. It is the Advocate's responsibility to insure the PA Department of Revenue provides equitable treatment with dignity and respect. If you would like more information concerning your rights as a taxpayer, you may contact the Taxpayers' Rights Advocate:

- Send E-mail to: advocate@revenue.state.pa.us; or
- Call 717-772-9347, or

- Write to: PA Department of Revenue
Taxpayers' Rights Advocate
Lobby, Strawberry Square
Harrisburg, PA 17128

DONATIONS

Do Something Wild



WILD RESOURCE CONSERVATION FUND

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

You can also send a direct contribution. Make your check or money order payable to Wild Resource Conservation Fund, P.O. Box 8764, Harrisburg, PA 17120-8764.

U. S. OLYMPIC COMMITTEE, PA DIVISION

You have the opportunity to support American athletes in the Olympic Games by making a contribution of all or a portion of your state tax refund.

You can also send a direct contribution. Make your check or money order payable to U. S. Olympic Committee, PA Division, P.O. Box 1994, Colorado Springs, CO 80977-1994.



ORGAN DONOR AWARENESS TRUST FUND

Donating an organ is truly giving the gift of life. Each year, many Pennsylvanians are fortunate to receive transplanted organs that save their lives. You can help this vital effort by contributing all or a portion of your state tax refund to the Organ Donor Awareness Trust Fund. Money from this fund will support educational programs that encourage people to sign organ donor cards.

You can also send a direct contribution. Make your check or money order payable to Organ Donor Awareness Trust Fund, P.O. Box 90, Harrisburg, PA 17108.

KOREA/VIETNAM MEMORIAL, INC.

You have the opportunity to contribute to the Korea/Vietnam Memorial, Inc., a National Education Center, by making a contribution of all or a portion of your state tax refund. You will assist future generations while honoring all who served our Nation. KVM is a non-profit organization.



You can also send a direct contribution. Make your check or money order payable to Korea/Vietnam Memorial, Inc., and mail to P.O. Box 416, Bethlehem, PA 18016-0416.

BREAST AND CERVICAL CANCER RESEARCH FUND

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



You can also send a direct contribution. Make your check or money order payable to PA Department of Health, Breast and Cervical Cancer Research, and mail to: Bureau of Financial Operations, P.O. Box 90, Harrisburg, PA 17108.

Extension

Fill in this oval if you requested an extension to file your 1999 PA-40. See the instructions on page 25.

Amended Return

Fill in this oval only if you are amending your 1999 PA tax return. You must file a paper amended return, even if you filed your 1999 PA tax using **e-file**, **TeleFile**, or **pa.direct.file**.

Fiscal Year Filer

Fill in this oval only if you file both your Federal and PA Personal Income Tax returns on a fiscal year basis.

Residency Status

Fill in the oval that describes your status in 1999. For additional information, request form REV-611, **Residency for PA Personal Income Tax Purposes**.

(R) Resident

As a resident, you report and pay PA tax on all taxable income received from any source. You are a resident if Pennsylvania is your domicile. Pennsylvania is your domicile if you live here and consider Pennsylvania as your permanent home to which you will always return, no matter how long you may be away. If another state or country is your domicile, but you worked in Pennsylvania for all of 1999, you may have to pay PA income tax as a PA tax resident. Read the form REV-611 referred to above.

(N) Nonresident

Instructions for nonresidents begin on page 22. If Pennsylvania is not your domicile, and you did not live in Pennsylvania at any time in 1999, you are a nonresident. For more information, request form REV-629, **How Nonresidents Are Taxed**.

(P) Part-Year Resident

Instructions for part-year residents begin on page 22. If you moved into or from Pennsylvania with the intention of changing your domicile, you have to pay PA income tax as a part-year resident.

Type Filer

Your filing status depends on whether you were single or married in 1999. **CAUTION.** If claiming Tax Forgiveness, your PA-40 type filer may differ from your PA Schedule SP.

(S) Single

You must file as single if on December 31, 1999:

- You were not married; or
- You did not remarry, if divorced or a widow or widower during 1999.

(J) Married, Filing Jointly

You and your spouse, even if living apart, may file a joint PA-40 for convenience. To file jointly, you **must** meet **ALL** of the following conditions:

- Your taxable years end on the same date; **and**
- Neither of you is individually claiming one or more of the credits on Lines 23 through 27 on your PA-40; **and**
- Your spouse was living on January 1, 2000.



FILING TIP. A person does not have to file a PA-40 if he or she does not individually meet the requirements described on page 5. **CAUTION.** If you file jointly, you are both liable for all PA tax owed, even if only one had taxable income, and even if either of you paid your own PA tax through withholding or estimated payments.

(M) Married, Filing Separately

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

- Your taxable years end on different dates; or
- Either of you is claiming one or more of the credits on Lines 23 through 27 on your PA-40.

IMPORTANT. For married taxpayers, when one spouse is a resident and the other is not a resident, you must each file separate PA returns. However, you may file jointly if you both elect to file as PA residents and meet all other requirements for filing jointly. See **Married, Filing Jointly** above.

(F) Final Return

Use this filing status if you lived in Pennsylvania during 1999, but permanently moved away and will not have any PA taxable income or loss in 2000. You will not receive a 2000 booklet. Provide the reason, such as you moved to another state. **IMPORTANT.** You must file your 1999 PA-40 as a PA resident or part-year resident and report all your PA taxable income.

(D) Deceased

As the executor, administrator, or other responsible person, you use this status to file a separate PA-40 for a decedent. You report all income that the decedent actually or constructively received during 1999. If the decedent was married and made PA estimated payments, you may transfer payments between the spouses to their separate PA-40 returns. Request form REV-459B, **Consent to Transfer, Adjust or Correct PA Estimated Personal Income Tax Account**. **CAUTION.** The surviving spouse must file a separate PA-40.

Use Your Label

Inside this booklet is an insert with a label that shows your Social Security Number(s), and mailing address. If all this information is correct, please affix your identification label to the PA-40 that you file, and you do not need to complete the identification information on your PA-40.

Identification Label Change

Fill in this oval if any of the information on your label is wrong. **Do not use your label. Do not make any corrections on it. Destroy it.** You **must** enter your Social Security Number(s), name(s), and complete address within the boxes on an original PA-40.

IMPORTANT. Your label may show a postal abbreviation such as *E. MCKEESPORT* for East McKeesport. Such abbreviations are correct for mailing purposes. If all other information on your label is correct, **please use it.** **REMINDER.** Military personnel stationed abroad should use their APO or FPO address.

Daytime Telephone Number

Enter the area code and number where the Department may call you between the hours of 8:30 a.m. and 4:00 p.m.

School Code and School District Name

You **must** enter the five-digit code (see pages 26 and 27) and name of the school district where you lived on December 31, 1999. **Do not** enter the school district where you work or where you live if you moved after December 31, 1999. This Department provides information, using your school district code, to the PA Department of Education. Using an incorrect school district code may affect your school district's funding. **CAUTION.** If you were not a PA resident on December 31, 1999, enter 99999.

County

Enter the name of the county where you lived on December 31, 1999.

Municipality

Enter the name of the city, town, borough, township, or other municipality where you lived on December 31, 1999.

PA INCOME CLASSES

Pennsylvania taxes individuals on eight separate classes of income. Regardless of how you report income and loss on your federal tax return, you report income and losses in the PA income classes in which you directly earned, received, or realized the income or loss. **Read the instructions** for each income class.

Tax Rate

For calendar year 1999, and all fiscal years beginning in 1999, the tax rate is 2.8 percent (0.028).

Rounding Amounts

Please round all amounts to the nearest whole dollar. On the return and any required schedules, money items may be shown in whole-dollar amounts by eliminating any amount less than \$.50 and increasing any amount that is \$.50 or more to the next highest dollar.

Gains and Losses

You may not offset income in one PA income class with a loss in any other PA income class. You cannot carry forward or carry back gains or losses to other tax years. You and your spouse may not offset your separate income with each other's losses. See the instructions for **Married, Filing Jointly** on page 6.

Entering Losses

If entering a loss on Lines 4, 5, or 6, fill in the oval next to the line.

Joint Income - Joint Returns

Married taxpayers file a joint PA-40 for convenience only. If you and your spouse jointly own income-producing property, you must each report your share of any income or loss. Income-producing property includes savings accounts, businesses, stock, and real estate. Spouses usually evenly divide income from jointly-owned property. **CAUTION.** On a joint return, both you and your spouse are each separately liable for the entire amount of PA tax due.

Costs, Expenses, and Deductions

PA law does not allow any personal expenses, itemized deductions, personal exemptions, or standard deductions. You may only deduct the PA allowable costs and expenses that you directly incur in earning or receiving income. **IMPORTANT.** *PA taxable interest income (Line 2), dividend income (Line 3), and gambling and lottery winnings (Line 8) are gross taxable income classes. You may not deduct any expenses to realize income in these classes.*

PA Resident Members of Partnerships and PA S Corporations

As a PA resident partner or PA S corporation shareholder, you must report your share of income whether distributed or not. You report your share of the income, or loss, in the same classes in which the partnership or PA S corporation realized the income or loss. You must enclose a copy of each PA Schedule RK-1 you receive from the partnership or PA S corporation. **IMPORTANT.** *If you are a shareholder in another state's Subchapter S corporation, that is not also a PA S corporation, you must report the cash or property you actually received as dividend income. Do not report the amount of your distributable income. You may not claim a PA Resident Credit for any tax paid to the other state on this income.* **CAUTION.** If the partnership only provides a Federal Schedule K-1, you must classify the income or loss according to the instructions for each PA income class.

Miscellaneous or Other Income

PA law does not have a miscellaneous or other class. You must classify and report other income on the appropriate line of your PA-40 and enclose an explanation of the income. **Read the instructions for each PA income class.**

PA Tuition Account Program (TAP)

If you withdrew money from a **TAP** account that you used for tuition, you do not have to report the withdrawal. However, if you withdrew money from a **TAP** account and **did not** use it for tuition, you must report the difference between your contributions into the **TAP** account and the total you withdrew as taxable gain on PASchedule D.

Medical Savings Account (MSA) Distributions

If you withdrew money from a **MSA** for federally qualified medical expenses, you do not have to report the withdrawal. However, if you withdrew money from a **MSA** and **did not** use it for federally qualified medical expenses, you must report the difference between your contributions into the **MSA** and the total you withdrew as taxable gain on PASchedule D. **IMPORTANT.** *PA law does not impose an additional 15 percent tax for non-medical withdrawals.*

Gifts

Pennsylvania does not tax gifts made from detached or disinterested generosity. However, PA taxable compensation includes transfers of cash or property in payment for services or as an inducement to perform services.

Do Not Report as PA Taxable Income:

1. Social Security benefits, Railroad Retirement benefits, public assistance, and unemployment compensation;
2. Qualifying old age or retirement benefits;
3. Payments you received under workers' compensation acts, occupational disease acts, or similar legislation. This includes payments for injuries you received while working and damages received, whether by suit or otherwise, for personal injuries or sickness. If your employer includes the payments you received for on-the-job injuries in your Form W-2, provide a statement from your employer verifying the amount of these payments;
4. Sick pay and disability benefits, other than your regular wages. Payments made by third party insurers for sickness or disability are not taxable. When sick pay represents regular wages or sick leave pay, the payments are taxable as compensation;
5. Prizes, gifts, and awards, unless given in recognition for past, present, or future services;
6. Alimony;
7. Inheritances and death benefits; and
8. Federal active-duty pay earned outside Pennsylvania.



FILING TIP. Read the instructions for each PA income class for other kinds of income that are not taxable for PA purposes.

Include as PA Taxable Income:

- Salaries, wages, tips, and gratuities;
- Employer provided fringe benefits, unless excludable;
- Commissions, bonuses, and incentive payments;
- Vacation and holiday pay;
- Termination and severance pay;
- Sick leave payments, unless excludable;
- Allowances and reimbursements in excess of allowable employee business expenses;
- Payments realized in the form of property;

- A discharge of indebtedness, unless specifically excludable from taxable income;
- Damage awards and settlements other than in personal injury cases to the extent that the payments represent back wages or other uncollected entitlement to taxable income;
- Delay damages received in connection with a court judgement or settlement;
- 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;
- Covenants not to compete, or for refraining from the performance of services;
- Jury fees;
- Expert witness fees;
- Other income described in the PA income classes.

SPECIAL REPORTING RULES

Reciprocal Compensation Agreements

Pennsylvania has agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Under these agreements, one state will not tax the others' residents on employee compensation that is subject to employer withholding. These agreements apply to employee compensation only. If you are a PA resident working in one of these states, and your employer withheld the other state's income tax, you must file for a refund from that state under the reciprocal agreement. You must pay your PA tax liability by the due date. If you are a resident of a reciprocal state working in Pennsylvania, and your employer withheld PA income tax, you may request a refund of the PA tax. You report zero taxable compensation on Line 1a and the PA tax withheld on Line 14. Attach an explanation that you were a resident of a reciprocal agreement state in 1999. File early so you will have your refund before you must pay your own state's tax. For more information, request form REV-615, [Reciprocal Compensation Agreements and Pennsylvania Personal Income Tax](#).

Reimbursement for Expenses

Expenses for PA purposes are not always the same as federal expenses. Read the instructions on page 9 for reporting your allowable employee business expenses. You must be able to substantiate travel expenses as to time, place, and business purpose. You must report all reimbursements and allowances paid by your employer as compensation **unless**:

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

You do not report these expenses on PA Schedule UE.

IMPORTANT. *You meet these requirements when you receive a fixed mileage allowance or a per diem living expense allowance that does not exceed applicable federal limits.*

Scholarships, Fellowships and Stipends

A scholarship, fellowship, or stipend is taxable compensation if the award is for past or present services or in expectation of future employment. A scholarship or fellowship award made on the basis of

need or academic achievement is not taxable if awarded to encourage or allow the recipient to further his or her educational development. For more information, request form REV-614, [Scholarships, Fellowships and Stipends for Pennsylvania Personal Income Tax Purposes](#).

Employer Sponsored Retirement, Pension, and other Deferred Compensation Plans

Pennsylvania does not tax commonly recognized retirement income from your employer's PA qualifying retirement or old age benefit program. If you have questions about your plan, ask your employer. **IMPORTANT.** *The contributions you make to your employer sponsored retirement plan are PA taxable compensation, even if your contributions are not taxable for federal purposes.*

Distributions from Employer Sponsored Deferred Compensation Programs

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

1. Payments you receive **after** you qualify for retirement and retire.
2. Payments you receive at regularly recurring intervals during periods of disability by reason of disability.
3. Payments you receive that you rollover into another deferred payment program or retirement IRA, but only when the transferred amounts are not taxable income for federal purposes.

IMPORTANT. *You do not pay tax on that part of a distribution from an employer sponsored deferred compensation plan that represents your previously taxed contributions and any previously taxed earnings on your contributions.*

4. Payments paid to the estate or designated beneficiary upon an employee's death are not PA taxable income on the employee's final PA-40.

Individual Retirement Accounts

► Contributions

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

► Undistributed income

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

► Withdrawals

Distributions from an IRA, including a federal Roth IRA, are taxable to the extent the distribution exceeds your previously taxed contributions. Distributions you receive after retiring, but before age 59 1/2 are taxable, even if you receive substantially equal payments, and for federal purposes, you do not pay a penalty for an early withdrawal. Pennsylvania does not have a similar provision. However, distributions from an IRA are not taxable if the payments are:

1. Received, including lump sum distributions, on or after retirement, and after reaching the age of 59 1/2.
2. Received at regularly recurring intervals during periods of disability by reason of disability.
3. Paid to the estate, or designated beneficiary, of the participant by reason of the participant's death.

► Roth IRA Rollover

You do not have to pay PA tax on the difference between the amount distributed from your traditional IRA and your previously taxed contributions, if you rolled over the **entire** withdrawal:

1. Directly (trustee to trustee) from the traditional IRA to the Roth IRA; or
2. Within 60 days from the date you received the distribution.

PA-40 LINE INSTRUCTIONS

Early Retirement Incentive Plans

Payments you receive as an inducement to retire early are taxable compensation. Such payments are not part of a PA qualifying retirement program. Your employer includes these incentive payments on your Form W-2 and withholds PA tax. Even when you move out of Pennsylvania, these incentive payments remain taxable to Pennsylvania. You use the cost recovery method of accounting to determine the portion of a distribution that you must include in PA taxable income.

Annuities

If you invest in a retirement annuity that **is not part** of an employer program or a commonly recognized retirement program, you have PA taxable income when you begin receiving annuity payments. You must report the difference between the amount you receive and your previously taxed investment as taxable gain on a PA Schedule D. If you receive periodic payments, you use the cost recovery method to report the taxable gain.

Sick Pay and Disability Pay

Your employer should not include periodic payments for sickness or disability, including payments from third party insurers, in box 17 of your W-2. If your employer erroneously included sick or disability pay and withholds PA tax, you must provide a statement from your employer that explains the number of days and amount of nontaxable sick or disability pay erroneously included. **CAUTION.** Sick leave pay and payments that are equal to your full regular wages are taxable for PA purposes. For more information, request form REV-634, **Employee Fringe Benefits and Wage/Salary Supplements.**

Employee Welfare Benefit Plans

Employers establish and maintain employee welfare benefit plans to provide wage or salary supplements to eligible employees, or their beneficiaries. Unless a benefit is specifically excluded, your PA taxable compensation includes the cost of the benefits that your employer provides. Your employer must include the value of these benefits, regardless of the type of plan your employer has. **CAUTION.** You may not take a deduction for any contributions you make to an employer-sponsored benefit plan.

Personal Use of Employer Property and Services

If you use your employer's owned or leased property for personal purposes, the value of your personal use is not taxable for PA purposes. **EXAMPLE.** Using your employer's company car, using your employer services at no cost, or at a reduced cost, and using your employer's dependent care facilities are not taxable for PA purposes.

However, if your employer reimburses you for personal expenses, the reimbursement is PA taxable compensation. **EXAMPLE.** Your employer reimburses you for the cost to lease your own car, for retirement counseling, or for dependent care. The reimbursement you receive is PA taxable compensation. You may deduct only those expenses allowed on PA Schedule UE. Your employer includes taxable reimbursements in your PA taxable wages. If you have any questions concerning the value of benefits that your employer included in your PA taxable compensation, ask your employer.

Clergy and Statutory Employees

Pennsylvania does not follow federal rules for clergy, statutory employees, or any other specific employees. Housing allowances are always taxable for PA purposes. Clergy must make estimated payments unless their employers voluntarily withhold PA tax. Statutory employees use PA Schedule UE to claim expenses.

Line 1a. Gross Compensation

Enter your total PA taxable compensation from box 17 of your 1999 Forms W-2. **Do not use** box 1, federal wages. Enter the state or PA amounts from any other statements.

W-2 Wage and Tax Statement

You must report the PA compensation and withholding from each 1999 Form W-2 from each employer. You may:

1. Complete PA Schedule W-2S, Wage Statement Summary, see the schedule instructions on page 15; or
2. Submit your Forms W-2: or
3. Submit photocopies of each Form W-2 on 8 1/2 by 11-inch paper. You may photocopy more than one Form W-2 on each sheet. Be sure we can read the information you copied.

IMPORTANT. *If the PA compensation you report on Line 1a on your PA-40 is not the same as box 17 on your Form W-2, you must enclose the **actual** Form(s) W-2 and a separate written statement explaining the difference. If your employer reported an incorrect amount of PA wages on your Form W-2, your employer should provide a corrected Form W-2. If you do not have a Form W-2 or a federal substitute W-2, Form 4852, you must submit evidence of your PA compensation and tax withheld by providing pay stubs and a statement identifying your employer and the reason you do not have a Form W-2. Please submit photocopies and keep your original documents.*



FILING TIP. If you are a statutory employee, you report your compensation on Line 1a, not as business income on Line 4.

Line 1b. Unreimbursed Employee Business Expenses

If you cannot or do not have to file a Federal Form 2106 or Form 2106EZ, you follow the federal rules for determining your allowable expenses for Part A of PA Schedule UE. For PA purposes, you may deduct 100 percent of your allowable expenses on PA Schedule UE. Read the PA Schedule UE instructions on page 16 carefully.

IMPORTANT. *The Department may require evidence that the expenses you claim on your PA Schedule UE are allowable for PA purposes.*

*If your employer does not reimburse you, you may reduce your taxable compensation by your allowable expenses. If your reimbursement is more than your allowable expenses, you must report the excess as taxable compensation on Line 1a and explain on your PA Schedule UE. **EXAMPLE.** Dave is a salesperson who earned compensation of \$30,000 and incurred allowable employee business expenses of \$3,000. He received reimbursement of \$3,500. Dave must report the excess \$500 as compensation. His total net taxable compensation is \$30,500. If Dave's reimbursement was \$2,000, his net taxable compensation would be \$29,000. Dave must complete a PA Schedule UE to deduct the \$1,000 on Line 1b.*

Line 1c. Net Compensation

Subtract Line 1b from Line 1a.

Line 2. Interest Income

- ▶ You **must** report all PA taxable interest income received or credited during the year.
- ▶ If your interest income is more than \$2,500, you must complete and submit a schedule.

Generally, Forms 1099 INT and similar statements that you receive from financial institutions show the interest amount. You do not have to submit these forms and statements. You include PA taxable interest from:

- Savings and loan associations;
- Credit unions – even if reported as dividends on your statement;

- Bank deposits;
- Bonds;
- Certificates of deposit;
- Interest-bearing personal checking accounts;
- PA, federal, and local tax refunds;
- Other deposits, investments, and obligations;
- **GNMA** and **FNMA** certificates and other obligations that are **guaranteed** by the U.S. Government, but not direct federal obligations of the U.S. Government; and
- Obligations of **other states** or countries; and
- Mutual savings banks and cooperative banks – even if reported as dividend.

 **FILING TIP**, if your interest income is over \$2,500:

1. If you are reporting the same amount of taxable interest that you report on your Federal Form 1040, Schedule B, or Federal Form 1040A, Schedule 1, you may submit a copy of that schedule; or
2. List all your PA taxable interest on a PA Schedule A; or
3. If you are reporting the same amount of taxable interest that you report on your federal schedule, you may enter that amount on PA Schedule A, or request and complete a PA Schedule I.

Interest income does not include:

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

For a list of exempt obligations, request form REV-1643, **Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes**.

IMPORTANT. You must include PA tax exempt interest in eligibility income for Tax Forgiveness purposes.

Distributions from Money Market and Mutual Funds and other Investment Companies

You include these distributions as **dividend income** on Line 3.

Forfeited Interest Penalty

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

NOTE. Interest income from estates or trusts that you reported on Federal Schedule B, because you did not receive a PASchedule L, should be reported on PA Schedule J.

Line 3. Dividend Income


- You **must** report all dividend income received or credited during the year.
- If your dividend income is more than \$2,500, you must complete and submit a schedule.

You do not have to submit your Forms 1099 DIV and other statements. Dividends are distributions of money or property out of earnings and profits made by corporations, S corporations, and business associations. 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, other federally regulated investment companies, and limited liability companies.

IMPORTANT. You report as PA taxable dividend income:

- The actual cash or property that you received from a Subchapter S corporation in another state that is not also a PAS corporation. You do not report undistributed income, even if you must pay tax on that income in the other state. You may not claim a resident credit for taxes you pay to the other state.
- **Capital gains distributions** that you reported on a Federal Schedule D.

 **FILING TIP**, if your dividend income is over \$2,500:

1. If you are reporting the same amount of taxable dividend income that you report on your Federal Form 1040, Schedule B, or Federal Form 1040A, Schedule 1, you may submit a copy of that schedule; or
2. List all your PA taxable dividend income on a PA Schedule B; or
3. If you are reporting the same amount of taxable dividend income that you report on your federal schedule, you may simply enter that amount on PA Schedule B, or request and complete a PA Schedule I.

CAUTION. If you are a shareholder in another state's Subchapter S corporation, and that corporation is **not** a PA S corporation, you must report the cash or property you actually received as dividend income on your PA-40. You do not report the amount of your distributable income, and you may not claim a credit for any tax paid to the other state. **EXAMPLE.** A New York Subchapter S corporation is not a PA S corporation. It distributes all its earnings and profits to its sole stockholder, Carolyn, who is a PAresident. The corporate income was from the operation of a department store, investments, and rental properties in Pennsylvania. Notwithstanding the PA income classes of the sources of the earnings and profits, the distribution represents taxable dividend income to Carolyn in the year received.

Stock Dividend Reinvestment Plans

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

Dividend income does not include:

1. Dividends distributed by a corporation to its stockholders as stock, if the distribution is not personal income for federal purposes.
2. Distributions designated as return of capital by utility companies and other corporations that reduce the basis of your stock in the corporation. Once such distributions reduce your basis to zero, any further distributions are taxable as gain from the sale or disposition of property. **See Taxable Return of Capital Distributions** on page 20.
3. Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. You report such payments as PA taxable interest income on Line 2.
4. Ordinary dividends paid by a mutual fund or a registered investment company and designated as being exempt-interest dividends for PA purposes. You may exclude the portion of total dividends that the fund or company designates as from exempt PA and exempt federal obligations in the written notice you received.

NOTE. Dividend income from estates or trusts that you reported on Federal Schedule B, because you did not receive a PA Schedule L, should be reported on PA Schedule J.

Line 4. Net Income or Loss from the Operation of a Business, Profession, or Farm

- You must report all income and losses from business, farm, partnership, and PA S corporation schedules.
- In determining this amount, you may offset your own business income from one schedule with a business loss from another.
- If you report a total net loss, fill in the oval next to Line 4 on your PA-40.

CAUTION. Spouses may not offset each other's income and losses in this class. If married and electing to file jointly, you must each separately determine your own net income or loss. If you each realize a net profit, add your net incomes together and report that total. If you each realize a net loss, add your net losses together, report that total, and fill in the oval next to Line 4 on your PA-40. **If one spouse has net income and the other has a net loss, report only the net income on Line 4.**

PA and Federal Schedules

Enclose your PA Schedules C, F, RK-1, NRK-1, and C-F. If you have income, whether distributed or not, from a partnership or PA S corporation, you must enclose the PA Schedule RK-1 you received. If you receive a Federal Schedule K-1, you must classify your income using PA rules. Read the instructions for each income class carefully and report your income accordingly. Enclose the Federal Schedule K-1.

CAUTION. If you are a shareholder in another state's Federal S corporation that is **not** also a PA S corporation, you only report the cash or property that you actually received as PAdividend income. You may not claim any credit for tax paid on the distributed and distributable S corporation income you reported to the other state.

What is a Business or Profession?

Not every income-producing activity is a business or profession. A business or profession has certain common characteristics. You realize income from the operation of a business or profession if you meet **ALL** of the following:

1. You market your products, goods, and services to your customers in a marketplace; **and**
2. You regularly and continuously conduct your commercial activities; **and**
3. You do not limit or restrict your commercial activities to certain related or unrelated customers; **and**
4. You compute your net income or loss solely from those items of revenue, cost, expense, or liability that you receive from or incur in:
 - (a) The ordinary course and operation of your business, profession, or farm; **or**
 - (b) Securities employed as working capital in the ordinary operation of your business; **or**
 - (c) Accounts and notes receivable from the sales of products and services in the ordinary operation of your business; **or**
 - (d) Assets that serve an operational function in the ordinary operation of your business.

Your allowable business expenses are those direct, ordinary, necessary, and reasonable expenses you currently paid or incurred during the taxable year. Expenses are allowable when directly related to and necessary for and actually paid in the production and marketing of your products, goods, or services. Only your direct business expenses are allowable. Your personal expenses are never 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 that is not a normal or routine business activity;
3. The ownership or disposition of assets that you hold for long-term investment purposes;
4. Trading in securities for personal purposes; and
5. A nonoperating interest in coal, oil, gas, or minerals in place, unless they serve an operational function in the operation of the owner's business.

CAUTION. You report income or loss from these activities in other PA income classes. **IMPORTANT.** *Paying any tax imposed on, or measured by, gross or net earned or unearned income is neither a business transaction, nor an allowable expense under PA law.*

PA Schedule C-F

IMPORTANT. *For PA purposes, you determine net income or loss under generally accepted principles and practices. If you keep separate books and records for PA purposes, you should file a PA Schedule C or F. If you do not file a PA Schedule C or F, review PA Schedule C-F for the allowable expenses or deductions and the required adjustments to your federal amounts. If you use PA Schedule C-F, you do not have to provide the federal schedule. If you do not have to use PA Schedule C-F, submit your federal schedule or PA Schedule I.*

PA Schedules RK-1 and NRK-1

If you are a partner or a PA S corporation shareholder, you receive a PA Schedule RK-1 or NRK-1. This schedule reports your share of income or loss from each PA income class. If you received any guaranteed payments from business operations, you generally add those payments to your share of income or loss as shown on these PA schedules. The partnership or PA S corporation should deduct all allowable expenses and make all other allowable adjustments. However, your partnership or PA S corporation may require that you incur direct business expenses. If these are allowable unreimbursed expenses for PA purposes, you must itemize them on a separate statement. The expenses you claim must be ordinary, necessary, reasonable, and directly related to your business activity. You may not deduct personal expenses, expenses you incur for your own convenience, and expenses that Pennsylvania does not allow.

Line 5. Net Gain or Loss from the Sale, Exchange, or Disposition of Property

- You must report your gain or loss from each sale, exchange, or disposition of any kind of real or tangible property.
- You must report your share of partnership or PA S corporation gains or losses.
- Report the total of your PA Schedules D, D-1, D-71, RK-1 or NRK-1.
- You may offset your own net gains and losses in determining this line.
- If you realize a net loss, fill in the oval next to Line 5 on your PA-40.

On PA Schedule D, you report gains or losses from selling:

- Land and buildings;
- Stocks and bonds;
- Ownership interests in partnerships and business enterprises;
- Contracts of insurance and annuities, including a personal retirement annuity;
- Contracts of insurance with accumulated refundable reserves payable upon lapse or surrender;
- A business asset that is not an ordinary or recurring business transaction;
- Obligations of other states and countries;

On PA Schedule D you also report the taxable portion of gain from:

- A distribution from a PATuition Account Program;
- A distribution from a Medical Savings Account; and
- The taxable portion from the sale of your principal residence.

CAUTION. If married and filing jointly, you must separately determine your total PA net gain or loss. If each of you realize a net gain, add your net gains together and report that amount. If you each realize a net loss, add your net losses together and report that amount. If one spouse has a net gain and the other a net loss, report only the net gain on Line 5. **EXAMPLE.** Mary and Ben jointly own a rental property that they sell and realize a \$900 gain. Ben sells stock that he owns in his name only for a \$500 gain. Mary sells the small business that she owns in her name for a loss of \$600. They report gain of \$950 on their 1999 PA-40. Each spouse figures his or her net gain or loss separately. Ben reports total gain of \$950 (50 percent of the joint gain of \$900 or \$450 + his separate \$500 gain.) Mary reports a loss of \$150 (50 percent of the joint gain of \$900 or \$450 - her \$600 loss.)

Loss on the Disposition of Property

You recognize a loss only in the year in which some identifiable event closes and completes the transaction and fixes the amount of the loss so there is no possibility of any eventual recovery. You recognize a loss only on transactions you enter into for profit, such as investments, business property, and real estate.

Capital Gain Distributions

You report capital gain distributions from mutual funds or other regulated investment companies as PA dividend income.

Exempt Obligations — Originally Issued before February 1, 1994

You do not report the gain or loss realized on the sale, exchange, or disposition of the following obligations, if the **original issue date** was **before** February 1, 1994, regardless of the date you acquired the obligation.

- Direct obligations of the U.S. Government, such as federal treasury bills and treasury notes;
- Obligations of certain agencies, instrumentalities, and territories of the U.S. Government;
- Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions. **IMPORTANT.** *You may not use any loss realized on the disposition of the above obligations to offset other gains.*

Exempt Obligations — Originally Issued on or after February 1, 1994

You must report the gain or loss realized on the sale, exchange, or disposition of the above obligations, if the **original issue date** was on or **after** February 1, 1994. **IMPORTANT.** You must report all such gains and may use any losses to offset other gains.

Sale of Your Principal Residence

If you sold your principal residence in 1999 and meet the requirements for the 100 percent gain exclusion, you do not have to report the sale on your PA-40. This exclusion is not identical to the federal exclusion. For a complete explanation of the requirements for this exclusion and when you must report a sale, request forms REV-625 **Sale of a Principal Residence for Pennsylvania Personal Income Tax Purposes** and the PA-19, **Sale of a Principal Residence**. **CAUTION.** If you sell a principal residence that does not qualify for the exclusion, report your gain or loss on PA Schedule D and Line 5 of your PA-40.

Line 6. Net Income or Loss from Rents, Royalties, Patents, and Copyrights

- ▶ Report the total income or loss from all PA Schedules E and all PA Schedules RK-1 or NRK-1.
- ▶ You may offset your own net income and losses in determining this line.
- ▶ If you realize a net loss, fill in the oval next to Line 6 on your PA-40.

Rents are income you receive for the use of your real or tangible property. Royalties are income you receive upon the extraction of coal, oil, gas, or minerals or for the use of your patent or copyright. You determine net income or loss on PA Schedule E under generally accepted accounting principles and practices. **CAUTION.** If you rent or lease your property but do not intend to realize a profit, under IRS rules you may only deduct your rental expenses up to your rental income. If your expenses exceed your rent receipts, **you may not** use your excess expenses (loss) against other income in this class. If you **do** rent or lease your property **to realize a profit**, read the **Rents or Net Profit from the Operation of a Business** instructions below. Do not use Federal Schedule E unless reporting only Part I. If making PA adjustments to Part I of your Federal Schedule E, enclose an explanation of your adjustments or complete PA Schedule E. If reporting a net loss, fill in the oval next to Line 6. **CAUTION.** Spouses may not offset each other's income and losses in this class. If married and filing jointly, you must each separately determine your total PA net income or loss. If you each realize net income, add your total net incomes together and report that total. If you each realize a net loss, add your total net losses together and report that total. If one spouse has a net income and the other a net loss, report only the income on Line 6.

Rental and Royalty Receipts and Allowable Expenses

Gross rents and royalties includes 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.

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

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

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 allowable for small businesses, are acceptable deductions for PA purposes. You may not deduct expenses for your own labor, capital investment, or capital improvements. You may not deduct personal expenses, or that part of an allowable deduction that is personal.

Rents or Net Profit from the Operation of a Business

The leasing of tangible property is a business only when you offer the use of your property on a commercial basis to others in a marketplace, and at least one of the following applies:

1. The average period of customer use is 30 days or less; **or**
 - Your property is customarily made available for use only during defined business hours; **or**
 - In addition to the property, you also provide significant services to your lessee; **or**

- You incur significant operating expenses in making the property available for lease; **or**
 - The leasing activity is incidental to a real estate sales business; **and**
2. You offer the use of your property intending to realize a profit; **and**
 3. The leasing of your property is a regular and continuous activity.

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

A lease with an option to buy real property in Pennsylvania may be a purchase contract. If so, you report the payments you receive as net gain from the sale of property on a PA Schedule D. If you give up all mineral rights or ownership rights to your PA property, patents or copyrights, you report the payments you receive as gain on a PA Schedule D.

Line 7. Estate or Trust Income

- ▶ Report your total PA taxable income from estates or trusts on PA Schedule J.
- ▶ You cannot receive a loss as a beneficiary for PA purposes.

The estate or trust must report to you your share of the PA taxable income that it realizes on its assets and that it must distribute, or pay, or credit to its beneficiaries. **IMPORTANT.** *Cash and property you acquire from an estate or trust by gift, bequest, devise, or inheritance is not taxable. You should receive a PASchedule L from the estate or trust. If you received a Federal Schedule K-1, you must report only the positive income, not taking into account any losses, shown on the Federal Schedule K-1.* **CAUTION.** If you received a Federal Schedule K-1 and you included interest and/or dividend income on your Federal Schedule B, that income should be reported on PA Schedule J. You should adjust all your PASchedules to properly report your correct PA taxable amounts.

 **FILING TIP.** If you establish a grantor trust or a revocable trust, you report the income from that trust on your PA Schedule J.

Line 8. Gambling and Lottery Winnings

Report all gambling and lottery winnings, including lottery winnings from other states and countries. You may only offset gambling and lottery losses (not expenses such as travel, meals, lodging, etc.) to determine Line 8. Use PA Schedule I if reporting the same amount for federal and PA purposes, or enclose a schedule explaining your gambling and lottery winnings.

Pennsylvania Lottery Winnings

Do not report your winnings, and do not use your losses, from the PA State Lottery if won on or after July 21, 1983.

Line 9. Total Gross PA Taxable Income

Add only the **positive** income amounts from Lines 1c through 8. Do not add or take into consideration losses. You may not use a loss in one class of income to reduce income in the other classes.

Line 10. Contributions to your Medical Savings Account

Pennsylvania follows federal rules for this deduction. If married, filing separate returns, only one spouse may take this deduction. The amount you report on Line 10 must be the same amount that you report on your federal return.

Line 11. Adjusted PA Taxable Income

Subtract Line 10 from Line 9.

Line 12. PA Tax Liability


Multiply Line 11 by 2.8 percent (0.028). Also enter your 1999 PA tax liability on side 2 of your PA-40, Line 13.

REPORTING PA PAYMENTS AND CREDITS

Line 14. Total PA Tax Withheld

Enter your total PA tax withheld from box 18 of your Forms W-2, or from PA Schedules W-2S, or from the photocopies that you made of your Forms W-2. **IMPORTANT.** You must submit a written explanation for the reason that an employer withheld PA income tax at a rate of more than 2.8 percent. The Department may also request an explanation from your employer.

Estimated Payments and Credits


 **FILING TIP.** Call the Department's FACT and Information service (1-888-PATAXES) and verify your 1998 credit and estimated payments before completing Lines 15, 16, and 17.

Line 15. Credit from your 1998 PA Income Tax Return

Enter your credit from your 1998 PA-40. If you originally requested a credit to your 1999 PA estimated account, but later requested a refund or the Department sent you a refund, do not claim the credit. See the **Filing Tip** above.

Line 16. 1999 Estimated Installment Payments

Enter your total 1999 estimated payments. Include your spouse's 1999 estimated payments if filing jointly.

 **FILING TIP.** Do not include any payment of tax due made with a PA tax return.

IMPORTANT. *If you and your spouse made separate estimated payments, you should file separately, each claiming only your own payments. If you and your spouse made your estimated payments jointly, you should file jointly. This avoids processing delays and correspondence from the Department.* **CAUTION.** If filing separately with a joint estimated account, the Department may delay processing until we process both tax returns. To insure that the Department applies your estimated payments correctly, read the instructions and file form REV-459B, **Consent to Transfer, Adjust, or Correct PA Estimated Personal Income Tax Account.** You can tell the Department which payments to post under each name and Social Security Number. Both spouses must sign this form.

Line 17. 1999 Extension Payment

Enter the payment you made with your 1999 extension request.

Line 18. Nonresident Tax Withheld

Enter the PA tax withheld by your partnership or PAS corporation. You must submit your schedule(s).

Line 19. Total Estimated Payments and Credits

Add **only** Lines 15, 16, 17, and 18.

Tax Forgiveness Credit

IMPORTANT. Nonresidents may claim this credit, but must include all income from all sources within and outside Pennsylvania when determining eligibility income.

Line 20a. Filing Status from PA Schedule SP, Part A

Line 20b. Dependent Children from PA Schedule SP, Part B, Line 2

Line 21. Eligibility Income from PA Schedule SP, Part C, Line 11

Line 22. Tax Forgiveness Credit from PA Schedule SP, Part D, Line 16

Line 23. Total Credit for Taxes Paid to Other States or Countries

You must submit PA Schedule G to claim a credit for PA Personal Income Tax that you paid to another state or country on income that you also report on your PA-40.

Resident shareholders in PA S corporations must submit the PA Schedule RK-1 to claim a credit for taxes paid to another state or country through the PA S corporation.

The Department accepts a schedule from multi-state partnerships that report taxable income for its PA resident partners. The schedule must identify each state, the income reported and tax due to each state, and the lower of the tax due to each state, or the PA tax due on the income reported to each state. The schedule should not include any income or tax due to a municipality in the other state.

If you are a PA resident and also a resident, for income tax purposes, of another state, you may claim the PA Resident Credit only if **both** of the following apply:

1. The income that the other state taxes is also taxed by Pennsylvania in the same taxable year, and is also taxable under the other state's laws, regardless of your place of residence or domicile; **and**
2. You cannot claim any credit for Pennsylvania tax against the other state's tax. **IMPORTANT.** *You must submit a complete PA Schedule G and a signed photocopy of the tax return you filed in the other state or country. If filing for credit for income tax paid to another country that does not have a tax return system, you must attach the same forms and evidence you submitted, or would submit, to claim a credit on your federal tax return.*

Line 24. PA Employment Incentive Payments Credit

You must submit a complete PA Schedule W, with a copy of the certification from the Department of Labor and Industry for each employee.

Line 25. PA Jobs Creation Tax Credit

You must submit a copy of your certification from the PA Department of Community and Economic Development. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

Line 26. PA Waste Tire Recycling Investment Tax Credit

You must submit a copy of your certification from the PA Department of Environmental Protection. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

Line 27. PA Research and Development Tax Credit


You must submit a copy of your certification from the PA Department of Revenue. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

Line 28. Total Payments and Credits

Add Lines 14, 19, 22, 23, 24, 25, 26, and 27.

Line 29. Tax Due

If Line 13 is more than Line 28, enter the tax you owe. You must pay the tax due, in full, on or before April 17, 2000. Use your PA-V form.

 **FILING TIP.** If your Tax Due is \$1.00 or less, you do not have to pay the tax due, but you must file your PA-40.

IMPORTANT. *If you pay your tax after the due date, you must also pay applicable penalty and interest, see page 25. DO NOT include the*

penalty and interest on Line 29. Your tax return must be mathematically correct. Enter only the tax due on Line 29, but include the applicable penalty and interest in your payment. Your check and Form PA-V will be more than Line 29. The Department will apply your payment to tax, penalty, and interest.

Line 30. Overpayment

If Line 28 is more than Line 13, enter your overpayment. The Department will not issue a refund for less than \$1.00. **IMPORTANT.** The Department may apply your overpayment to any tax liability you owe for previous tax years.

Lines 31 through 37. Application of Overpayment

If you do not enter any amounts on Lines 31 through 37, or the total of Lines 31 through 37 does not equal Line 30, you will receive a refund check, less any amount on Line 32. If you overpaid, you may apply all or part of your overpayment.

Line 31. Enter the amount you want as a **refund check**.

Line 32. Enter the amount of Line 30 that you want as a **credit** to your **2000 estimated tax account**.

Line 33. Enter the amount of Line 30 that you want to **donate** to the **Wild Resource Conservation Fund**.

Line 34. Enter the amount of Line 30 that you want to **donate** to the **U.S. Olympic Committee, PA Division**.

Line 35. Enter the amount of Line 30 that you want to **donate** to the **Organ Donor Awareness Trust Fund**.

Line 36. Enter the amount of Line 30 that you want to **donate** to the **Korea/Vietnam Memorial Inc.**

Line 37. Enter the amount of Line 30 that you want to **donate** to the **Breast and Cervical Cancer Research Fund**.

The total of Lines 31 through 37 must equal Line 30. See page 4 for additional information about these funds.

Review Your Return

Before you sign your return, carefully review it. Did you:

- Report your Social Security Number(s), name(s), and address correctly?
- Report **all** your PA taxable income, and claim **all** your allowable PA credits?
- Check **all** the entries from Forms W-2 and schedules?
- Check your math?
- Enclose all necessary and appropriate supporting forms and schedules?
- Fill in the "Identification Label Change" oval, if necessary?

REMEMBER. File your **original** PA-40. **Please do not send a photocopy.** Keep copies for your files.

Your Signature(s) and Date

Read the oath before you sign. You must sign and date your return. Spouses filing jointly must both sign and date the return. You have not filed a valid PA-40 unless you (both) sign it. If you are responsible for the affairs of a minor, disabled person, or a decedent that could not prepare his or her own PA tax return, you must sign to file a valid PA-40.

Occupation

Enter your occupation(s).

Preparer or Company Name and Telephone Number

If you paid someone to prepare your PA-40, the preparer may enter his or her name or business name and telephone number. This is optional.

Assembling your PA-40:

- Original PA-40. **Please do not send a photocopy of your PA-40.**
- Forms W-2 and other explanation of compensation earned. Please submit:
 1. A completed PA Schedule W-2S; or
 2. The photocopies of your actual Forms W-2 on an 8 1/2 by 11 inch sheet of paper. Please be sure we can read the information you copied. The PA Schedule W-2S or photocopies pass through the imaging equipment more efficiently; or
 3. Your actual Forms W-2.
- Your actual Forms 1099 and other statements.
- The **PA schedules** you are filing from your booklet, including additional sheets you prepared.
- Other PA schedules and forms supporting the amounts on your PA-40, including any additional sheets you prepared.
- Other documents that explain the information you entered.
- Any necessary federal schedules that you use to explain the amounts on your PA-40.

DO NOT STAPLE YOUR RETURN

The Department can process your return faster if we do not have to pull staples, and we will not tear or damage your return and attachments.

How to Pay

If you received a tax booklet or a Form PA-V letter with a correct Form PA-V, use that voucher to make your payment. If you did not receive a personalized tax booklet or Form PA-V from the Department, or if you requested blank forms with instructions, you must submit your payment with your paper PA tax return. Please do not staple your check to your return.

Use Your Form PA-V

You must pay your tax due on or before **midnight, Monday, April 17, 2000**. Make your check or money order payable to **PA Dept. of Revenue**. Write your **Social Security Number** and **"1999 PA Tax"** on your check or money order. If you are filing for another person, write that taxpayer's name and Social Security Number on the check.

Payment Voucher (PA-V)

Your PA-V is on the insert. If you owe tax, follow the instructions for the PA-V. Place your PA-V and check in the same envelope with your PA-40.

- **DO NOT** use your PA-V if you do not owe tax.
- **DO NOT** use your PA-V if any of the preprinted information is incorrect.

IMPORTANT. *The PA-V only shows one Social Security Number.*

- If you and your spouse file separately, **DO NOT** use the PA-V unless it shows **your** SSN.
- If **your SSN is not** on the PA-V and you owe tax, enclose only your check with your PA-40.
- If you **do not have** a correct PA-V, enclose (do not staple) your check with your PA-40.

MAILING INSTRUCTIONS

Follow these instructions for mailing your PA-40:

1. Remove all three labels from envelope flap.

2. Choose the correct label that applies to your return.
3. Affix only the correct label on the front of the envelope.

If you owe tax
(an amount on Line 29)

**PA DEPT OF REVENUE
PAYMENT ENCLOSED
4 REVENUE PLACE
HARRISBURG PA 17129-0004**

If you overpaid
(an amount on Line 30)

**PA DEPT OF REVENUE
REFUND/CREDIT REQUESTED
6 REVENUE PLACE
HARRISBURG PA 17129-0006**

If you neither owe nor overpaid (zeros on Lines 29 and 30)

**PA DEPT OF REVENUE
NO PAYMENT/NO REFUND/NO CREDIT DUE
5 REVENUE PLACE
HARRISBURG PA 17129-0005**

Do not use these mailing labels to send other correspondence to the Department. **IMPORTANT. Do not** insert your PA-V and payment until after you have placed your complete PA-40 in your envelope, and **do not** staple your check or money order to your PA-V, or your PA-40.

Mailing Your PA Tax Return

The U.S. Postal Service requires that you use sufficient postage, and may return envelopes without sufficient postage. If your PA-40 is more than five (5) pages, you may need additional postage. You may also need more postage for an oversized envelope. Please write your complete return address in the upper left corner of the envelope.

SCHEDULE INSTRUCTIONS


Enter the name and Social Security Number of the person reporting the income or claiming the expenses or credit. If filing jointly, enter the name and SSN of the person entered first on your PA-40.

Reproducing PA Returns and Schedules

You may make additional photocopies of the schedules in this booklet, or prepare your own schedules to report your PA information. **IMPORTANT. Do not photocopy the PA-40 or PA-V forms.** You must send original PA-40 and PA-V forms for electronic imaging. Make photocopies for your records.


PA Schedule W-2S

Use this schedule to summarize the PA compensation and withholding information from your Forms W-2. Instead of enclosing your paper Forms W-2 or photocopying them to a sheet of paper, you only need to copy the necessary information. Keep your original Forms W-2.

 **FILING TIP.** Your PA taxable compensation may be different from your federal wages. Enter your federal and PA amounts. Then, enter only the totals of the PA amounts from column (c) and (d) of your PA Schedule W-2S on your PA tax return.

CAUTION. If you believe that the PA amount on a Form W-2 is incorrect, or your employer withheld PA income tax at more than 2.8 percent, you must submit that Form W-2, or a photocopy of that Form W-2, with a written explanation. You may not use PA Schedule W-2S for that Form W-2. You **must** submit your actual Forms 1099 and other statements for amounts you are reporting as compensation on your PA tax return. **IMPORTANT.** *The Department has the statutory authority to require your actual Forms W-2.*

PA Schedule A

 **FILING TIP.** If your total PA taxable interest income is \$2,500 or less, you do not have to complete and submit any schedule. If your PA taxable interest income is more than \$2,500, the Department allows you these filing options:

1. If your federal and PA taxable interest are the same, you may submit a copy of your federal schedule, or enter the taxable amount from your federal schedule on your PA-40 Schedule A, or use PA Schedule I.
2. You may complete PA Schedule A with the payer name and PA taxable interest from each Form 1099 or other statement. You may enclose additional sheets if you need more space.

You do not need to submit your federal schedule with a PA Schedule A.

PA Schedule B

💡 FILING TIP. If your total PA taxable dividend income is \$2,500 or less, you do not have to complete and enclose any schedule. If your PA taxable dividend income is more than \$2,500, the Department allows you these filing options:

1. If your federal and PA taxable dividend income are the same, you may submit a copy of your federal schedule, or enter the taxable amount from your federal schedule on your PA Schedule B, or use PA Schedule I.
2. You may complete PA Schedule B with the payer name and PA taxable dividend income from each Form 1099 or other statement. You may enclose additional sheets if you need more space.

You do not need to submit your federal schedule with a PA Schedule B.

IMPORTANT. *Capital gain distributions are taxable as dividend income. Do not report capital gain distributions as a gain as you do for federal purposes.*

PA Schedule UE

Allowable employee business expenses are similar, but not exactly the same, as allowable expenses for federal purposes. An allowable PA employee business expense must be:

1. **Ordinary** — customary and accepted in the industry or occupation in which you work; **and**
2. **Actual** — paid while performing the duties of your employment; **and**
3. **Reasonable** — in amount and not excessive; **and**
4. **Necessary** — to enable you to properly perform the duties of your employment; **and**
5. **Directly related** — to performing the duties of your occupation or employment.
6. **100 percent allowable** — PA does not have federal tax accounting limitations and thresholds.

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

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

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

What Expenses are Not Allowable?

Pennsylvania does not allow the following expenses, even if allowed for federal purposes:

- Personal, living, or family expenses;
- Dues to fraternal organizations, professional societies, Chambers of Commerce, or recreational club memberships;

- Dues and subscriptions to publications, including trade and professional publications;
- Political candidate or campaign contributions;
- Charitable contributions;
- Commuting expenses;
- Cost of meals while working late, unless while traveling away from home overnight on business;
- Occupational privilege taxes or assessments and other local, county, state, federal, and foreign taxes;
- Child care or elderly care expenses;
- Life, disability income, and health insurance premiums;
- Contributions to deferred compensation plans or other pension plans;
- Legal fees (except to recover back wages), fines, penalties, and bad debts;
- Bribes, kickbacks, or other illegal payments;
- Job hunting or other pursuit of employment expenses;
- Malpractice insurance premiums, except when allowed in Part B, Line 14;
- Moving expenses, except when allowed in Part D;
- Educational expenses, except as allowed in Part E; and
- Capital expenditures. Depreciation may be allowable in determining expenses. Federal depreciation or cost recovery deductions are acceptable for computing allowable business expenses. See specific instructions for PA Schedule UE.

CAUTION. If filing jointly, you and your spouse must each submit separate PA Schedules UE. You may not combine expenses. **IMPORTANT.** *Sole proprietors, partners, shareholders, or other self-employed individuals do not use PA Schedule UE to claim expenses. Nonresidents who earn compensation and incur allowable employee business expenses both within and outside Pennsylvania may need to complete and file a PA Schedule NRH.*

Part A. Employee Business Expenses from Form 2106

Enter your amounts from Lines 1, 2, 3, and 5 from your Federal Form 2106 or Form 2106EZ. If you cannot or do not have to file a Federal Form 2106 or Form 2106EZ, you follow the federal rules for determining your allowable expenses for Part A, but remember that PA rules permit you to deduct 100 percent of your allowable expenses.

CAUTION. You must report expenses from Line 4 of your Form 2106 or Form 2106EZ in Part G.

Expenses for transportation, traveling, meals, and lodging that you incurred in performing the duties of your job are allowable business expenses. Business expenses incurred by outside salespersons are also allowable. **CAUTION.** Commuting costs to and from any job are not allowable for PA purposes.

Vehicle Expenses — Standard Mileage Rate

1. Enter the amount from Line 22 of your Form 2106 or Line 1 of your Form 2106EZ. Otherwise, enter your business miles and the federal mileage allowance. Then, calculate your allowable business mileage expense.

Actual Expenses

You may always claim your allowable actual expenses for PA purposes. Start with your federal form and adjust for PA purposes. **IMPORTANT.** *Expenses, such as business meals and entertainment, and away from*

home overnight expenses are 100 percent allowable. Pennsylvania does not follow the federal limitations on allowable expenses.

2. Enter your actual expenses from Line 29 of your Form 2106.
3. Add back the inclusion amount from Line 24b. This rule does not apply for PA purposes.
4. You may use any generally accepted depreciation method. If using a different method for depreciation, enter the adjusted expense here.
5. Name the depreciation method you are using. If using a different method, you must consistently use it for PA purposes.
6. **Total Lines 2, 3, and 4.** These are your actual PA allowable expenses.
7. **Parking Fees, Tolls, and Transportation.** Enter the amount from Line 2 of your Form 2106 or your Form 2106EZ.
8. **Away from Home Overnight.** Enter the amount from Line 3 of your Form 2106 or Form 2106EZ, or the actual amount of allowable expenses you incurred.
9. **Meals and Entertainment Expenses.** Enter the amount from Line 5 of your Form 2106 or Form 2106EZ, or the actual amount of allowable expenses you incurred.
10. **Total Form 2106 expenses.** Add Lines 1 or 6 and 7 through 9.

Part B. Direct Employee Business Expenses

These are the expenses you pay directly or through an employer withholding arrangement. These expenses are necessary to perform or maintain your job.

11. Union Dues

Union dues, assessments, and initiation fees are allowable business expenses if:

- Such payments are a condition of continued membership in the union, and membership is related directly to your present job; or
- Such payments are a required wage deduction under an agency shop agreement.

12. Work Clothes and Uniforms

The costs of purchasing and maintaining uniforms and work clothing to protect you from bodily injury are allowable business expenses, if the uniforms and clothing are both:

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

13. Small Tools and Supplies

Expenditures for small tools and supplies that your employer does not provide, but you must have to perform the duties of your job, are allowable business expenses. If any of these tools or supplies have a useful life of more than one year, you must depreciate or amortize the cost in Part F below. You may currently expense the item if allowable under IRC Section 179.

14. 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.

15. **Total Direct Employee Business Expenses.** Add Lines 11 through 14.

Part C. Office or Work Area Expenses

Your office or work area expenses are allowable if:

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

You must answer **YES** to questions C1, C2, and C3 in order to claim office or work area expenses.

Lines a through i. Enter your actual expenses.

- j. Follow the instructions to calculate the business portion of your home.
- k. Calculate the expenses directly related to the business use of your home.
- l. Enter the total cost of the directly related business supplies you purchased. Only include costs you incurred for business purposes.

16. Total Office or Work Area Expenses

Add Lines k and l.

Part D. Moving Expenses

Expenses you pay or incur in moving yourself, your immediate family, your household goods, and your personal effects are allowable. Allowable moving expenses include the cost of transportation to your new home. You may use actual out-of-pocket costs or the federal mileage allowance. The expenses for the storage of household goods, for meals and lodging on the way, including such costs on the day you arrive, and parking fees and tolls are also allowable.

Pennsylvania does not allow expenses to sell or purchase a home and costs to break a lease. You may not deduct pre-move house hunting expenses, temporary lodging prior to moving, and any costs or expenses not directly related to actually moving.

Distance Test

Your new workplace must be at least 50 miles farther from your old residence than your old workplace was. **EXAMPLE.** If your old workplace was 3 miles from your old residence, your new workplace must be at least 53 miles from your old residence. Measure the distance using the shortest of the most commonly traveled routes. Complete Lines a, b, and c to determine if you meet this test. **IMPORTANT.** If you are in the military service, you do not have to meet the distance test if your move is a permanent change of duty station. If you, your spouse, and dependents are moving to the new duty station from different locations, you may claim all the allowable expenses.

17. Enter your actual allowable transportation expenses, as described above.

18. Enter your actual qualifying expenses for travel, meals, and lodging, as described above.

19. **Total Moving Expenses.** Add Lines 17 and 18.

Part E. Education Expenses

CAUTION. You may not claim that travel costs are an educational expense, if you claim such expenses on the grounds that the travel itself constitutes a form of education. You may not deduct commuting. The federal and PA rules for educational expenses are similar, but not the same. For PA purposes, costs for education expenses that you pay or incur are allowable only if:

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

- The education is not part of a program that would qualify you for a new occupation, trade, or business, even if you have no intention of entering that new occupation, trade, or business.

Unlike federal rules, you may not deduct education expenses that you incur to maintain or improve your skills. **EXAMPLE.** Anthony is a licensed professional in a position that, by law, requires a specific number of continuing education credits every other year. If Anthony fails to obtain these credits, he will lose his license. Anthony also takes courses in using a computer to improve his job performance. Anthony may claim the cost of his continuing education courses. He may not claim the computer courses.

You must answer question E1. If you answer **YES**, continue. If you answer **NO**, you may not claim any education expenses. You must answer questions E2 and E3. If you answer **NO** to both questions, continue. If you answer **YES** to either question, you may not claim any education expenses.

20. Enter the name of the college, university, or educational institution you attend.
21. Enter your specific course of study. Your education must meet the requirements described above.
22. Enter the amount of tuition or fees you actually paid.
23. Enter the costs of your books and other materials required for your courses.
24. Enter the cost of travel. Pennsylvania follows the federal rules for travel expenses for education.
25. **Total Education Expenses.** Add Lines 22 through 24.

Part F. Depreciation Expense

Do not report depreciation for vehicles and office or work areas in this Part. See Parts A and C above. Depreciation is the amount you can claim over the useful life of property you use in performing the duties of your employment. A depreciation expense is allowable if the property:

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

Pennsylvania accepts federal depreciation and current expensing. You may use any other generally accepted depreciation method, but you must use it consistently. Once you have selected a depreciation method, you may not change it.

26. **Total Depreciation Expenses.** Enter the total of column (f).

Part G. Miscellaneous Expenses

Include the expenses that you report on Line 4 of Form 2106 on Lines a through e. You must itemize and describe in detail these expenses. Enclose an additional schedule or worksheet if you need more space. Expenses that you may claim include:

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

IMPORTANT. You may be a statutory employee for federal purposes. However, PA law does not have a similar provision. As an employee,

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

27. Total Miscellaneous Expenses.

Enter the total of Part G (Lines a through e.)

28. Total Expenses

Add the expenses you are claiming on Lines 10, 15, 16, 19, 25, 26, and 27. If you are a nonresident or part-year resident who earned income and incurred expenses within and outside Pennsylvania, you must complete PA Schedule NRH.

29. Reimbursements

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

30. Net Expense or Reimbursement

- If Line 29 is less than Line 28, enter the difference on Line 1b of your PA-40.
- If Line 29 is more than Line 28, include your excess reimbursement on Line 1a of your PA-40.

Keep Your Records

The Department may ask that you substantiate the amount and nature of your business expenses. Keep your necessary documents, receipts, vouchers, and other records for at least four years. You must be able to prove that your expenses are ordinary, actual, reasonable, and necessary.

PA Schedule C-F Reconciliation

Enter all the required information. Use this schedule to account for differences between PA and IRS rules when determining your net PA taxable income or loss. If you start with the income or loss from your federal business schedule, you must make any adjustments on Lines 13 through 18 in Part D that apply.

Part A. Identification Information

Complete each line and also enter your PA Sales Tax License Number, if you have one.

Part B. Receipts from Business Activity

Copy the gross income information from your Federal Schedule C or F on Lines 1, 2, 3, and 5. **CAUTION.** PA law does not allow the federal elections to defer income to another taxable year, or to report income that you will receive in a future year.

1. Gross receipts from your federal schedule.
2. Returns and allowances from your federal schedule.
3. Realized gross receipts or sales from your federal schedule.
4. Additional income or loss that you must report for PA purposes, but you reported elsewhere on your federal tax return. **EXAMPLE.** Add interest from short-term investments to generate working capital and the net gain or loss from the sale of assets in the ordinary course of business. Deduct income that is not reportable for PA purposes, such as Subpart F income, or income you may elect to defer for federal purposes.
5. Cost of goods sold and/or operations from your federal schedule.
6. **Gross profits.** Total Lines 3 and 4. Then subtract Line 5.

Part C. Business Expenses

7. Enter your total business expenses from your federal schedule.

Part D. Adjustments for PA Income Tax Purposes

Make the necessary adjustments to your federal business expenses on Lines 8 through 19. Enter the difference between the federal and the PA allowable amount. If increasing an expense amount, enter a positive amount. If decreasing an expense, use a negative sign. Personal expenses are never allowable. For PA purposes, expenses must be:

- Ordinary to the business or farm activity; and
- Necessary to operate the business or farm; and
- Actually incurred in operating the business or farm; and
- Reasonable in amount and not excessive; and
- Directly related to the business or farm activity.

The list below includes common differences.

IMPORTANT. *You must make any applicable adjustments for Lines 13 through 18, printed in bold.*

8. The federal percentage limitation on business meals and entertainment does not apply. You may deduct 100 percent of these expenses.
9. Sales Tax on depreciable business assets may be a current expense for PA purposes. On disposition, your PA basis and federal basis will be different.
10. Charitable contributions you make from your business account that the recipient publicly acknowledges are allowable deductions. Personal charitable contributions are never allowable.
11. You may use the capitalization rules established by your trade, profession, or industry under its generally accepted accounting principles and practices. Once elected, you must consistently use this method.
12. You may use any generally recognized and accepted depreciation method for your business or farm activity, including IRC Section 179 current expensing. Once you elect a method, you must consistently follow that depreciation method. Enter the method you elected, if making this adjustment.
13. **The federal labor hired deduction or federal wage deduction does not apply for PA purposes. If claimed on your federal schedule, you must add back these deductions to your wage expense.**
14. **If you are claiming the PA Employment Incentive Payments (EIP) Credit and/or the PA Jobs Creation Tax Credit, you must reduce your total wages expense by your credit.**
15. **Contributions you make as a self-employed individual to your own IRA or Keogh or deferred income plan are not allowable expenses. PA does not have any special reporting requirements. If you deducted this kind of expense for yourself, or your personal portion of such expense, on your federal schedule, you must reduce your expenses.**
16. **Federal, state, and local taxes are allowable deductions. You may not deduct taxes based on gross or net income, Federal Income Taxes, and one-half of the self-employment taxes that the IRS allows. You may not deduct taxes paid to other states or foreign countries based on income. You may not deduct estate taxes, and inheritance, legacy, succession, and gift taxes. Assessments for betterments and improvements are not allowable. The Philadelphia Business Privilege Tax is an allowable deduction on this schedule, if not already deducted on your federal form. Single member limited liability companies that file as sole proprietors and LLCs that file as partnerships and PA S corporations may deduct the PA Capital Stock/Franchise Tax paid.**

17. **Contributions to your own health or welfare benefits plan are not allowable expenses. Pennsylvania does not have any special reporting requirements. If you deducted such an expense for yourself, or your personal portion of such expense, on your federal schedule, you must reduce your expenses.**

18. **If you are claiming the PA Research and Development Tax Credit and/or the PA Waste Tire Recycling Investment Tax Credit, you must reduce your direct business expenses. Reduce the amount of expenses you incurred in the activities that qualified your claim for these credits.**

19. Other. Itemize expenses that are allowable under GAAP or FASB rules, but are not allowable or limited under federal rules.

20. **Total Adjustments.** Add Lines 8 through 19. Enter the net amount.

21. **Total Allowable PA Business Expenses.** Total Lines 7 and 20 and enter the net amount.

Part E. Net Profit or Loss for PA Income Tax Purposes

22. Subtract Line 21 from Line 6. If you realize a net loss, fill in the oval next to Line 22. Your PA net income or loss should be different from your federal schedule. Include this amount on Line 4 of your PA-40.

PA Schedule D

1. Unless the specific instructions require a different PA schedule, report each sale, exchange, or disposition of property on PA Schedule D. Spouses should complete separate PA Schedules D.

Columns a through f

- a). List and describe the property sold or otherwise disposed of for cash or other property. **EXAMPLE.** 2 acres of land in Dauphin County or 100 shares of ABC common stock.
- b). Enter the month, day, and year you sold the property.
- c). Enter the month, day, and year you acquired the property.
- d). Enter the gross sales price or fair market value of cash and property you received less applicable expenses of sale.
- e). Enter the Adjusted Basis of the property sold.
- f). Determine whether your property was either I or II, and follow the appropriate instructions:
 - I. If your property was income-producing property, such as an ownership interest in a partnership or other business, a rental property, a patent or copyright, or you held your property in connection with a business, profession, or occupation when you disposed of it, and it was not inventory or an operational asset, then:
 - Subtract Column e from Column d, and enter either the gain or the loss or zero in Column f;
 - II. If your property was other than income-producing property, then
 - If the adjusted basis is less than Column d, subtract Column e from Column d, and enter the gain in Column f; or
 - If the adjusted basis is greater than Column d, you do not have a gain or a loss. Enter zero in Column f.

2. Net Gain or Loss

Total Column f and enter the net amount. You may offset gains and losses for Line 2.

3. Gain from Installment Sales, PA Schedule D-1

Enter your taxable gain from each PA Schedule D-1, form REV-1689, **Computation of Installment Sale Income.**

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

- Reporting gains from the sale of intangible personal property;

- Transactions where the object is the lending of money or the rendering of services.

4. Taxable Return of Capital Distributions

As a shareholder in a C corporation, you must report as a taxable gain the excess of the fair market value of any return of capital distribution over the adjusted basis of your stock. A return of capital distribution is any distribution that a business corporation makes that is not from its earnings and profits. You must decrease the basis of your stock or shares, but not below zero, by any distribution that is not taxable as a dividend on Line 3 of your PA-40. **EXAMPLE.** B Inc. distributes from its capital account \$100,000 to Karen, the only stockholder. Karen's adjusted basis in her stock is \$75,000. Since the distribution is not from the corporation's earnings and profits, it is not a taxable dividend on Line 3 of her PA-40. Karen must, however, reduce her basis in her stock by \$75,000 to zero. Karen must report the remaining \$25,000 as a taxable gain on her PA Schedule D.

Also report on this line, **Taxable Return of Capital Distributions** from partnerships, business trusts, and other organizations.

Calculating Line 4

From the total return of capital distributions, subtract your previously unrecovered basis. Enter the difference as taxable gain on Line 4.

- 5. Net Gain or Loss from the Sale of 6-1-71 Property from PA Schedule D-71**
You determine your gain or loss on the sale of property that you bought or acquired before June 1, 1971, on form REV-1742, **PA Schedule D-71**.
- 6. Net Gain or Loss from Partnerships and PA S Corporations**
Report the taxable gain or loss from your PA Schedules RK-1 or NRK-1.
- 7. Taxable Gain from the Sale of Your Principal Residence**
PA law excludes the qualifying gain from the sale of your principal residence. However, you must report a gain if you do not meet the requirements. Read the instructions in form REV-625, **Sale of a Principal Residence for Pennsylvania Personal Income Tax Purposes**. Report your taxable gain, if any, on this line.
- 8. Total PA Taxable Gain**
Add Lines 2 through Line 7. You may offset your taxable gain and losses. Include your net gain or loss on Line 5 of your PA-40.

PA Schedule E

Read the instructions. The instructions for this schedule follow generally accepted principles and practices. See page 11 for additional guidance. You may use Federal Schedule E, Part 1 only, and make adjustments for PA purposes on the federal schedule. If you do not have to make any adjustments, you may use the Federal Schedule E or PA Schedule I. **CAUTION.** If you make your property available for rent, but do not intend to realize a profit (you use the receipts to offset the expenses directly related to the property), you may not use any loss you realize against other income in this class. If you make your property available with the intention of making a profit, you may offset any loss you realize against other income in this class. You may also be in a business and have to report your income or loss on Line 4 of your PA-40.

PA Schedule J

Enter the name, identification number, and amount of PA taxable income from each estate or trust. If you receive a Federal Schedule K-1, instead of a PA Schedule L, enter the total amount of positive income reported. **CAUTION.** The federal amount may not be correct for PA purposes. You may want to contact the fiduciary of the estate or trust to verify the correct PA income.

PA Schedule SP

IMPORTANT. Read all the instructions before you begin.

What is Tax Forgiveness?

Tax Forgiveness is a credit that allows eligible taxpayers to reduce all or part of their PA tax liability. If **unmarried**, as defined below, you must calculate your Eligibility Income. If **married**, as defined below, you and your spouse always determine and use your Joint Eligibility Income, even if filing separate returns. If you have children, you use your Eligibility Income and the number of your dependent children to calculate your percentage of Tax Forgiveness.

Who is an Eligible Claimant for Tax Forgiveness?

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

1. **Subject** to PA Personal Income Tax. You and/or your spouse have PA taxable income; and
2. **Not** a dependent on another person's federal tax return, under Section 151 of the 1986 IRC; and
3. **Able to meet** the Eligibility Income test.

General Information

You claim Tax Forgiveness as either **unmarried (separated)** or **married**.

Unmarried (Separated) means during 1999 you were:

- Single; or
- Separated and lived apart at all times during the last six months of 1999; or
- Separated pursuant to a written separation agreement.

If **unmarried (separated)**, you must meet all three eligibility requirements. **You use Eligibility Income Table 1.**

Married, whether filing separately or together, means during 1999 you were:

- Married and lived together; or
- Separated and lived apart, but for less than the last six months of 1999; or
- Separated, but not by a written separation agreement.

If **married**, you may claim Tax Forgiveness if at least one spouse meets all three requirements, or you both individually meet the eligibility requirements. **Married** claimants are not dependents of one another for federal tax purposes or PA Tax Forgiveness purposes, even when one spouse does not have any Eligibility Income. **CAUTION.** If you and your spouse choose to file separate PA-40 returns, you still must use your Joint Eligibility Income and Eligibility Income Table 2.

Joint or Separate Returns

IMPORTANT. Married claimants should file a joint PA tax return and PA Schedule SP because there is no Tax Forgiveness advantage to filing separately. If you and your spouse are married as defined above, and lived together, you should file a joint return to claim Tax Forgiveness. If one of you is a dependent of another person, then you each **must file separate returns. The eligible spouse may file a PA Schedule SP, but may not claim his or her spouse.**

Deceased

Fill in this oval if you are filing for a person who died during 1999. **IMPORTANT. You must annualize the decedent's income before determining if he or she is eligible for Tax Forgiveness.**

Who is a Dependent for Tax Forgiveness?

A dependent is a child that you claimed on your Federal Income Tax return. Dependent adults are not dependents for Tax Forgiveness. If you cannot claim a child on your federal tax return, you cannot claim that child for Tax Forgiveness purposes. Only the person who claims a

child on his or her federal tax return may claim the child on his or her PA Schedule SP.

IMPORTANT. Do not claim the same dependent on two PA Schedules SP. CAUTION. On a joint federal tax return, you claim your dependent children. For PA purposes, if you elect to file separately, neither you nor your spouse may claim your children on a PA Schedule SP. Since a dependent is a child claimed on a federal tax return, you cannot divide children on separate PA-40 returns. To claim the children for Tax Forgiveness purposes, you **must** file jointly.

Student Claimant

If you are a full time student and your parents claim you on their federal tax return as a dependent, under IRC Section 151, you may not claim Tax Forgiveness. Regardless of your income, you are not eligible for Tax Forgiveness. However, if your parents are also eligible for Tax Forgiveness, you may claim Tax Forgiveness on a separate PA-40 and PA Schedule SP.

If you are **married** and your spouse is also eligible, your spouse may file a separate PA-40 and PA Schedule SP. Your spouse may not claim you as a dependent.

General Instructions for PA Schedule SP


You must complete and enclose PA Schedule SP. If **unmarried** as defined on page 20, complete ALL the information for yourself in the Claimant Column. If **married**, complete all the information in the Claimant and Spouse Columns, even if filing separately. Then enter the Joint Total to calculate your Tax Forgiveness.

Specific Instructions for PA Schedule SP

Part A. Type Filer for Tax Forgiveness

Fill in the appropriate oval.

Part B. Dependent Children

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

Complete Lines 1 and 2.

1. Provide all the requested information for each child listed.
2. Enter here the number of dependent children you are claiming for Tax Forgiveness purposes.

CAUTION. If claiming a foster child, the Department may ask for a copy of page 1 of your 1999 federal tax return, or you may enclose

ELIGIBILITY INCOME TABLE 1. Unmarried and Deceased Taxpayers

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:										
YOU →	\$6,500	\$6,750	\$7,000	\$7,250	\$7,500	\$7,750	\$8,000	\$8,250	\$8,500	\$8,750
▼ DEPENDENT CHILDREN										
1	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
2	\$19,500	\$19,750	\$20,000	\$20,250	\$20,500	\$20,750	\$21,000	\$21,250	\$21,500	\$21,750
3	\$26,000	\$26,250	\$26,500	\$26,750	\$27,000	\$27,250	\$27,500	\$27,750	\$28,000	\$28,250
4	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250	\$34,500	\$34,750
5	\$39,000	\$39,250	\$39,500	\$39,750	\$40,000	\$40,250	\$40,500	\$40,750	\$41,000	\$41,250
6	\$45,500	\$45,750	\$46,000	\$46,250	\$46,500	\$46,750	\$47,000	\$47,250	\$47,500	\$47,750
7	\$52,000	\$52,250	\$52,500	\$52,750	\$53,000	\$53,250	\$53,500	\$53,750	\$54,000	\$54,250
8	\$58,500	\$58,750	\$59,000	\$59,250	\$59,500	\$59,750	\$60,000	\$60,250	\$60,500	\$60,750
9	\$65,000	\$65,250	\$65,500	\$65,750	\$66,000	\$66,250	\$66,500	\$66,750	\$67,000	\$67,250
Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

ELIGIBILITY INCOME TABLE 2. Married Taxpayers

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:										
YOU & → SPOUSE	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
▼ DEPENDENT CHILDREN										
1	\$19,500	\$19,750	\$20,000	\$20,250	\$20,500	\$20,750	\$21,000	\$21,250	\$21,500	\$21,750
2	\$26,000	\$26,250	\$26,500	\$26,750	\$27,000	\$27,250	\$27,500	\$27,750	\$28,000	\$28,250
3	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250	\$34,500	\$34,750
4	\$39,000	\$39,250	\$39,500	\$39,750	\$40,000	\$40,250	\$40,500	\$40,750	\$41,000	\$41,250
5	\$45,500	\$45,750	\$46,000	\$46,250	\$46,500	\$46,750	\$47,000	\$47,250	\$47,500	\$47,750
6	\$52,000	\$52,250	\$52,500	\$52,750	\$53,000	\$53,250	\$53,500	\$53,750	\$54,000	\$54,250
7	\$58,500	\$58,750	\$59,000	\$59,250	\$59,500	\$59,750	\$60,000	\$60,250	\$60,500	\$60,750
8	\$65,000	\$65,250	\$65,500	\$65,750	\$66,000	\$66,250	\$66,500	\$66,750	\$67,000	\$67,250
9	\$71,500	\$71,750	\$72,000	\$72,250	\$72,500	\$72,750	\$73,000	\$73,250	\$73,500	\$73,750
Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

NOTE. Tables include the \$6,500 allowance for every dependent.

ELIGIBILITY INCOME TABLES

page 1 of your Federal Form 1040 or 1040A with your PA-40, identifying your dependents for Federal Income Tax purposes.

Part C. Eligibility Income

Enter zero if you do not have any income to report on a line. Read each description carefully.

1. PA Taxable Income

Enter your total PA Taxable Income amount from Line 11 of your PA-40.

2. Nontaxable interest, dividends, and gains

Include income from investments in direct obligations of the Federal Government, Pennsylvania, and political subdivisions of Pennsylvania, even if through a mutual fund or other regulated investment company. If originally issued on or after February 1, 1994, enter any gains realized from sales of these obligations. Include the nontaxable portion of gain from the sale of any property. Also include nontaxable income received as a beneficiary of an estate or trust.

3. Alimony

Enter the amount of federally taxable alimony that you receive.

4. Insurance proceeds and inheritances

This amount includes the total proceeds received from life or other insurance policies. Also include inherited cash or the value of property received.

5. Gifts, awards, and prizes

Include the total amount of nontaxable cash or property received as gifts from others. Also include awards given in recognition of civic and social achievements and winnings from the PA Lottery.

6. Nonresident income

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

7. Nontaxable military income. Do Not Include Combat Pay.

This amount represents the difference between your total military income earned and the amount you report on your PA-40.

8. Gain excluded from the sale of a residence

Enter your nontaxable gain.

9. Nontaxable educational assistance

Include the total value of all nontaxable scholarships, fellowships, and stipends you received.

10. Cash receipts, for personal purposes, from outside your home

Include any payments received from persons outside your household. This includes nontaxable cash or property received for personal use. Include direct contributions, such as cash

received from a parent to buy clothing, gifts from grown children, and personal support from a former spouse, from spouses, children, parents, and others who do not live in your household. Do not include monies paid pursuant to a cost-sharing arrangement.

11. Total Eligibility Income

Add Lines 1 through 10. Eligibility income is the total amount of your PA taxable and nontaxable income. Eligibility Income is the amount you use to determine your percentage of Tax Forgiveness.

Part D. Calculating Your Tax Forgiveness

12. PA Tax Liability

Enter the amount of your tax due from Line 13 of your PA-40.

13. Less Resident Credit

Enter your credit from Line 23 of your PA-40.

14. Net PA Tax Liability

Subtract Line 13 from Line 12.

15. Percentage of Tax Forgiveness

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

16. Tax Forgiveness Credit

Multiply Line 14 by the decimal on Line 15. Enter this amount on Line 22 of your PA-40.

PA Schedule I

This schedule is available through the forms ordering services on page 2. If you can use PA Schedule I, you do not have to submit any other PA or federal schedule. **CAUTION.** You may not use PA Schedule I if you are a PA S corporation shareholder or a partner. You may want to obtain and submit PA Schedule I if you report the **same amounts** that you report on your federal return for:

- Line 1b, Unreimbursed employee business expenses;
- Line 2, PA taxable interest income;
- Line 3, PA taxable dividend income;
- Line 4, Net income or loss from the operation of a business, profession, or farm;
- Line 6, Net income or loss from rents, royalties, patents, and copyrights; and/or
- Line 8, Gambling and lottery winnings. **CAUTION.** You may not use PA Schedule I if you **need** to make any required PA adjustments to your federal amounts. See the instructions for each income class to determine if you must make any adjustments to your federal amounts.

NONRESIDENTS AND PART-YEAR RESIDENTS

How Pennsylvania Taxes Nonresidents

If you are a nonresident, Pennsylvania taxes you on the income you earn from working in Pennsylvania, realize from PA sources, and receive as a beneficiary of a PA estate or trust. See the instructions for each PA income class below.

Apportioning Income and Loss on PA Schedule NRH

NOTE. PA Schedule NRH is not in this booklet. You may obtain this schedule from any of the forms ordering services listed on page 2.

Nonresidents must apportion income that they earn both within and outside Pennsylvania. You apportion your PA taxable compensation

when your employer does not separately report your PA wages on your Form W-2. You apportion income or loss from operating a business within **and** outside Pennsylvania, if you do not maintain books and records that clearly and separately allocate your PA source receipts, expenses, liabilities, etc.

Allocating Income and Loss

Nonresidents allocate income and loss from a business when you maintain books and records that clearly and separately allocate your PA source receipts, expenses, liabilities, etc. Nonresidents allocate income or loss from property located within Pennsylvania. You report gain or

loss on the sale, exchange or disposition of tangible personal property that is in Pennsylvania. You report income or loss from rental property, royalties, patents, or copyrights in Pennsylvania.

Nonresident Partners and Shareholders of PA S Corporations

Your partnership or PA S corporation apportions and allocates its income or loss for PA purposes. You report your share, whether distributed or not, in the same class in which the partnership or PA S corporation realized the income or loss. You must enclose a copy of each PA Schedule NRK-1 that you receive. **IMPORTANT.** *If the partnership only provides a Federal Schedule K-1, you must classify the income or loss according to the instructions for each PA income class.*

Compensation

You pay PA income tax on compensation for services you perform in Pennsylvania, unless you are a resident of a reciprocal agreement state. Your employer is responsible for reporting and withholding the PA tax from the exact amount of your PA taxable compensation. If your employer does not report, or incorrectly reports, your PA taxable compensation, you must apportion your compensation and any allowable employee business expenses on PA Schedule NRH.

Interest and Dividend Income

You **do not pay** PA income tax on ordinary interest (long term investments, personal savings and checking accounts, etc.) and dividends. **CAUTION.** You pay PA income tax when interest and dividend income is directly related to activity within a taxable income class. **EXAMPLES.** You include interest from an installment sale of real property on PA Schedule D-1. You report interest from accounts receivable, from a business checking account, and from short-term investments to generate working capital when determining your net profit or loss from business activity in Pennsylvania. You report interest on security deposits when determining net rental income or loss.

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

You pay PA income tax or report a loss from the operation of a business or farm in Pennsylvania. You must report your allocated or apportioned PA source income or loss. Include on Line 4 your total net profit and loss from all PA Schedules C, F, and NRK-1. Also include the net profit or loss from PA Schedule C-F and any federal schedules that you are using for PA purposes.

Operation Wholly Within Pennsylvania

Report your net profit and loss from business activity if wholly within Pennsylvania. The operation of a business is wholly within Pennsylvania if during the entire taxable year you or your representative:

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

IMPORTANT. *Do not take into account business activity when your representative operated as an independent contractor.*

Operation Wholly Outside Pennsylvania

Do not report any net profit or loss from business activity if wholly outside Pennsylvania. The operation of a business is wholly outside Pennsylvania, if during the entire taxable year you or your representative:

- Did not transact, in the ordinary course of operations, any business in Pennsylvania, or only transacted business in Pennsylvania on a sporadic or temporary basis; or
- In the ordinary course of operations, the only business you transacted with any permanency or continuity was either or both of the following:
 - i. Soliciting orders or selling property or services when such orders were sent outside Pennsylvania for approval or rejection and, if approved, were 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 enabled your customer to fill orders of the type described above.

Operation Partly Within Pennsylvania

If your business is not wholly within or outside Pennsylvania, as described above, you allocate your PA business activity by separate accounting if:

- Your business operations within and outside Pennsylvania constituted independent profit centers. This means that there were no transfers of finished goods, raw materials, supplies, services, or operational assets between themselves, each was free to buy outside, and, because of geographical location, neither was in competition with the other; and
- You kept your books to properly disclose the amounts of revenues, costs, expenses, and liabilities attributable to PA operations.

If you cannot allocate your business operations, you must apportion using PA Schedule NRH.

Net Income or Loss from the Sale, Exchange, Or Disposition of Property

You pay PA income tax on the gain, or report the loss, from the sale of real or tangible personal property located in Pennsylvania. You **do not** pay PA income tax on a gain, or report a loss, from the disposition of intangible property.

Allocating Gains and Losses

Whether your property is within or outside Pennsylvania generally determines the source of your revenue, costs, expenses, and liabilities from the sale, exchange, or other disposition of real or tangible personal property. If your real or tangible property was within Pennsylvania, you must report the gain or loss you realized from its disposition on PA Schedule D, unless the property was:

- Stock, trade goods, assets, or other property which you would normally hold for sale to customers and include in your inventory if on hand at the end of your taxable year; or
- An asset that served an operational function in the ordinary course of operating your business.

You include the sale, exchange, or disposition of such property in determining net profit or loss from the operation of a business, profession, or farm.

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

You pay PA income tax on the net income, or report the loss, from the use of property located in Pennsylvania. You must allocate net rental, royalty, patent, or copyright income from property within Pennsylvania.

Allocating Rents and Royalties to Pennsylvania

You allocate the rents you received from real estate and tangible personal property (that you do not employ in the operation of a business) only if the property was within Pennsylvania. You allocate your costs, expenses, and liabilities for producing and collecting such rents only if the property was within Pennsylvania. If you used the property within **and** outside Pennsylvania, you allocate by multiplying the net rental income or loss by a fraction. The numerator is the number of days your property was in Pennsylvania, and the denominator is the total number of days in the rental period.

You allocate the royalties you received from the extraction of minerals, and the related costs, expenses, and liabilities when the property was within Pennsylvania, and the royalties were not from operating a business. You allocate the royalties you received from patents and copy-

rights, and the related costs, expenses, and liabilities when, and to the extent that:

- The payer employed the patent or copyrighted material in production, fabrication, manufacture, or other processing in Pennsylvania; and/or
- The payer produced the patented products in Pennsylvania, or the printing or publication by the payer originated in Pennsylvania.

If you received royalties in the normal and routine operation of your business, you report such operations and income on Line 4 of your PA-40.

Estate or Trust Income

You pay PA income tax as a beneficiary on the income from an estate or trust, only to the extent the income represents taxable PA source income. You enter on PA Schedule J the taxable amount from the PA Schedule L that you received from the estate or trust.

Gambling and Lottery Winnings

You do not pay PA income tax on any gambling and lottery winnings from PA sources.



BROCHURES AVAILABLE FROM THE DEPARTMENT

The Department has developed a number of brochures to provide more information about PA taxes. The brochures listed below can be ordered directly through the Department's Forms Ordering Service by dialing 1-800-362-2050, or by selecting the forms ordering option on the FACT Line at 1-888-PATAxes (728-2937). Order the brochures using the REV form number and the title. (CAQ – Commonly Asked Questions)

REV-23	Board of Appeals Practices and Procedures of the Board	REV-614	CAQ Scholarships, Fellowships, and Stipends
REV-502	FACT Line 1-888-PATAxes	REV-615	CAQ Reciprocal Agreements
REV-527	Taxpayer's Bill of Rights	REV-617	CAQ Hiring Household Workers
REV-571	CAQ So you are moving to Pennsylvania	REV-625	CAQ Sale of Your Principal Residence
REV-573	CAQ Property Tax and Rent Rebate	REV-627	CAQ Construction Contracts
REV-577	CAQ Estimated Tax Payments	REV-629	CAQ How Nonresidents are Taxed
REV-580	CAQ Employer Withholding	REV-630	CAQ Amending PA-40 Returns
REV-581	CAQ Personal Income Tax	REV-631	You May be Paying Too Much in Tax (Tax Forgiveness)
REV-582	CAQ Corporation Taxes	REV-634	CAQ Employee Fringe Benefits and Wage/Salary Supplements
REV-584	CAQ Inheritance Tax	REV-635	CAQ S-Corporations
REV-585	CAQ Sales and Use Tax	REV-636	CAQ Roth IRAs
REV-588	The Beginners Guide for Starting a Business in Pennsylvania	REV-637	CAQ Unreimbursed Allowable Employee Business Expenses
REV-591	CAQ IFTA and Motor Fuel Taxes	REV-671	Keystone Opportunity Zones: The Benefits of Living in a KOZ
REV-610	Voluntary Disclosure Program Guidelines	REV-672	Keystone Opportunity Zones: How They Effect Business Owners
REV-611	CAQ Determining Residency for PA Purposes		
REV-612	CAQ Military Pay		

Brochure information is also available on the Internet: www.revenue.state.pa.us

2000 PA Estimated Personal Income Tax Requirements

If you expect more than \$8,000 of PA taxable income in 2000 that will not be subject to employer withholding, you must file a declaration of PA Estimated Tax and make installment payments. **CAUTION.** If you paid \$224 on your 1999 PA tax return and expect the same in 2000, you should make estimated tax payments. **IMPORTANT.** *If you are a PA resident working in a reciprocal compensation agreement state (page 8), and your employer is not withholding PA tax, you must make PA estimated tax payments.*

If you made 1999 estimated payments, the Department will send you 2000 forms. If you do not receive your forms by April 17, 2000, contact the nearest Department district office. Request forms PA-40ESR and REV-413I, instructions, and REV-414I, worksheet, if paying PA estimated taxes for the first time in 2000.

Members of the Armed Forces

PA residents report military pay as taxable compensation, **unless** earning the military pay while on federal active duty or federal active duty for training **outside** Pennsylvania. Income received by a PA resident for all military service performed inside Pennsylvania, even if on federal active duty or federal active duty for training, is fully taxable. For more information, request form REV-612, **Military Pay for Pennsylvania Personal Income Tax Purposes**. Military personnel stationed abroad should use their APO or FPO address.


Extension of Time to File

Pennsylvania allows an **automatic** four-month extension if you have an extension of time to file for federal purposes. Fill in the extension request oval at the top of your PA-40. You do not need a federal extension or a PA extension form, **unless you owe tax**. An extension of time to file your PA return **does not** extend the time to pay your PA tax. **CAUTION.** If you expect to owe PA tax, you must submit form REV-276, **Application for Extension of Time to File**, and pay the tax you owe. An extension cannot exceed six (6) months, unless you are outside the United States.

If submitting an extension request, you **must** send your application and payment in sufficient time, before the due date, so the Department may consider and act upon it. You will not receive a letter that the Department accepted your extension. However, you may receive correspondence if the Department has a question concerning your request. **IMPORTANT.** *With your extension, you must pay the full amount you reasonably expect to owe. The Department will assess underpayment penalty if:*

- By April 17, 2000, you did not pay at least 90% of your 1999 tax due; and
- You do not pay the remaining balance with a timely filed return.

The Department will charge interest on the amount you do not pay by April 17, 2000.

 **FILING TIP.** Report your extension payment on Line 17 of your PA-40 when you file your return.

Amended Returns

Do not submit a complete photocopy of your original return. Use a PA return from the same tax year you are amending. For example, to amend for 1998, use another 1998 PA tax return.

Completely fill in the amended return oval, or write "Amended Return", at the top of the PA tax return. Follow these steps:

1. Enter the amounts from your original return that you **are not amending**.
2. Enter your **amended amounts**. Enclose a statement explaining the reasons you are filing an amended return, and the forms or schedules supporting your amended amounts.
3. Calculate your amended total PA taxable income.
4. Calculate your PA tax liability. If you received a refund on your original return, add that amount to your PA tax liability.
5. Calculate your total payments and credits. If you paid tax with your original return, add that payment to your total payments and credits.
6. Calculate your amended Tax Due or Overpayment. Be sure to complete the appropriate lines explaining how you want the Department to distribute your overpayment (refund/credit/donation).

The Department will take your original refund or payment into account. Be sure to sign your amended return and mail it, with all explanations and attachments, to: PA Department of Revenue, Bureau of Individual Taxes, Dept. 280502, Harrisburg, PA17128-0502. For more information, request form REV-630, **Amending PA-40 Returns**.

Refunds from Amended Returns

For a refund, you must file an amended PA return within three years from the original due date or the date of an approved extension. You may file an amended PA return if you overreported income, or to claim allowable credits or deductions that you originally did not report. **IMPORTANT.** *You may not file an amended PA return after the Department issued an assessment, if your amendment relates to the same taxable year and item of income, gain, deduction, or loss that the Department assessed. You must either file a timely petition for reassessment or pay the assessment and file a timely refund petition. For payments made on or after January 1, 1998, you must submit a refund petition, form REV-65, not later than six months after the date shown on the billing notice, assessment, or other Departmental document.*

Underreported Income for Amended Returns

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

Keep Your Records

The Department has the statutory authority to verify, and audit, all amounts you report on your return and accompanying schedules. You must maintain your books and records for at least four (4) years after filing, as evidence of the information you reported on your PA return.

Penalties for Not Filing, or for Filing a Late Return

PA law imposes a 5 percent penalty if you do not file your return on or before the due date, or the approved extended due date. The penalty is 5 percent of the unpaid tax due for each month or fraction of a month. PA law imposes this penalty unless you show reasonable cause for late filing. The maximum penalty is 25 percent. The minimum penalty is \$5. The Department may prosecute any person who attempts to evade or defeat their PA tax responsibility.

Interest for Nonpayment or Late Payment

If you do not pay the tax due on or before the due date, PA law imposes interest from April 17, 2000 to the date of payment. The annual interest rate is that rate established by the U.S. Secretary of the Treasury that is in effect on January 1 of each calendar year.

Penalties for Underpayment or for Late Payment

- If you do not pay the full amount of your tax due with your return, PA law imposes a 5 percent underpayment penalty.
- If you do not report taxable income that is more than 25 percent of the taxable income shown on your return, PA law imposes an additional penalty. This penalty is 25 percent of the tax due on your unreported income.

You are liable for these penalties if your underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud. **IMPORTANT.** *If any part of any underpayment of the tax is due to fraud, PA law allows an additional penalty of 50 percent of the underpayment.*

IMPORTANT. *The Department may assess both late filing and underpayment penalty if you file your return after the due date, or extended due date, and do not pay your tax liability with your return.*

Other Penalties

PA law imposes a \$500 penalty on a taxpayer that files a **frivolous return**. A frivolous return is one that does not contain sufficient information for the Department to determine the correct liability, or a return that contains information indicating the liability is significantly incorrect. The Department may assess a \$500 penalty on any taxpayer that files in a manner to delay or impede the administration of the tax law.

PA law imposes a \$50 penalty on any person required to furnish an **information return**, for each information return that they do not file, or for each false or fraudulent information return.

PA SCHOOL DISTRICTS AND CODES BY COUNTY

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
ADAMS		BERKS		Palmerton Area13650		Middletown Area22600	
Bermudian Springs01110		Antietam06050		Panther Valley13660		Millersburg Area22610	
Conewago Valley01160		Boyetown Area06075		Weatherly Area13900		Steeleton Highspire22800	
Fairfield Area01305		Brandywine Heights Area06085		CENTRE		Susquehanna Township22830	
Gettysburg Area01375		Conrad Weiser Area06110		Bald Eagle Area14100		Susquenita50600	
Littlestown Area01520		Daniel Boone Area06150		Bellefonte Area14110		Upper Dauphin Area22900	
Upper Adams01852		Exeter Township06200		Keystone Central18360		Williams Valley54880	
ALLEGHENY		Fleetwood Area06250		CHESTER		DELAWARE	
Allegheny Valley02060		Governor Mifflin06300		Avon Grove15050		Chester Upland23123	
Avonworth02075		Hamburg Area06350		Coatesville Area15190		Chichester23130	
Baldwin Whitehall02110		Kutztown Area06400		Downingtown Area15200		Garret Valley23410	
Bethel Park02125		Muhlenberg Township06550		Great Valley15350		Haverford Township23450	
Brentwood Borough02145		Oley Valley06650		Kennett Consolidated15400		Interboro23510	
Carlynton02160		Reading06700		Octorara Area15650		Marple Newtown23550	
Chartiers Valley02175		Schuylkill Valley06750		Owen J. Roberts15660		Penn Delco23690	
Clairton02190		Tulpehocken Area06800		Oxford Area15670		Radnor Township23760	
Cornell02210		Twin Valley06810		Phoenixville Area15720		Ridley23770	
Deer Lakes02225		Upper Perkiomen46860		Spring Ford Area46730		Rose Tree Media23790	
Duquesne City02250		Wilson06910		Tredyffrin Easttown15780		Southeast Delco23840	
East Allegheny02280		Wyomissing06935		Twin Valley06810		Springfield23850	
Elizabeth Forward02315		BLAIR		Unionville-Chadds Ford15850		Unionville-Chadds Ford15850	
Fort Cherry63240		Altoona Area07050		West Chester Area15900		Upper Darby23945	
Fox Chapel Area02391		Bellwood Antis07100		CLARION		Wallingford Swarthmore23960	
Gateway02410		Claysburg-Kimmel07150		Allegheny Clarion Valley16030		West Chester Area15900	
Hampton Township02460		Holidaysburg Area07350		Armstrong03085		William Penn23965	
Highlands02475		Spring Cove07750		Clarion Area16120		ELK	
Keystone Oaks02500		Tyrone Area07800		Clarion-Limestone Area16170		Brockway Area33070	
McKeesport Area02600		Williamsburg Community07900		Keystone16650		Forest Area27200	
Montour02630		BRADFORD		North Clarion County16750		Johnsonburg Area24350	
Moon Area02634		Athens Area08050		Redbank Valley16800		Kane Area42230	
Mount Lebanon02640		Canton Area08100		Union16900		Ridgway Area24600	
North Allegheny02685		Northeast Bradford County08300		CLEARFIELD		Saint Marys Area24800	
Northgate02687		Sayre Area08600		Clearfield Area17100		ERIE	
North Hills02690		Towanda Area08650		Clearfield Area17100		Corry Area25145	
Penn Hills02735		Troy Area08665		Curwensville Area17180		Erie City25260	
Penn-Trafford65710		Wyalusing Area08900		Dubois Area17200		Fairview25330	
Pine-Richland02100		BUCKS		Glendale17300		Fort Leboeuf25355	
Pittsburgh02745		Bensalem Township09100		Harmony Area17350		General McLane25390	
Plum Borough02750		Bristol Borough09130		Moshannon Valley17500		Girard25405	
Quaker Valley02775		Bristol Township09135		Philipsburg-Osceola Area17700		Harbor Creek25435	
Riverview02820		Centennial09200		Purchase Line32730		Iroquois25655	
Shaler Area02830		Central Bucks09210		West Branch Area17900		Millcreek Township25760	
South Allegheny02865		Council Rock09235		CLINTON		North East25830	
South Fayette Township02870		Easton Area48330		Jersey Shore Area41400		Northwestern25850	
South Park02875		Morrisville Borough09720		Keystone Central18360		Union City Area25910	
Steel Valley02883		Neshaminy09750		West Branch Area17900		Wattsburg Area25970	
Sto Rox02885		New Hope Solebury09760		COLUMBIA		FAYETTE	
Upper Saint Clair Township02920		North Penn46570		Benton Area19100		Albert Gallatin Area26030	
West Allegheny02940		Palisades09800		Berwick Area19110		Belle Vernon Area65060	
West Jefferson Hills02955		North Penn46570		Bloomsburg Area19120		Brownsville Area26080	
West Mifflin Area02960		Pennridge09810		Central Columbia19150		CConnellsville Area26130	
Wilkesburg Borough02980		Pennsbury09820		Millville Area19500		Frazier26290	
Woodland Hills02990		Quakertown Community09840		Mount Carmel Area49510		Laurel Highlands26400	
ARMSTRONG		Soudertown Area46710		North Schuylkill54500		Southmoreland65750	
Allegheny Clarion Valley16030		BUTLER		Southern Columbia Area19750		Uniontown Area26800	
Apollo-Ridge03060		Allegheny Clarion Valley16030		CRAWFORD		FOREST	
Armstrong03085		Butler Area10125		Conneaut20103		Forest Area27200	
Freeport Area03305		Freeport Area03305		Corry Area25145		FRANKLIN	
Karns City Area10360		Karns City Area10360		Crawford Central20135		Chambersburg Area28130	
Kiski Area65440		Mars Area10500		Jamestown Area43360		Fannett-Metal28200	
Leechburg Area03450		Moniteau10535		Penncrest20470		Greencastle-Antrim28300	
Redbank Valley16800		Seneca Valley10790		Titusville Area61720		Shippensburg Area21800	
BEAVER		Slippery Rock Area10750		Union City Area25910		Tuscarora28600	
Aliquippa Borough04050		South Butler County10780		CUMBERLAND		Waynesboro Area28900	
Ambridge Area04070		CAMBRIA		Big Spring21050		FULTON	
Beaver Area04120		Blacklick Valley11060		Camp Hill21100		Central Fulton29130	
Big Beaver Falls Area04150		Cambria Heights11120		Carlisle Area21110		Forbes Road29230	
Blackhawk04160		Central Cambria11130		Cumberland Valley21160		Southern Fulton29750	
Center Area04190		Conemaugh Valley11140		East Pennsboro Area21250		GREENE	
Ellwood City Area37200		Ferndale Area11200		Mechanicsburg Area21650		Carmichaels Area30130	
Freedom Area04285		Forest Hills11220		Shippensburg Area21800		Central Greene30140	
Hopewell Area04410		Glendale17300		South Middleton21830		Jefferson-Morgan30350	
Midland Borough04530		Greater Johnstown11250		West Shore21900		Southeastern Greene30650	
Monaca04545		Northern Cambria11450		DAUPHIN		West Greene30850	
New Brighton Area04565		Penn Cambria11600		Central Dauphin22140		HUNTINGDON	
Riverside Beaver County04585		Portage Area11630		Derry Township22175		Huntingdon Area31250	
Rochester Area04690		Richland11650		Halifax Area22250		Juniata Valley31280	
Southside Area04740		Westmont Hilltop11850		Harrisburg City22275		Mount Union Area31600	
Western Beaver County04930		Windber Area56910		Lower Dauphin22400		South Huntingdon County31750	
BEDFORD		CAMERON		DAUPHIN		Tussey Mountain05800	
Bedford Area05100		Cameron County12270		Central Dauphin22140		Tyrone Area07800	
Chestnut Ridge05150		CARBON		Derry Township22175			
Claysburg-Kimmel07150		Hazleton Area40330		Halifax Area22250			
Everett Area05300		Jim Thorpe Area13500		Harrisburg City22275			
Northern Bedford County05600		Lehighton Area13550		Lower Dauphin22400			
Tussey Mountain05800							

Part-Year Residents who moved out of Pennsylvania during 1999 use code 99999.

PA SCHOOL DISTRICTS AND CODES BY COUNTY

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
INDIANA							
Apollo-Ridge	.03060	Dallas	.40160	Easton Area	.48330	UNION	
Armstrong	.03085	Greater Nanticoke Area	.40260	Nazareth Area	.48480	Lewisburg Area	.60400
Blairsville-Saltsburg	.32110	Hanover Area	.40300	Northampton Area	.48490	Mifflinburg Area	.60500
Harmony	.17350	Hazleton Area	.40330	Northern Lehigh	.39450	Milton Area	.49500
Homer Center	.32330	Lake-Lehman	.40390	Pen Argyl Area	.48560	Warrior Run	.49800
Indiana Area	.32370	Northwest Area	.40600	Saucon Valley	.48600		
Marion Center Area	.32520	Pittston Area	.40660	Wilson Area	.48860		
Penns Manor Area	.32630	Wilkes-Barre Area	.40885			VENANGO	
Punxsutawney Area	.33800	Wyoming Area	.40920	NORTHUMBERLAND		Allegheny Clarion Valley	.16030
Purchase Line	.32730	Wyoming Valley West	.40930	Danville Area	.47180	Cranberry Area	.61130
United	.32800			Line Mountain	.49350	Forest Area	.27200
		LYCOMING		Milton Area	.49500	Franklin Area	.61220
JEFFERSON		Canton Area	.08100	Mount Carmel Area	.49510	Oil City Area	.61620
Brockway Area	.33070	East Lycoming	.41200	Shamokin Area	.49650	Penncrest	.20470
Brookville Area	.33080	Jersey Shore Area	.41400	Shikellamy	.49660	Titusville Area	.61720
Clarion-Limestone Area	.16170	Loyalsock Township	.41420	Southern Columbia Area	.19750	Valley Grove	.61860
Dubois Area	.17200	Montgomery Area	.41500	Warrior Run	.49800		
Punxsutawney Area	.33800	Montoursville Area	.41510			WARREN	
		Muncy	.41530	PERRY		Corry Area	.25145
JUNIATA		South Williamsport Area	.41610	Fannett-Metal	.28200	Titusville Area	.61720
Greenwood	.50300	Southern Tioga	.59700	Greenwood	.50300	Warren County	.62830
Juniata County	.34360	Wellsboro Area	.59850	Newport	.50400		
		Williamsport Area	.41720	Susquenita	.50600	WASHINGTON	
				West Perry	.50800	Avella Area	.63050
LACKAWANNA		MCKEAN				Bentworth	.63090
Abington Heights	.35030	Bradford Area	.42080	PHILADELPHIA		Bethlehem Center	.63100
Carbondale Area	.35130	Kane Area	.42230	Philadelphia City	.51500	Brownsville Area	.26080
Dunmore	.35220	Oswayo Valley	.53750			Burgettstown Area	.63120
Forest City Regional	.58300	Otto Eldred	.42600	PIKE		California Area	.63150
Lackawanna Trail	.66500	Port Allegany	.42630	Delaware Valley	.52200	Canon McMillan	.63170
Lakeland	.35460	Smethport Area	.42750	East Stroudsburg Area	.45200	Charleroi	.63180
Mid Valley	.35550			Wallenpaupack Area	.64830	Chartiers Houston	.63190
North Pocono	.35650	MERCER				Fort Cherry	.63240
Old Forge	.35660	Commodore Perry	.43130	POTTER		McGuffey	.63390
Riverside	.35700	Crawford Central	.20135	Austin Area	.53030	Peters Township	.63650
Scranton City	.35740	Farrell Area	.43250	Coudersport Area	.53130	Ringgold	.63700
Valley View	.35840	Greenville Area	.43280	Galeton Area	.53280	Trinity Area	.63800
		Grove City Area	.43290	Keystone Central	.18360	Washington	.63880
LANCASTER		Hermitage	.43330	Northern Potter	.53550		
Cocalico	.36130	Jamestown Area	.43360	Oswayo Valley	.53750	WAYNE	
Columbia Borough	.36150	Lakeview	.43390	Port Allegany	.42630	Forest City Regional	.58300
Conestoga Valley	.36170	Mercer Area	.43500			North Pocono	.35650
Donegal	.36220	Reynolds	.43530	SCHUYLKILL		Susquehanna Community	.58650
Eastern Lancaster County	.36230	Sharon City	.43560	Blue Mountain	.54080	Wallenpaupack Area	.64830
Elizabethtown Area	.36240	Sharpsville Area	.43570	Hazleton Area	.40330	Wayne Highlands	.64870
Ephrata Area	.36260	West Middlesex Area	.43750	Mahanoy Area	.54450	Western Wayne	.64890
Hempfield	.36310	Wilmington Area	.37800	Minersville Area	.54470		
Lampeter-Strasburg	.36360			North Schuylkill	.54500	WESTMORELAND	
Lancaster	.36400	MIFFLIN		Panther Valley	.13660	Belle Vernon Area	.65060
Manheim Central	.36440	Mifflin County	.44460	Pine Grove Area	.54600	Blairsville-Saltsburg	.32110
Manheim Township	.36450	Mount Union Area	.31600	Pottsville Area	.54610	Burrell	.65070
Octorara Area	.15650			Saint Clair Area	.54680	Derry Area	.65160
Penn Manor	.36520	MONROE		Shenandoah Valley	.54720	Franklin Regional	.65260
Pequea Valley	.36530	East Stroudsburg Area	.45200	Schuylkill Haven Area	.54730	Greater Latrobe	.65310
Solanco	.36700	Pleasant Valley	.45520	Tamaqua Area	.54760	Greensburg Salem	.65320
Warwick	.36900	Pocono Mountain	.45540	Tri Valley	.54780	Hempfield Area	.65380
		Stroudsburg Area	.45600	Williams Valley	.54880	Jeannette City	.65410
				SNYDER		Kiski Area	.65440
LAWRENCE		MONTGOMERY		Mid-West	.55500	Leechburg Area	.03450
Blackhawk	.04160	Abington	.46030	Selinsgrove	.55710	Ligonier Valley	.65490
Ellwood City Area	.37200	Boyetown Area	.06075			Monessen City	.65580
Laurel	.37400	Bryn Athyn Borough	.46050	SOMERSET		Mount Pleasant Area	.65590
Mohawk Area	.37500	Cheltenham Township	.46130	Berlin Brothersvalley	.56100	New Kensington Arnold	.65630
Neshannock Township	.37520	Colonial	.46160	Conemaugh Township Area	.56180	Norwin	.65650
New Castle Area	.37530	Hatboro-Horsham	.46360	Meyersdale Area	.56520	Penn-Trafford	.65710
Shenango Area	.37620	Jenkintown	.46380	North Star	.56550	Southmoreland	.65750
Union Area	.37700	Lower Merion	.46450	Rockwood Area	.56630	Yough	.65890
Wilmington Area	.37800	Lower Moreland Township	.46460	Salisbury Elk Lick	.56700		
		Methacton	.46530	Shade-Central City	.56720	WYOMING	
LEBANON		Norristown Area	.46560	Shanksville-Stonycreek	.56740	Elk Lake	.58250
Anville Cleona	.38030	North Penn	.46570	Somers Area	.56770	Lackawanna Trail	.66500
Cornwall Lebanon	.38130	Perkiomen Valley	.46610	Turkeyfoot Valley Area	.56840	Lake-Lehman	.40390
Eastern Lebanon County	.38230	Pottsgrove	.46630	Windber Area	.56910	Tunkhannock Area	.66750
Lebanon	.38460	Pottstown	.46640			Wyalusing Area	.08900
Northern Lebanon	.38500	Souderton Area	.46710	SULLIVAN		Wyoming Area	.40920
Palmyra Area	.38530	Springfield Township	.46720	Sullivan County	.57630		
		Spring Ford Area	.46730	SUSQUEHANNA		YORK	
LEHIGH		Upper Dublin	.46830	Blue Ridge	.58100	Central York	.67130
Allentown City	.39030	Upper Merion Area	.46840	Elk Lake	.58250	Dallastown Area	.67160
Bethlehem Area	.48100	Upper Moreland Township	.46850	Forest City Regional	.58300	Dover Area	.67180
Catasauqua Area	.39130	Upper Perkiomen	.46860	Montrose Area	.58450	Eastern York	.67220
East Penn	.39230	Wissahickon	.46930	Mountain View	.58460	Hanover Public	.67280
Northern Lehigh	.39450			Susquehanna Community	.58650	Northeastern York	.67440
Northwestern Lehigh	.39460	MONTOUR				Northern York County	.67460
Parkland	.39510	Danville Area	.47180	TIOGA		Red Lion Area	.67550
Salisbury Township	.39560	Warrior Run	.49800	Canton Area	.08100	South Eastern	.67620
Southern Lehigh	.39570			Galeton Area	.53280	South Western	.67640
Whitehall Coplay	.39780	NORTHAMPTON		Northern Tioga	.59600	Southern York County	.67650
		Bangor Area	.48080	Southern Tioga	.59700	Spring Grove Area	.67670
LUZERNE		Bethlehem Area	.48100	Wellsboro Area	.59850	West Shore	.21900
Berwick Area	.19110	Catasauqua Area	.39130			West York Area	.67850
Crestwood	.40140					York City	.67900
						York Suburban	.67940

Part-Year Residents who moved out of Pennsylvania during 1999 use code 99999.

INDEX

1999 Estimated Installment Payments	13	Interest for Nonpayment or for Late Payment	25	Professional License Fees, Malpractice Insurance, and Fidelity Bond Premiums - PASchedule UE Instructions	17
1999 Extension Payment	13	Interest Income	9	Reciprocal Compensation Agreements	8
2000 PAEstimated Personal Income Tax Requirements	25	Joint Income - Joint Returns	7	Reimbursements for Expenses	8
Amended Returns - Instructions	25	Korea/Vietnam Memorial, Inc.	4	Reminders for Filing Your 1999 PA-40	5
Annuities	9	Language Service	4	Rental and Royalty Receipts and Allowable Expenses	12
Appendix	25	Loss on the Disposition of Property	12	Rents or Net Gain from the Sale, Exchange, or Disposition of Property	13
Application of Overpayment	14	Mailing Instructions	15	Rents or Net Profits from the Operation of a Business	12
Assembling your PA-40	15	Married, Filing Jointly - Type Filer	6	Reporting PAPayments and Credits	13
Before You Begin	5	Married, Filing Separately - Type Filer	6	Reproducing PAReturns and Schedules	15
Breast and Cervical Cancer Research Fund	4	Medical Savings Account (MSA) Distributions	7	Resident - Residency Status	6
Brochures Available from the Department	24	Members of the Armed Forces	25	Review Your Return	14
Capital Gain Distributions	12	Miscellaneous Expenses - PASchedule UE Instructions	18	Roth IRA Rollover	8
Census 2000	1	Miscellaneous or Other Income	7	Rounding Amounts	7
Clergy and Statutory Employees	9	Moving Expenses - PASchedule UE Instructions	17	Sale of Your Principal Residence	12
Contributions to your Medical Savings Account	13	Net Compensation	9	Schedule Instructions	15
Costs, Expenses, and Deductions	7	Net Gain or Loss from 6-1-71 Property - PASchedule D Instructions	20	Scholarships, Fellowships, and Stipends	8
Credit from your 1998 PAIncome Tax Return	13	Net Gain or Loss from the Sale, Exchange, or Disposition of Property	11	School Code and School District Name	6
Customer Service and Taxpayer Assistance	4	Net Income or Loss from Rents, Royalties, Patents, and Copyrights	12	School District Codes	26/27
Deceased - Type Filer	6	Net Income or Loss from the Operation of a Business, Profession, or Farm	11	Sick Pay and Disability Pay	9
Depreciation Expense - PASchedule UE Instructions	18	Nonresident - Residency Status	6	Single - Type Filer	6
Direct Employee Business Expenses - PASchedule UE Instructions	17	Nonresident and Part-Year Residents Instructions	22	Small Tools and Supplies - PASchedule UE Instructions	17
Distributions from Employer Sponsored Deferred Compensation Plans	8	Nonresident Tax Withheld	13	Special Filing Opportunities and Services	1
Distributions from Money Market and Mutual Funds and other Investment Companies	10	Occupation	15	Special Reporting Rules for PA Purposes	8
District Offices	3	Office or Work Area Expenses - PASchedule UE Instructions	17	Stock Dividend Reinvestment Plans	10
Dividend Income	10	Organ Donor Awareness Trust Fund	4	Supporting Documents	5
Do Not Report as PATaxable Income	7	Other Penalties	25	Tax Due	14
Early Retirement Incentive Plans	9	Overpayment	14	Tax Forgiveness Credit	13
Education Expenses - PASchedule UE Instructions	17	PAand Federal Schedules	11	Tax Rate	7
Electronic Data Imaging	5	PAEmployment Incentive Payments Credit	14	Taxable Gain from the Sale of your Principal Residence - PASchedule D Instructions	20
Eligibility Income - PASchedule SP Instructions	21	PAJobs Creation Tax Credit	14	Taxable Return of Capital Distributions - PASchedule D Instructions	20
Eligibility Income Tables - PASchedule SP Instructions	21	PAResearch and Development Tax Credit	14	Taxpayer Service and Information Center	4
Employee Welfare Benefit Plans	9	PAResident Members of Partnerships and PAS Corporations	7	Taxpayers' Rights Advocate	4
Employer Sponsored Retirement, Pension, and other Deferred Compensation Plans	8	PASchedule A Instructions	15	TeleFile	2
Entering Losses	7	PASchedule B Instructions	16	Temporary Offices	4
Estate or Trust Income	13	PASchedule C-F Reconciliation Instructions	18	Toll-free Assistance for Taxpayers with Special Needs	4
Exempt Obligations Originally Issued After February 1, 1994	12	PASchedule D Instructions	19	Toll-free FACT and Information Number	4
Exempt Obligations Originally Issued Before February 1, 1994	12	PASchedule E Instructions	20	Total Credit for Taxes Paid to Other States and Countries	14
Extension of Time to File Instructions	25	PA Schedule I Instructions	22	Total Estimated Payments and Credits	13
Filing for a Deceased or Disabled Individual or a Minor Child	5	PASchedule J Instructions	20	Total Gross PATaxable Income	13
Final Return - Type Filer	6	PASchedule SP Instructions	20	Total PATax Withheld	13
Forfeited Interest Penalty	10	PASchedule UE Instructions	16	Total Payments and Credits	14
Forms Ordering Services	2	PASchedule W-2S Instructions	15	U. S. Olympic Committee, PA Division	4
Free Federal Tax Assistance from the Internal Revenue Service	4	PASchedules RK-1 and NRK-1	11	Union Dues - PASchedule UE Instructions	17
Free Income Tax Preparation Service	4	PATuition Account (TAP) Program	7	Unreimbursed Employee Business Expenses	9
Gain from Installment Sales - PASchedule D Instructions	19	PAWaste Tire Recycling Investment Tax Credit	14	Use Tax Responsibilities	3
Gains and Losses	7	pa.direct.file	2	Vehicle Expenses - PASchedule UE Instructions	16
Gambling and Lottery Winnings	13	PA-40 Line Instructions	9	W-2 Wage and Tax Statement	9
General Instructions	6	Part-Year Resident - Residency Status	6	What is a Business or Profession?	11
Gifts	7	Payment Voucher (PA-V)	15	What is Tax Forgiveness?	20
Gross Compensation	9	Penalties for Not Filing or for Filing a Late Return	25	When to File?	5
How to Pay	15	Penalties for Underpayment or for Late Payment	25	Who is a Dependent for Tax Forgiveness?	20
Identification Label Change	6	Pennsylvania IRS e-file	2	Who Is an Eligible Claimant for Tax Forgiveness?	20
Include in PATaxable Income	7	Pennsylvania Lottery Winnings	13	Who Must File a PATax Return?	5
Individual Retirement Accounts	8	Personal Identification Number	5	Wild Resource Conservation Fund	4
		Personal Use of Employer Property and Services	9	Work Clothes and Uniforms - PASchedule UE	17
		Preparer or Company Name and Telephone Number	15	Your Signature(s) and Date	14