

PA-41 Pennsylvania Fiduciary Income Tax Return 2005 (Internet Version)

GENERAL INSTRUCTIONS FOR THE PA-41

Governing Instrument

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

Special Rules

Before preparation of this return, determine all of the following under the terms of the governing instrument and the laws applicable to the administration of estates or trusts:

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

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

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

Amounts disbursed to pay taxes measured by the income for another taxable period may not be treated as set aside from current income. Amounts disbursed to pay nondeductible trustee commissions, legal, and accounting expenses and other current expenses that do not reduce the amount of taxable or nontaxable income or gain of the trust for the taxable year, shall be treated as nontaxable income or gain for the taxable year which is required to be accumulated, retained, or set aside, if total distributions for the year do not equal or exceed the excess of total taxable and nontaxable income received by the trust for the taxable year over total taxable and nontaxable income received by the estate or trust for

the taxable year, which is required to be accumulated, retained, or set aside for future distribution. If total distributions for the year do equal or exceed the excess of total taxable and nontaxable income received by the trust for the taxable year over total taxable and nontaxable income received by the estate or trust for the taxable year, which is required to be accumulated, retained or set aside for future distribution, the amounts shall be treated as distributions by the estate or trust and beneficiaries.

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

When to File?

The filing due date for a calendar year estate or trust is midnight, Monday, April 17, 2006. The U.S. Postal Service postmark date on the envelope is proof of timely filing. The due date for a fiscal year estate or trust is midnight of the 15th day of the fourth month following the close of the fiscal year. The PA-41 for a short year is due the 15th day of the fourth month following the close of the short year.

PARTNERSHIPS, PA S CORPORATIONS, AND LIMITED LIABILITY COMPANIES

PA Schedules RK-1 and NRK-1

These schedules show the share of income (loss) for each PA income class. If the estate or trust received any guaranteed payments, add those payments to the estate or trust's share of income (loss) as shown on the Pennsylvania schedules. The partnership or PA S corporation deducts all allowable expenses and other allowable adjustments. An estate or trust may not deduct additional expenses incurred on behalf of the Partnership or PA S corporation that it may be able to deduct for Federal purposes.

PA Resident Estate or Trust Partners, Shareholders, and/or Members

If the resident estate or trust is a partner in a partnership, a shareholder of a PA S corporation, or a member of a limited liability company, the estate or trust should *receive* a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule RK-1 *and* a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule NRK-1. The resident estate or trust must only submit a copy of each PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule RK-1 and report its share of income whether distributed or not as shown on its PA Schedule(s). A PA Partnership, PA S Corporation, or PA Limited Liability Company NRK-1 is required to compute PA source income necessary for computations involved with PA-41 Schedule DD. Please see the instructions that begin on page 22 for more information. If the partnership or limited liability company does not provide a PA Schedule RK-1, the estate or trust still must report and classify the income (loss) from the Federal Schedule K-1 according to the instructions for each PA income class. The estate or trust must also submit a copy of the Federal K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the Federal K-1. If the resident estate or trust is a shareholder in a PA S corporation, the PA S corporation must provide the RK-1 and NRK-1 to the estate or trust. Federal K-1s are not acceptable substitutes in these instances.

Nonresident Estate or Trust Partners, Shareholders, and/or Members

If the estate or trust is not a Pennsylvania estate or trust, but is a partner in a partnership, a shareholder of a PA S corporation, or a member of a limited liability company, the estate or trust should *receive* a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule NRK-1 *and* a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule RK-1. Nonresident trusts or estates must only submit a copy of each PA Schedule NRK-1 and report their share of PA taxable income (loss) whether distributed or not as shown on their PA schedule(s). If the partnership or limited liability company does not provide a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule NRK-1, the nonresident estate or trust still must report and classify the income (loss) from a Federal Schedule K-1 according to the instructions for each PA income class. The nonresident estate or trust must also submit a copy of its Federal K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the Federal K-1. If the income (loss) is being reported to PA from a Federal K-1 and the income (loss) is not 100 percent of the amount from the Federal K-1, a schedule or written explanation should be submitted along with the Federal K-1 explaining how the amount reported was determined. If the nonresident estate or trust is a shareholder in a PA S corporation, the PA S corporation must provide the NRK-1 and RK-1 to the estate or trust. Federal K-1s are not acceptable substitutes in these instances.

PA Resident or Nonresident Estate or Trust Beneficiaries

The Department now requires the reporting of PA resident estate or trust income on a PA Schedule RK-1 and PA Schedule NRK-1. If the estate or trust is a PA estate or trust beneficiary, the estate or trust should receive a PA Schedule RK-1 and PA Schedule NRK-1. The income from the PA Schedule RK-1 should be reported on PA-41 Schedule J and on Line 6 of the PA-41. A PA Schedule NRK-1 is required to compute PA source income necessary for computations involved with PA-41 Schedule DD. If the estate or trust is a nonresident estate or trust beneficiary, the estate or trust should also receive a PA Schedule RK-1 and PA Schedule NRK-1. The income from the PA Schedule NRK-1 should be reported on PA-41 Schedule J and on Line 6 of the PA-41. A PA Schedule RK-1 is required to compute PA source income necessary for computations involved with PA-41 Schedule DD. As a beneficiary of an estate or trust, the income from that estate or trust should be reported on Line 6 of the PA Schedule RK-1 for a resident estate or trust and on Line 4 of the PA Schedule NRK-1 for a nonresident estate or trust. However, both a PA Schedule RK-1 and a PA Schedule NRK-1 should be received by both a resident and nonresident estate or trust.

If the estate or trust does not receive a PA Schedule RK-1 or NRK-1, the estate or trust must report and include the income from the Federal 1041 K-1 as a single class - estate or trust income. If the estate or trust is a beneficiary in a resident estate or trust and a PA Schedule RK-1 or NRK-1 is received, a copy of that document is not required to be submitted with the PA-41 return. However, if no PA Schedule RK-1 or NRK-1 is received, a copy of the Federal 1041 K-1 is required to be submitted with the return. Furthermore, if the estate or trust income of a nonresident estate or trust is from a PA source and the nonresident estate or trust does not receive a PA Schedule RK-1 or NRK-1, a copy of the Federal 1041 K-1 must be provided along with a written explanation of how the PA source income was determined.

PA-41 FORMS, SCHEDULES, AND PUBLICATIONS

All forms, schedules, and publications are available for download at the following link: <http://www.revenue.state.pa.us/revenue/cwp/view.asp?a=190&q=210003>, or by selecting the links throughout this instruction booklet. The forms are in .pdf format. Most of the links to forms throughout this booklet are fill-in forms and require Adobe Acrobat Reader 5.0 or higher in order to complete them. You can download the latest version of Adobe Acrobat Reader for free at www.adobe.com.

NOTE: When a fill-in form is started, it must be completed and printed at that time. You can not save a filled in schedule to your hard drive. You can also order forms online at the following link:

<http://www.revenue.state.pa.us/revenue/cwp/view.asp?a=190&q=220118>.

Federal Forms 1041 and 8271

Copies of the first two pages of the estate or trust Federal Form 1041 are required to be included with the filing of each PA-41 return for an estate or trust. Also, if the estate or trust is required to file Federal Form 8271 with its Federal Form 1041, a copy of that form should be included with the PA-41 return as well. See the Assembling the PA-41 instructions found on page 6 of the PA-41 booklet for the detailed instructions of where and what must be included with a PA-41 return.

INSTRUCTIONS FOR COMPLETING THE PA-41

Identification Number

Enter the EIN of the estate or trust on all schedules. If the estate has not yet received its EIN from the IRS, please use the decedent's social security number with an F following the last digit. If a trust has not yet received its EIN from the IRS, please write "APPLIEDFR" in the space provided. The estate or trust should then send the Department a copy of the notice identifying the assigned EIN as soon as it is received from the IRS. The copy of the notice should be sent to the same address to which any previous returns or extensions were filed.

Name and Address

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

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

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

EXAMPLE . . . TAXPAYER, JOHN T. ESTATE OF

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

EXAMPLE . . . TAXPAYER, MARY S. TRUST

Estate or Trust Identification Change

Fill in this oval if any of the identification or filing information is different from the 2004 PA-41, or if the estate or trust did not file a 2004 PA-41. Destroy the label if it is incorrect.

Extension Enclosed

Fill in this oval if you obtained an extension to file your 2005 PA-41. Read the instructions found on page 6 of the *PA-41 Booklet*.

Amended PA-41

Fill in this oval only if you are amending your 2005 PA-41. Read the instructions beginning on page 28.

Fiscal Year

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

Residency Status

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

Final Return

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

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

Do You Want a 2006 PA-41 Booklet?

If the fiduciary or tax professional does not use the forms provided by the Department, fill in this oval. The Department will not mail a 2006 PA-41 booklet to the estate or trust.

LINE INSTRUCTIONS FOR THE PA-41**Line 1. Interest Income**

You must complete the *PA-41 Schedule A* if the amount of interest income reported on the return is greater than \$2,500. If you are required to complete PA-41 Schedule A, please include the amount from Line 4 of the PA-41 Schedule A on Line 1. If you are not required to complete PA-41 Schedule A, record the total amount of interest income earned for the year on Line 1. The PA-41 Schedule A instructions begin on page 18. Report interest received during the taxable year from bank deposits, bonds, certificates of deposit, interest-bearing checking accounts, tax refunds, or other obligations, etc.

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

Generally, Forms 1099 issued by financial institutions will indicate the amount of interest from such institutions. Interest from GNMA and FNMA certificates is PA taxable income. Interest received from obligations of other states and countries is PA taxable

income. Also, include interest from PA Schedules RK-1. If the estate or trust received only a Federal Schedule K-1, classify interest income according to PA rules.

PA Tax Exempt Interest

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

Distributions from Money Market Funds, Mutual Funds, and Other Investment Companies

Estates or trusts must report distributions from the earnings and profits of money market or mutual funds, investment trusts, and investment companies as dividend income on Line 2, not as interest income.

Forfeited Interest Penalty

Estates or trusts may use forfeited interest penalty, incurred for premature redemption or withdrawal of a time savings account or certificate of deposit, to offset only the interest income from that account or certificate. It may not offset other interest income. If the total penalty exceeds the interest on an account or certificate, the excess is a loss on PA-41 Schedule D.

Interest Received by Nonresident Estates or Trusts

Generally, interest received by nonresident estates or trusts is not taxable even when paid by a PA bank. Interest is taxable to a nonresident only if derived from the ownership or disposition of real or personal tangible property in PA, or received in connection with doing business in PA. Although the interest income may not be taxable, the information may be necessary in the completion of PA-41 Schedule DD. See the instructions that begin on page 22 for more information.

Line 2. Dividend Income

You must complete the *PA-41 Schedule B* if the amount of dividend income reported on the return is greater than \$2,500. If you are required to complete PA-41 Schedule B, please include the amount from Line 5 of the PA-41 Schedule B here on Line 2. If you are not required to complete PA-41 Schedule B, record the total amount of dividend income earned for the year on Line 2. The PA-41 Schedule B instructions are on page 19. Report dividend income received from stocks, non PA S corporations, mutual funds, other business associations, etc. as well as capital gains distributions from mutual funds. A resident estate or trust that is a shareholder of a corporation, other than a PA S corporation, must report as taxable dividend income distributions by a business corporation or business association out of its earnings and profits, without regard to the manner in which the business derived the income. For PA purposes, a business association is an unincorporated business enterprise, organized in a manner similar to a business corporation. Business corporations or business associations include, but are not limited to, business trusts, federally qualified real estate investment companies, mutual funds, and other federally regulated investment companies.

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

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

Mutual Funds, Money Market Funds, and Investment Trusts

Distributions, including dividends in the form of capital gains, received from mutual funds and money market funds, real estate investment trusts, and other investment trusts, except for ordinary dividends from exempt PA obligations and exempt federal obligations, are fully taxable as dividends unless they are a return of capital.

Dividend Income Does Not Include:

1. Dividends distributed by a corporation to its stockholders in the form of stock, when the distribution is not taxable as income for federal purposes.
2. Distributions designated as a return of capital by a utility company or other corporation. Once such distributions reduce the basis of the stock to zero (0), further distributions are taxable as gain from the sale or disposition of property on PA-41 Schedule D.
3. Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. Report these payments as PA taxable interest income on Line 1.
4. Ordinary dividends paid by a mutual fund or a registered investment company that the fund/company statement designates as being exempt-interest dividends. Use the percentage of the total dividend income that is from exempt PA and exempt federal obligations.
5. Income from an estate or trust, even if reported on a Federal Schedule K-1. Report such income on PA-41 Schedule J.
6. Dividends from PA tax-exempt obligations. You can request [*REV-1643, Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes*](#), for a list of exempt obligations.
7. Dividends distributed under a charitable gift annuity are not taxable. However, after you recovered the amount you donated, you must report further distributions as taxable gains on PA-41 Schedule D.

Dividends Received by Nonresident Estates or Trusts

Generally, dividends received by nonresident estates or trusts are not taxable even when paid by a PA corporation. However, the information may be necessary in the completion of PA-41 Schedule DD. See the instructions that begin on page 22 for more information.

Line 3. Net Income or Loss from the Operation of a Business, Profession, or Farm

Complete and file a separate [*PA Schedule C*](#) or [*PA Schedule F*](#) for each business or farm that the estate or trust operates. If not filing a separate PA business schedule, submit the

PA Schedule C-F Reconciliation. This schedule starts with the federal amounts and allows the adjustments necessary to determine PA taxable income or loss. If the estate or trust is a partner, a PA S shareholder, or member, submit its PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule RK-1 or NRK-1. Submit a copy of the Federal Schedule K-1 if a PA Partnership, PA S Corporation, or PA Limited Liability Company Schedule RK-1 is not supplied by the partnership. If the estate or trust is a partner or member and receives only a Federal Schedule K-1, you must adjust and classify the income and losses according to PA rules. See the *PA PIT Guide, Chapter 16, Pass Thru Entities*, for additional information on the adjustments required and the proper classification of income. If the estate or trust is a shareholder in a PA S corporation, the PA S corporation must provide the RK-1 or NRK-1. Federal K-1s are not acceptable substitutes in these instances.

What is a Business or Profession?

A business or profession has certain features and must meet each of the following conditions:

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

Reporting net income or loss on the PA-41

If the estate or trust realizes ordinary income or loss from the operation of a business, profession or farm from more than one partnership, PA S corporation, and/or limited liability company, a statement should be provided showing the EIN, name, and amount of distributable/distributed income by entity. Record the total amount of income or loss from partnerships, PA S corporations, and limited liability companies along with any income or loss from any Schedule C or Schedule C-F Reconciliation on Line 3. If the estate or trust realizes a net loss, enter that amount on Line 3 and fill in the oval next to the line. Do not use brackets or a minus sign.

Income Not Derived in the Ordinary Course of Business

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

- Report the gain (loss) from the sale of an asset used in business, other than inventory or stock-in-trade, on PA-41 Schedule D.
- Report interest income on PA-41 Schedule A.
- Report dividend income on PA-41 Schedule B.
- Report rent and royalty income on PA Schedule E.

Allowable Business Expenses

Allowable expenses are those ordinary, necessary, and reasonable expenses currently paid or incurred during the taxable year that are directly related to and necessary for

operating a business, profession, or farm. Social Security and Unemployment Compensation Taxes paid for employees are allowable expenses.

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

Depreciation

Bonus depreciation

PA PIT law does not follow the federal allowances for additional depreciation expenses. Taxpayers may not use either of the bonus depreciation elections enacted for federal purposes in 2002 and 2003. An estate or trust must increase its PA income by the difference between the bonus depreciation and the depreciation based on the generally accepted depreciation method it elected for PA PIT purposes.

Other depreciation expense differences

An estate or trust must adjust its federal expense for the difference between its federal depreciation and its PA PIT depreciation, based on its generally accepted method. Pennsylvania allows ACRS, MACRS, and IRC section 168(k) only to the extent allowable under the version of the Internal Revenue Code in effect at the time the property was placed in service or the IRC in effect on January 1, 1997, whichever is earlier, but not any other accelerated method. Pennsylvania taxpayers may not use the enhanced small business expensing provided by the Jobs and Growth Relief Reconciliation Act of 2003. Estates and trusts cannot expense capital property using any provisions of IRC section 179.

American Jobs Creation Act of 2004

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

Line 4. Net Gain or Loss from the Sale, Exchange, or Disposition of Property

If the estate or trust has net gains or losses from the sale, exchange, or disposition of property, enter the amount from Line 10 of the *PA-41 Schedule D* on Line 4. The instructions for PA-41 Schedule D begin on page 20. You must report each sale, exchange, or disposition of any kind of property, including real estate, tangible personal property, and intangible property such as stock or ownership interests in business enterprises, bonds, annuities, and contract of insurance with refundable accumulated reserves payable upon lapse or surrender. However, if a sale, including an installment sale, is a routine transaction in the ordinary course of operating a business, profession, or farm, include the gain (loss), and any interest realized in determining net business income (loss). See the *PA PIT Guide Chapter 11*, Table 11-1, for more information on determining whether the sale should be included as a routine transaction in the ordinary course of business or on PA-41 Schedule D. Report gain on the disposition of property in

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

You recognize a loss only:

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

Installment Sales

Obtain and complete *PA Schedule D-1 (REV-1689)*. Enter on Line 3 of PA-41 Schedule D the total gain realized from PA Schedule D-1.

The estate or trust must elect the installment method if it receives at least one payment in any taxable year after the taxable year of the sales transaction. The estate or trust must submit PA Schedule D-1.

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

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

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

Follow the instructions for PA Schedule D-1. Submit PA Schedule D-1 with the PA-41 Schedule D.

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

Repossession of Property

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

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

Federal and PA Obligations

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

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

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

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

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

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

IMPORTANT: If the sale, exchange, or disposition of property transaction is from a Federal or PA obligation, please include the original issue date (or DTD date) of the obligation in the description of the transaction.

CAUTION: The gain from the sale of a mutual fund or a fixed investment portfolio trust is not exempt for PA purposes.

Obligations of Other States

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

Taxable Distributions from a C Corporation

An estate or trust that is a shareholder in a C corporation must report as taxable gain the excess of the fair market value of a distribution (other than a dividend) in excess of current or accumulated earnings and profits over the adjusted basis of its stock when the adjusted basis of the stock is zero (0). When a distribution, that is not a dividend, is received that is in excess of the current or accumulated earnings and profits, decrease the basis of the stock or shares, but not below zero (0), by any distribution that is not taxable as a dividend on Line 2 of the PA-41. Once a distribution reduces the basis of the stock to zero (0), the excess distributions are taxable as gains from the disposition of property and reported on Schedule D Line 1.

EXAMPLE: B Corp distributes from its capital account \$100,000 to the estate of John Doe, the only stockholder. The estate's adjusted basis in the stock is \$75,000. The distribution is not from the regular corporation's earnings and profits, so it is not a taxable dividend. The estate must reduce its basis from \$75,000 to zero, then report \$100,000 on the "Enter total distribution" line, and \$75,000 on the "Minus adjusted basis" line. The estate reports the remaining \$25,000 as a gain on its PA-41 Schedule D.

Property Acquired Before June 1, 1971

Obtain and complete *PA Schedule D-71 (REV-1742)*. Report on Line 5 of PA-41 Schedule D the total net gain or loss from PA Schedule D-71.

Partnership or PA S Corporation Income

If the estate or trust is a partner, PA S shareholder, or member, it will receive a PA Schedule RK-1 or NRK-1 showing its share of any net gain or loss realized by the sale, exchange, or disposition of property. Report the amount of any net gain or loss realized by the sale, exchange, or disposition of property from RK-1 Line 4 and NRK-1 Line 2 on PA-41 Schedule D Lines 6 or 7. Submit all such schedules to support the amount reported on PA-41 Schedule D. Submit a copy of the Federal Schedule K-1 if a PA Schedule RK-1 or NRK-1 is not supplied by the partnership or limited liability company. If the estate or trust is a partner and/or member and receives a Federal Schedule K-1, you

must adjust and classify the income and losses according to PA rules. See the [PA PIT Guide, Chapter 16, Pass Thru Entities](#), for additional information on the adjustments required and the proper classification of income. If the estate or trust is a shareholder in a PA S corporation, the PA S corporation must provide the RK-1 or NRK-1. Federal K-1s are not acceptable substitutes in these instances. If the estate or trust realizes income or loss from more than one partnership, PA S corporation, and/or limited liability company, a statement should be provided showing the EIN, name, and amount of distributable/distributed income by entity.

Disposition of Principal Residence

A sale or other disposition of a decedent's principal residence will not qualify for the principal residence exclusion unless the disposition is pursuant to an executory contract made prior to death by an individual that met the ownership and use requirements. Include the taxable sale of a decedent's residence on Line 1 of PA-41 Schedule D.

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

If the estate or trust has net income or loss from rents, royalties, patents and/or copyrights, report the amount of income or loss from Line 23 of the [2005 PA Schedule E](#). The estate or trust must complete and file a separate PA-40 Schedule E to report its income or loss. The PA-40 Schedule E and instructions can be found in the [2005 PA-40 booklet](#) or through the forms ordering instructions found on page 3 of the [PA-41 Booklet](#). Rental income includes the amounts the estate or trust received for the use of, or the right to use, its real or personal property. Royalty income includes the amounts the estate or trust received for the extraction of coal, oil, gas, or other minerals in place, and the amounts received for the use of its patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and similar property.

If the estate or trust is a partner, PA S shareholder, or member, it will receive a PA Schedule RK-1 and or NRK-1 showing its share of any net income or loss from rents, royalties, patents, and/or copyrights. Report the amount of any net income or loss from rents, royalties, patents, and/or copyrights from RK-1 Line 5 and NRK-1 Line 3 on PA-40 Schedule E Line 22. Submit all such schedules to support the amount reported on PA Schedule E. Submit a copy of the Federal Schedule K-1 if a PA Schedule RK-1 is not supplied by the partnership or limited liability company. If the estate or trust is a partner or member and receives a Federal Schedule K-1, you must adjust and classify the income and losses according to PA rules. See the [PA PIT Guide, Chapter 16, Pass Thru Entities](#), for additional information on the adjustments required and the proper classification of income. If the estate or trust is a shareholder in a PA S corporation, the PA S corporation must provide the RK-1 or NRK-1. Federal K-1s are not acceptable substitutes in these instances. If the estate or trust realizes income or loss from more than one partnership, PA S corporation, and/or limited liability company, a statement should be provided showing the EIN, name, and amount of distributable/distributed income by entity.

Generally, the estate or trust must use PA-40 Schedule E, but may use Federal Schedule E if using only Part 1 and making the following adjustments:

- Report passive rental/royalty loss in full, rather than carry it over to future years.

- Report only the current year's income or loss by removing any rental/royalty loss carryovers.
- Add any capital gains/distributions.
- Do not take any depreciation expense on Sales Tax that it elected to currently expense for PA PIT purposes.
- Optional. Deduct Sales Tax on acquired property as an expense currently rather than add it to the basis of the property as required for federal purposes.

IMPORTANT: If currently expensing Sales Tax, the basis of that property will differ from the federal basis. Adjust the depreciation expense accordingly, because the estate or trust cannot expense Sales Tax and still take depreciation. If not expensing Sales Tax, add such Sales Tax to the cost basis of the property and depreciate the aggregate cost plus Sales Tax. Separately show its share of any rental or royalty gain (loss) realized as a partner, a shareholder of a PA S corporation, or other entity.

Rental and Royalty Receipts and Allowable Expenses

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

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

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

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

See the PA Schedule E instructions for the allowable expenses.

Rents or Net Profit from the Operation of a Business

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

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

- (c) The leasing of its property is a regular and continuous activity.

Significant Services

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

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

Lease with an Option to Buy

A lease with an option to buy may be a purchase contract under accepted accounting principles and practices. If it is, the payments you received under the contract are payments of the purchase price and are not includable as rental income. Report such income on PA-41 Schedule D.

Selling Mineral Interests, Patents, or Copyrights

If giving up all rights to mineral interests, patents, or copyrights, the amounts the estate or trust received are considered payments for the sale or exchange of property. Report such income on PA-41 Schedule D.

Line 6. Estate or Trust Income

If the estate or trust has estate or trust income reported on PA-41 Schedule J, report that income here. Income currently paid, distributable, or credited income from another estate or trust is PA taxable income on the PA-41. This estate or trust will receive a PA Estate or Trust Schedule RK-1 or NRK-1 from the other estate or trust. Cash and property received from another estate or trust by gift, bequest, devise, or inheritance is not taxable. Report the PA taxable income from other estates or trusts on *PA-41 Schedule J*. The PA-41 Schedule J instructions begin on page 19. If the other estate or trust provides a Federal Schedule K-1, report the total distributed and distributable income, but not losses, on PA-41 Schedule J.

If a resident estate or trust, enter the amount reported from Line 6 of the PA Estate or Trust Schedule RK-1 provided by the other estate or trust as your resident taxable income on Line 6. If a nonresident estate or trust, enter the amount reported from Line 4 of the PA Estate or Trust Schedule NRK-1 provided by the other estate or trust as your nonresident taxable income on Line 6.

Line 7. Total Taxable Income

Add all positive amounts on Lines 1 through 6. You cannot offset income and losses on these lines to calculate Line 7.

Line 8. Deductions from PA-41 Schedule DD

Complete the PA-41 Schedule DD, Distribution Deduction Schedule, to determine the allowable deductions for distribution made to beneficiaries of the estate or trust. The instructions for PA-41 Schedule DD begin on page 22.

Line 9. Adjusted Taxable Income

Subtract Line 8 from Line 7.

Line 10. Total PA Tax Liability

Multiply the amount on Line 9 by 3.07 percent (0.0307). This amount is the PA tax before adjustments for payments and credits.

Line 11. 2005 Estimated Payments and Credits

Enter on Line 11 the total of:

- Any credit carried over from the 2004 PA-41; and
- All 2005 installment payments of estimated tax; and
- Any payment made with a 2005 request for extension of time to file.

Line 12. Nonresident Tax Withheld from PA Partnership, PA S-Corporation or PA Limited Liability Company Schedule(s) NRK-1

Enter the PA tax withheld by a PA partnership, PA S corporation, or PA limited liability company from Line 6 of a PA Partnership, PA S-Corporation or PA Limited Liability Company NRK-1. The estate or trust must submit the PA Schedule(s) NRK-1.

Line 13. Total Credit for Taxes Paid by PA Resident Estates or Trusts to Other States or Countries

PA resident estates or trusts having income subject to both the PA tax and the Fiduciary Income Tax of another state or country may claim a credit for all or a portion of the tax paid to the other state or country.

Submit a signed photocopy of the tax return, or other evidence, filed in the other state or country with the PA Schedule G.

FILING TIP: PA law does not provide rules that allow an estate or trust to pass through the Fiduciary Income Tax it pays to another state or country on behalf of its beneficiaries. Therefore, the estate or trust may adjust the income it reports on the PA Estate or Trust RK-1 that it provides to its beneficiaries by the amount of Fiduciary Income Tax that it paid to another state or country on the income it distributes to its beneficiaries. The estate or trust must submit an explanation for its adjustment and the signed copy of the other state (country) tax return or other evidence of the tax due to the other jurisdiction.

Line 14. Total Other Credits

Enter the total allowable credits from Line 4, PA-41 Schedule OC. The instructions for PA-41 Schedule OC begin on page 27.

Line 15. 2005 Payments and Credits

Add Lines 11, 12, 13 and 14.

Line 16. Tax Due

If Line 10 is more than Line 15, subtract Line 15 from Line 10 and enter the tax due.

Line 17. Penalties and Interest

Estimated Underpayment Interest Penalty.

If Line 16 is more than ten (10) percent of Line 10, the estate or trust is liable for an estimated underpayment penalty. PA law requires estimated PA PIT payments if the estate or trust earned, received, or realized more than \$8,000 of PA taxable income. PA law does provide specific exceptions (safe harbors) to this penalty, and the estate or trust

can calculate its penalty at the applicable interest rates on *Form REV-1630, Underpayment of Estimated Tax by Individuals*.

IMPORTANT: Request the specific Form REV-1630 for each tax year for which the estate or trust owes the penalty.

Late Filing and Underpayment Penalty and Interest

If paying the tax after the due date, the estate or trust must also pay applicable penalty and interest. The penalties are described on page 7 of the *PA-41 Booklet*. Obtain the applicable interest rate for filing in 2006 from the *REV-1611, INTEREST RATE AND CALCULATION METHOD FOR ALL TAXES DUE AFTER JANUARY 1, 1982*. Include the applicable penalty and interest on Line 16. The Department will apply the payment to tax, interest, and penalty as prescribed by PA law.

If the estate or trust does not owe any penalty or interest, enter zero (0) on Line 16.

Line 18. Total Payment

Add Lines 16 and 17. This is the 2005 amount due with the PA-41. Pay the total due, in full, on or before April 17, 2006. Use the Form PA-V.

Line 19. Overpayment

If Line 15 is more than the total of Line 10 and Line 17, enter your overpayment.

Line 20. Refund

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

Line 21. Credit

For a credit to its 2006 PA estimated account of the estate or trust, enter the amount from Line 19.

IMPORTANT: If the estate or trust requests a refund and a credit, enter the amounts on Lines 20 and 21. The total of these lines must equal Line 19.

Review the PA-41

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

Math Check

Double-check all calculations before filing the PA-41.

- Resident Estate or Trust
The Resident Taxable Income should equal the estate or trust's distribution deductions on Line 15, PA-41 Schedule DD.
- Nonresident Estate or Trust
The Nonresident Taxable Income should equal the estate or trust's distribution deductions on Line 15 of PA-41 Schedule DD.

Signature and Verification

Be sure to sign the PA-41. An unsigned PA-41 is not a valid tax return. The signature on the PA-41 verifies by written declaration, under penalties of perjury, that the fiduciary

personally has examined the PA-41 and its accompanying schedules and to the best of his or her knowledge, the PA-41 is true, correct, and complete. If someone other than the fiduciary or officer representing the fiduciary prepared the PA-41, the preparer may enter his or her name, or the company name, and the telephone number on the return.

How to Pay

The estate or trust must pay the balance of tax due shown on the PA-41 by April 17, 2006. Make the check or money order payable to PA Dept. of Revenue. The estate or trust must file a PA-41 even if no payment is due. Do not staple the check to the Form PA-V or to the PA-41. Use the Form PA-V on the insert to make the payment with the PA-41. If the fiduciary does not have a preprinted Form PA-V, include the check with the PA-41, but do not staple the check to the PA-41.

Bad Check

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

MAILING INSTRUCTIONS

If there is Tax Due on Line 16 of the PA-41, mail the return, check, and PA-V to:

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

If there is an Overpayment on Line 19 of the PA-41, mail the return to:

**PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280505
HARRISBURG, PA 17128-0505**

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

**PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280506
HARRISBURG, PA 17128-0506**

SCHEDULE INSTRUCTIONS

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

PA-41 Schedule A, B, & J

PA-41 Schedule A

Line 1. If the estate or trust has PA taxable interest income that is more than \$2,500, it

must complete *PA-41 Schedule A*, with the name, and PA taxable interest of the payer from each Form 1099 or other statement.

PA taxable interest income includes interest from:

- Savings and loan associations
- Credit unions, even if reported as dividends on your statement
- Bank deposits
- Bonds
- Certificates of deposit
- Interest-bearing personal checking accounts
- 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 obligations of the U.S. Government
- Obligations of other states or countries
- Mutual savings banks and cooperative banks, even if reported as dividends
- Income from any amount paid under contract of life insurance, or endowment or annuity contract which is includable in gross income for Federal income tax purposes

PA taxable income does not include interest from:

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

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

Lines 2 and 3. If the estate or trust is a partner or PA S shareholder, it will receive a PA Schedule RK-1 showing its share of any interest income. Report the amount of any interest income from RK-1 Line 2 on PA-41 Schedule A Line 2 or 3. Submit all such schedules to support the amount reported on PA-41 Schedule A. Attach a copy of the Federal Schedule K-1 if a PA Schedule RK-1 is not supplied by the partnership. If the estate or trust is a partner and receives a Federal Schedule K-1, you must adjust and classify the income from the Federal Schedule K-1 according to PA rules. See the *PA PIT Guide, Chapter 16, Pass Thru Entities*, for additional information on the adjustments required and the proper classification of income. If the estate or trust realizes income from more than one partnership and or PA S corporation, a statement should be provided showing the EIN, name, and amount of distributable/distributed income by entity.

Line 4. Add Lines 1, 2, and 3 of the PA-41 Schedule A. Enter the amount here and on Line 1 of the PA-41.

PA-41 Schedule B

Line 1. If the estate or trust's PA taxable dividend income is more than \$2,500, it must

complete [PA-41 Schedule B](#), with the name of the payer, and the PA taxable dividend from each Form 1099 or other statement.

Stock Dividend Reinvestment Plans

Under such a plan, dividends are elected in the form of stock, rather than cash or other property. The estate or trust must include the stock's fair market value as dividend income as of the date paid.

Line 2. Capital Gains Distributions. Capital gains distributions are taxable as dividend income on Line 2, not capital gains as for federal purposes. Do not report capital gains distributions on PA-41 Schedule D.

Lines 3 and 4. If the estate or trust is a partner or PA S shareholder, it will receive a PA Schedule RK-1 showing its share of any dividend income. Report the amount of any dividend income from RK-1 Line 3 on PA-41 Schedule B Line 3 or 4. Submit all such schedules to support the amount reported on PA-41 Schedule B. Include a copy of the Federal Schedule K-1 if a PA Schedule RK-1 is not supplied by the partnership. If the estate or trust is a partner and receives a Federal Schedule K-1, you must adjust and classify the income from the Federal Schedule K-1 according to PA rules. See the [PA PIT Guide, Chapter 16, Pass Thru Entities](#), for additional information on the adjustments required and the proper classification of income. If the estate or trust realizes income from more than one partnership and/or PA S corporation, a statement should be provided showing the EIN, name, and amount of distributable/distributed income by entity.

Line 5. Add Lines 1, 2, 3, and 4 of PA-41 Schedule B. Enter the amount here and on Line 2 of the PA-41.

PA-41 Schedule J

As a beneficiary of an estate or trust, the estate or trust should receive a PA Estate or Trust Schedule RK-1 or NRK-1. Report the total income that was received or credited to the estate or trust as the beneficiary of the estate or trust. Enter the name, identification number, and amount of PA taxable income from Line 6 of each PA Estate or Trust Schedule RK-1 or Line 4 of each PA Estate or Trust Schedule NRK-1. Check the box on the schedule to indicate if the estate or trust income you are reporting is received from a PA resident estate or trust as reported on a PA Estate or Trust Schedule RK-1 or NRK-1. Do not check this box if you use a Federal Schedule K-1 to report the income. If only a Federal Schedule K-1 is received, enter the total amount of positive income reported.

CAUTION: If the estate or trust receives a PA Estate or Trust Schedule RK-1 or NRK-1 and the income from the estate or trust is broken down by classes and is not reported as one line item on the PA Estate or Trust Schedule RK-1 or NRK-1, all positive amounts of income shown as interest; dividends; income from the operation of a business, profession or farm; gain from the sale, exchange, or disposition of property; income from rents, royalties, patents and copyrights; estate or trust income; and gambling and lottery winnings should be combined and included on the PA-41 Schedule J as one amount. If the estate or trust included any of these amounts on a PA schedule, other than PA-41 Schedule J, adjust the PA schedule(s) accordingly.

IMPORTANT: The estate or trust should receive a PA Estate or Trust Schedule RK-1 or NRK-1 from the estate or trust. If the estate or trust receives a Federal Schedule K-1, it must report only the total income, not taking into account any losses, shown on the Federal Schedule K-1. Add the total of income reported on Federal Schedule K-1 as interest, dividends, long-term and short-term gains, annuities, royalties, trade or business income, rental income, etc. and report the income as one amount on PA-41 Schedule J. If the estate or trust included any of these amounts on a PA schedule, other than PA-41 Schedule J, adjust the PA schedule(s) accordingly. Include a photocopy of the Federal K-1 with the estate or trust return for each nonresident estate or trust and/or each estate or trust for which the state or trust failed to receive a PA Estate or Trust Schedule RK-1 or NRK-1.

If the estate or trust receives estate or trust income from a PA partnership, PA S corporation, and/or PA limited liability company, report the income from Line 6 of a PA Partnership, PA S-Corporation or PA Limited Liability Company PA RK-1 or Line 4 of a PA Partnership, PA S-Corporation or PA Limited Liability Company PA NRK-1 on the appropriate lines of Schedule J. Add the amounts reported on Schedule J. Enter the total on the appropriate line of Schedule J and on Line 6 of the PA-41.

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

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

PA-41 Schedule D

PA law does not recognize the deemed sale election that the IRS permitted on 2003 federal returns. Unless the instructions require a different Pennsylvania schedule, report each sale, exchange, or disposition of property on *PA-41 Schedule D*.

Line 1. Columns (a) through (f):

- (a) List and describe the property sold or otherwise disposed of for cash or other property.
- (b) Enter the month, day, and year acquired.
- (c) Enter the month, day, and year sold.
- (d) Enter the gross sales price or fair market value of cash and/or property received, less applicable expenses of sale.
- (e) Enter the Adjusted Basis of the property sold.
- (f) Determine whether the property was either I or II, and follow the appropriate instructions:
 - I. If the property is income-producing property acquired as an investment, such as capital stock, an interest in a partnership or other business, a rental property, a patent or copyright, etc., or the estate or trust held the property in connection with a business, profession, or farm, and the property is not inventory or an operational asset:
 - Subtract Column (e) from Column (d) and enter the gain, loss, or zero in Column (f);

- II. If the property was other than income-producing property:
- If the Adjusted Basis is less than or equal to Column (d) enter the gain, or zero in Column (f);
 - If the Adjusted Basis is greater than Column (d), the estate or trust does not realize a loss. Enter zero in Column (f).

Line 2. Add Column (f) and enter the total. Gains and losses may be offset to calculate this line.

Line 3. Enter the amount from *PA Schedule D-1*.

Line 4. Enter the total Taxable Distributions from C Corporations. See the instructions on page 11.

Line 5. Enter the total amount from *PA Schedule D-71 (Form REV-1742)*.

Line 6. Net Partnership Gain or Loss. Report the (taxable) Net Gain (Loss) from the Sale, Exchange, or Disposition of Property reported on Line 4 of the PA Schedule RK-1 or Line 2 of the PA Schedule NRK-1.

Line 7. Net PA S Corporation Gain or Loss. Report the (taxable gain) Net Income (Loss) from Rents, Royalties, Patents and Copyrights reported on Line 4 of the PA Schedule RK-1 or Line 2 of the PA Schedule NRK-1.

Line 8. Taxable Distributions from Partnerships. Report any gain realized from other partnership distributions that exceed the estate or trust's ownership basis in that partnership. Complete and submit *PA Schedule D (P/S)*.

Line 9. Taxable Distributions from PA S Corporations. Report any gain realized from other PA S corporation distributions that exceed the estate or trust's ownership basis in that PA S Corporation. Complete and submit *PA Schedule D (P/S)*. See the PA PIT Guide for instructions for this schedule.

Line 10. Total PA Taxable Gain. Add Lines 2 through 9. Include the net gain or loss on Line 4 of the PA-41.

PA-41 Schedule DD

An estate or trust must compute its income as if it were both a resident estate or trust and a nonresident estate or trust. Column A is used for the computation as a resident estate or trust including all income from all sources. Column B is for the computation as a nonresident estate or trust including income only from PA sources. This is necessary in order to provide information concerning income that may be taxable to Pennsylvania and for showing income allocable to both resident and nonresident beneficiaries.

The schedule is divided into two sections: Lines 1 through 7 relate to income; Lines 8 through 16 relate to distributions. This effectively divides the schedule into four quadrants: the upper left quadrant deals with income reportable as a resident estate/trust; the lower left quadrant deals with distributions as a resident estate/trust; the upper right

quadrant deals with income reportable as a nonresident estate/trust; and the lower right quadrant deals with distributions as a nonresident estate/trust.

The following is a line by line description of the Schedule DD:

Income Lines:

NOTE: If the estate or trust is a resident estate or trust and all the beneficiaries are residents of Pennsylvania, only Column A must be completed. Otherwise, Columns A and B must be completed.

Line 1a. Enter under Column A the income computed as if this were a resident estate or trust. If this is a resident estate or trust, enter the amount from Line 7 of the PA-41. If this is a nonresident estate or trust, a separate calculation of the income must be made to report all the income from all sources as if this were a resident estate or trust.

Line 1b. Enter under Column B the amount of PA taxable income computed as if this were a nonresident estate or trust. If this is a nonresident estate or trust, enter the amount from Line 7 of the PA-41. If this is a resident estate or trust, a separate calculation of income must be made to include only the taxable income from PA sources as if this were a nonresident estate or trust. If this income is derived solely from interest, dividends, and/or the sale, exchange, or disposition of intangible property (stocks, bonds, business interests, etc.), this figure will be zero.

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

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

Line 3a. Enter under Column A the amount obtained by subtracting Line 2a from Line 1a to arrive at the taxable income to be distributed.

Line 3b. Enter under Column B the amount obtained by subtracting Line 2b from Line 1b to arrive at the PA taxable income to be distributed.

Line 4a. Enter the amount of nontaxable gross receipts for the taxable year that is both:

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

Line 5a. Add the amounts on Lines 3a and 4a. This amount represents the total income available for distribution from both taxable and nontaxable sources.

Line 6a. Divide the amount on Line 3a by the amount on Line 5a to determine the percentage (calculated to four decimal places) of the total taxable income (Line 3a) available for distribution compared to the total income available for distribution (Line 5a). If Line 3a and Line 5a are the same, this line will be 100%.

Line 7b. Divide the amount on Line 3b by the amount on Line 5a to determine the percentage (calculated to four decimal places) of the total PA source taxable income (Line 3b) available for distribution compared to the total income available for distribution (Line 5a). If Line 3b is zero, the percentage will also be zero.

Distribution Lines:

IMPORTANT: If you are filing for an estate, enter zero (0) on Lines 8a, 9a, and 10a, and proceed to Line 11a.

Line 8a. For a trust, enter the total of all amounts, whether taxable or not and whether from income or corpus or not, which are specifically required under the governing instrument to be distributed during the taxable year, whether actually distributed or not.

Line 9a. For a trust, enter the amount of income specifically required under the governing instrument to be distributed during the taxable year that has been actually distributed, and/or the amounts that have or have not been actually distributed, but, under the governing instrument, are to be paid exclusively out of corpus.

- Line 10a.** Subtract the amount on Line 9a from the amount on Line 8a to determine the total amount of undistributed income that the trust must distribute currently.
- Line 11a.** Estates or trusts should enter the total dollar amount of cash distributions made to beneficiaries during the taxable year. Do not include amounts properly paid out of corpus as gifts or bequests of specific sums of money or that were required to be distributed in any prior taxable year, but were not.
- Line 12a.** Estates or trusts should enter the total market value of property distributions made to beneficiaries during the taxable year. Do not include property distributed in kind as a gift or bequest of specific property.
- Line 13a.** Add Lines 10a, 11a, and 12a to arrive at the total amount distributed/distributable by the estate or trust.
- Line 14a.** Enter under Column A the product of multiplying Line 13a, the amount distributed/distributable, by the percentage on Line 6a. This is the amount of the total amount distributed/distributable that is allocable to taxable income.
- Line 14b.** Enter under Column B the product of multiplying Line 13a, the amount distributed/distributable, by the percentage on Line 7b. This is the amount of the total amount distributed/distributable that is allocable to PA source taxable income.
- Line 15.** Resident estates or trusts should enter the lesser of Line 3a, the total taxable income to be distributed, or Line 14a, the amount of allocated total income actually distributed/distributable. This amount should equal the total amount shown on Line 6, Income of/from Estates or Trusts, of the PA RK-1.

Nonresident estates or trusts should enter the lesser of Line 3b, the total income allocable to PA sources to be distributed, or Line 14b, the amount of allocated PA source income actually distributed/distributable. This amount should equal the total amount shown on Line 4, Income of/from Estates or Trusts, of the PA NRK-1.

Charitable Distribution Deduction –Special Instructions for Line 16

NOTE: This deduction is only allowed if the governing instrument requires that all or a part of the income is set aside for a purely religious, charitable, scientific, literary or educational organization and this amount cannot be set aside to benefit a taxable beneficiary. For example, if there is a possibility that the amount may be used to make up part of a payment of a guaranteed amount to a taxable beneficiary, this amount may not be deducted.

An estate or trust qualifies for a charitable distribution deduction if it is unconditionally required under applicable law, or its governing instrument, to retain and permanently set aside all or a determinable part of its retained total income for the taxable year exclusively for the benefit of a purely religious, charitable, scientific, literary, or educational organization. This line contains only the portion of the income from Lines 2a, 2b, or both, that satisfies the conditions in the preceding sentence. No amount included on Lines 2a or 2b of PA-41 Schedule DD will be considered to be permanently set aside, or to be used, exclusively for the benefit of such organizations unless, under applicable law, or the terms of its governing instrument and the circumstances of the particular case, the possibility that the amount set aside, or to be used, will not be disbursed, distributed, or used for the benefit of such an organization is so remote as to be negligible. For example, where there is a possibility of the invasion of corpus of a charitable remainder trust in order to make payment of the annuity amount or unitrust amount, the estate or trust may not take a deduction.

Computation of Charitable Distribution Deduction

If applicable law or governing instrument specifically provides the source from which the estate or trust shall set aside proceeds or receipts exclusively for charity, the amount of the charitable deduction is the amount which would be properly reported on Line 1a of PA-41 Schedule DD, or Line 1b in the case of a nonresident estate or trust, where such receipts or proceeds are the only items of income for the year. Otherwise, the charitable deduction is that portion of the amount reported on Line 2a of PA-41 Schedule DD, or Line 2b in the case of a nonresident estate or trust, which the amount actually retained, accumulated, and set aside for the taxable year exclusively for the benefit charity bears to the total amount actually retained, accumulated, and set aside for the taxable year.

Line 16. Resident estates or trusts should enter the amount of taxable income included in Line 2a of PA-41 Schedule DD for which a charitable distribution deduction is allowed.
Nonresident estates or trusts should enter the amount of PA source taxable income included in Line 2b of PA-41 Schedule DD for which a charitable distribution deduction is allowed.

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

PA Estate or Trust Schedule RK-1 and PA NRK-1

The estate or trust must submit with its PA-41 a *PA Estate or Trust Schedule RK-1 and PA NRK-1* for each of the beneficiaries if the beneficiaries' last known addresses indicated they were nonresident beneficiaries. If the beneficiaries' last known addresses indicated they were resident beneficiaries for an entire tax year, the estate or trust may elect to include only a copy of the Estate or Trust Schedule RK-1. However, part-year resident beneficiaries must have each version of the schedule submitted with the PA-41 return. The PA Estate or Trust Schedule RK-1 and PA NRK-1 must also show the PA taxable income that the estate or trust distributed or was required to be distributed to each beneficiary. Both a resident and a nonresident figure should be computed for each beneficiary and reported on the PA Estate or Trust Schedule RK-1 and NRK-1 that are being submitted with the PA-41.

The estate or trust must also provide to each beneficiary a PA Estate or Trust Schedule RK-1 and NRK-1 showing only his/her/its share of the PA taxable income if the beneficiary's last known address indicated he/she/it was a nonresident beneficiary. If the beneficiary's last known address indicated he/she/it was a resident beneficiary for an entire tax year, the estate or trust may elect to provide only a copy of the Estate or Trust Schedule RK-1. However, a part-year resident beneficiary must also be provided with each version of the schedule. The Department does not accept Federal Schedule(s) K-1 because that schedule does not properly reflect the classified PA taxable income amounts. It is important to remember that the PA Estate or Trust Schedule RK-1 and NRK-1 submitted to the resident beneficiary should reflect the Taxable Income to PA Residents even if the estate or trust is a nonresident. Likewise, the nonresident beneficiary should be issued a PA Estate or Trust Schedule RK-1 and NRK-1 that reflects the Taxable Income to Nonresidents even if the estate or trust is a resident.

Part I. General Information

Complete all the appropriate information regarding the estate or trust and beneficiaries at the top of the PA Estate or Trust Schedule RK-1 and NRK-1 as follows:

- If the beneficiary of the estate or trust is an individual, enter the name, complete address, and Social Security Number of the beneficiary to whom the estate or trust made, or was required to make, a distribution during the taxable year, or to whom amounts were credited and payable during the taxable year. A PA Estate or Trust Schedule RK-1 *and* NRK-1 should be completed for each individual beneficiary.
- If the estate or trust beneficiary was other than an individual, enter the name of the entity (partnership, S-corporation, limited liability company, or estate or trust) in the space provided along with the EIN of entity. A PA Estate or Trust Schedule RK-1 *and* NRK-1 should be completed for each entity beneficiary.
- Enter the name, address, and EIN of the estate or trust from which the income is being distributed.
- Fill in the Estate or Trust oval under the type of entity listing.
- If the estate or trust has a fiscal year, fill in the oval and enter the Begin and End dates for the estate or trust's fiscal year.
- If the estate or trust is filing an amended return and the amount of income distributed to a beneficiary changes and an amended PA Estate or Trust Schedule RK-1 or NRK-1 is being included with the amended return, fill in the oval to indicate the amended schedule status.
- Enter in the appropriate space the beneficiary's year end distribution percentage for the ratio of the beneficiary's taxable distribution as reported on Line 6 of the Schedule RK-1 to the total distribution as reported on Line 8 of the PA-41. If an NRK-1 is also required for a beneficiary, enter the percentage computed as if a resident taxpayer.
- Fill in the oval for the type of owner (beneficiary) for the estate or trust.

Follow Steps 1, 2, and 3 below to compute and enter the amount of each beneficiary's Income of/from Estates or on Line 6 of the PA Estate or Trust Schedule RK-1 and Line 4 of the PA Estate or Trust Schedule NRK-1.

Step 1. Compute the total dollar amount of:

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

IMPORTANT: Do not take into account:

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

Step 2. To compute the beneficiary's Income of/from Estates or Trusts for entry on a RK-1, multiply the amount computed in Step 1 by a fraction. The numerator is the lesser of Line 3a or Line 14a of PA-41 Schedule DD. The denominator is Line 13a of PA-41 Schedule DD. Multiply this amount by the beneficiary's year end distribution percentage and enter the amount on Line 6, Income of/from Estates or Trusts on the RK-1.

Step 3. To compute the beneficiary's Income of/from Estates or Trusts for entry on a NRK-1, multiply the amount computed in Step 1 by a fraction. The numerator is the lesser of Line 3b or Line 14b of PA-41 Schedule DD. The denominator is Line 13a of PA-41 Schedule DD. Multiply this amount by the beneficiary's year end distribution percentage and enter the amount on Line 4, Income of/from Estates or Trusts on the NRK-1.

CAUTION: Do not report the income of beneficiaries of estates and trusts on any lines of the PA Estate or Trust Schedule RK-1 or NRK-1 except Line 6 of the RK-1 and Line 4 of the NRK-1. Distributed or distributable income of a beneficiary of an estate or trust is always reported as estate or trust income by that beneficiary.

IMPORTANT: If this is a resident estate or trust, the total of the Income of/from Estates or Trusts of all the beneficiaries should equal the amount on line 15 of the Schedule DD. If this is a nonresident estate or trust, the total of the Income of/from Estates or Trusts of all beneficiaries should equal the amount on line 15 of the Schedule DD.

PA-41 Schedule OC

The estate or trust must complete and include a separate *PA-41 Schedule OC* to report the amount of Employment Incentive Payments Credit, Jobs Creation Tax Credit, Research and Development Tax Credit, or Film Production Tax Credit. The PA-41 Schedule OC is found on page 2 of the PA-41.

Line 1. Employment Incentive Payments Credit

Estates or trusts employing welfare recipients may be eligible for this credit. Submit a completed PA Schedule W with copies of the Certification Form from the PA Department of Labor and Industry for each employee. If a partner or a PA

S-corporation shareholder, enter on this line the credit amount from the PA Schedules RK-1 or NRK-1 the estate or trust received.

Line 2. Jobs Creation Tax Credit

Enter the amount of approved credit from the PA Department of Community and Economic Development certification the estate or trust received. If a partner or a PA S-corporation shareholder, enter on this line the credit amount from the PA Schedules RK-1 or NRK-1 the estate or trust received.

Line 3. Research and Development Tax Credit

Enter the amount from the PA Department of Revenue certification the estate or trust received. If a partner or a PA S-corporation shareholder, enter on this line the credit amount from the PA Schedules RK-1 or NRK-1 the estate or trust received.

Line 4. Film Production Tax Credit

Enter the amount from the PA Department of Revenue certification or the amount of approved credit from the PA Department of Community and Economic Development certification the estate or trust received. If a partner or a PA S-corporation shareholder, enter on this line the credit amount from the PA Schedules RK-1 or NRK-1 the estate or trust received.

Line 5. Total Allowable Credits

Add Lines 1 through 4 and enter the total here and on Line 14 of the PA-41.

PA-41 Schedule OI

The estate or trust must complete and include a *PA-41 Schedule OI* and provide answers to questions and requests for other information as shown on the schedule. The address of the grantor at the time of the estate or trust establishment must be provided for all estates and trusts.

Filing Amended Returns

It is not necessary to attach a complete copy of the original PA-41. Use a PA-41 from the same tax year the fiduciary must amend. For example, to amend for 2004, use another 2004 PA-41, fill in the Amended oval on the PA-41, and follow these steps:

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

7. Calculate the amended Income of/from Estates and Trusts distributed to each beneficiary and complete amended PA Estate or Trust Schedules RK-1 and NRK-1.

The Department will take the original refund or payment into account when reviewing the amended PA-41. Be sure to sign the amended return. Mail the amended return with all explanations and attachments to one of the addresses as shown on pages 17 and 18 of the instructions. If the amended return results in tax due, mail the return to the Tax Due address. If the amended return results in an overpayment, mail the return to the Overpayment address. If the amended return results in no tax due or overpayment return, mail the return to the No Tax Due or Overpayment address.

Overpaid PA Fiduciary Income Tax

If the estate or trust over reported its income, or did not claim allowable credits on its original PA-41, the fiduciary must file an amended PA-41 within three (3) years of the original due date.

IMPORTANT: Do not file an amended PA-41 after the Department issues an assessment if the amendment relates to the same taxable year and assessed item of income, gain, deduction, or loss. In this instance, either file a timely petition for reassessment or pay the assessment and file a timely petition for a refund. To order the Petition Form (Form REV-65), see the Forms Ordering Services on page 3 of the [PA-41 Booklet](#).

Underreported Income

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

Records Must Be Maintained

All amounts reported on the PA-41 and accompanying schedules are subject to verification and audit by the Department. The fiduciary must retain books and records for at least four (4) years after filing to verify any information reported on the PA-41.