

SCHEDULE A – INTEREST INCOME

GENERAL INSTRUCTIONS

Purpose of Form

Use PA-20S/PA-65 Schedule A to report interest income of PA S corporations, partnerships, estates and trusts.

For Pennsylvania personal income tax, nonresidents are not taxed on ordinary interest from Pennsylvania sources.

Pennsylvania-Taxable Interest

Pennsylvania law (72 P.S. § 7303(a)(6)) provides that interest derived from obligations that are not statutorily free from state or local taxation under any other act of the General Assembly of the Commonwealth of Pennsylvania or under the laws of the U.S. is taxable.

Include all interest income except:

- Interest derived from purchase money mortgages on real estate or land contracts that the entity includes in determining net gain (loss) from the sale, exchange or disposition of property;
- Interest incidental to the production of rental or royalty income that the entity includes in determining net rent or royalty income;
- Interest that is statutorily free from Pennsylvania tax;
- Interest derived from assets employed as working capital in a business; and
- Interest from accounts and notes receivable from sales of products or services sold in the ordinary course of business that the entity includes in determining net profit (loss) from its business, profession or farm (generally current assets).

A PA S corporation or partnership cannot assume that an obligation that is exempt from federal income tax is also exempt from the Pennsylvania personal income tax. The exclusion for U.S. tax-exempt obligations does not automatically extend to those obligations whose sole statutory basis for exclusion is the Internal Revenue Code.

The entity may only deduct forfeited interest penalties from a premature withdrawal of a time deposit against the interest income from that account or certificate. The PA S corporation or partnership cannot offset such interest penalty against other interest income. If the total penalty exceeds the interest on an account or certificate, the entity can report the excess as a loss on PA-20S/PA-65 Schedule D, Part I or PA-20S/PA-65 Schedule D, Part III, Line 13.

For a listing of tax-exempt and taxable obligations, obtain Pennsylvania form REV-1643, Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes.

Pennsylvania Taxable Interest Income To Pennsylvania Resident and Non-Pennsylvania Resident Owners		
Type of Interest (Not allocated to net profits)	Pennsylvania Resident	Nonresident of Pennsylvania
Saving or other bank deposits	Taxable as Interest	Not Taxable
Coupon bonds	Taxable as Interest	Not Taxable
Open accounts	Taxable as Interest	Not Taxable
Promissory notes	Taxable as Interest	Not Taxable
Mortgages	Taxable as Interest	Not Taxable
Corporate bonds	Taxable as Interest	Not Taxable
Debentures	Taxable as Interest	Not Taxable
Interest on legacies or life insurance proceeds	Taxable as Interest	Not Taxable
Interest on tax refunds	Taxable as Interest	Not Taxable
Interest on U. S. obligations - Direct ownership	Not Taxable	Not Taxable
Interest on other states' obligations or political subdivisions	Taxable as Interest	Not Taxable
Unstated or imputed interest, including government obligations (original issue discount)	Taxable as Interest	Not Taxable
GNMA	Taxable as Interest	Not Taxable
FNMA	Taxable as Interest	Not Taxable
PA Commonwealth and PA Municipal Obligations	Not Taxable	Not Taxable
Income reported for federal purposes from life insurance, annuities, and endowment contracts.	Taxable as Interest	Not Taxable

SPECIFIC INSTRUCTIONS - Schedule A

Line 1. Interest Income from Federal Schedule K

Enter the amount reported on federal Schedule K. This number will also tie to PA-20S/PA-65 Schedule M, Part A, Line 4, Column A. Include federal Schedule K-1 interest income from other entities.

Line 2. Less Business or Rental Interest Income (Working Capital)

Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Line 4, Column B and/or Column F.

Line 3. Adjusted Federal Interest Income

Subtract Line 2 from Line 1. Enter the result on Line 3.

Line 4. Federal-Exempt Interest Income Taxable for Pennsylvania Personal Income Tax

Enter the amount reported on federal Schedule K from line "Tax-exempt interest income."

Line 5. Other Interest Income not included on Line 3 and Line 4

If the entity received interest income reported on a line other than federal 1120S Schedule K, Line 4 or federal 1065 Schedule K, Line 5 then report as interest income for Pennsylvania personal income tax purposes on PA-20S/PA-65 Schedule A, Line 5.

PA-20S/PA-65 Schedule A / B

**Interest Income / Dividend and Capital
Gains Distributions Income
Instructions**

PA-20S/PA-65 Schedule A / B (12-09)



Line 6. Gross Pennsylvania Interest Income
Add Lines 3 through 5. Enter the result on Line 6.

Line 7. Pennsylvania-Exempt Interest Income included on Line 6
Enter income reported as federal interest income that has been taxed federally and is exempt for Pennsylvania purposes. This number can be obtained from entity books and records.

Line 8. Pennsylvania-Taxable Interest Income
Subtract Line 7 from Line 6. Enter the result on Line 8. Enter this amount on the PA-20S/PA-65 Information Return, Page 1, Part III, Line 3.

**SCHEDULE B – DIVIDEND AND CAPITAL
GAINS DISTRIBUTIONS INCOME**

GENERAL INSTRUCTIONS

Use PA-20S/PA-65 Schedule B to report dividend and capital gains distributions income.

For Pennsylvania personal income tax, nonresidents are taxed on ordinary dividend income from Pennsylvania sources.

Pennsylvania-Taxable Dividends

Pennsylvania law (72 P.S. § 7301(f)) provides that dividends mean any distribution in cash or property made by a corporation, association, or business trust:

- Out of accumulated earnings and profits; or
- Out of earnings and profits of the year in which such dividend is paid.

The term dividends shall not include a distribution of stock of a corporation made by the corporation originally issuing it to its own stockholders if such distribution is not treated as personal income for federal individual income tax purposes.

The Pennsylvania definition of dividends is similar, but not identical, to the federal definition. Distributions from mutual funds, money market funds, and real estate investment trusts are classified as dividends for Pennsylvania purposes and interest for federal purposes. Distributions from PA S corporations are reportable as dividends by resident shareholders only if it is from PA C corporation earnings and profits.

SPECIFIC INSTRUCTIONS - Schedule B

Line 1. Ordinary Dividend Income from Federal Schedule K
Enter the amount reported on federal Schedule K. This number will also tie to PA-20S/PA-65 Schedule M, Part A, Line 5, Column A. Include federal Schedule K-1 dividend income from other entities.

Line 2. Less Business or Rental Dividend Income (Working Capital)
Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Line 5, Column B and/or Column F.

Line 3. Adjusted Federal Dividend Income
Subtract Line 2 from Line 1. Enter the result on Line 3.

Line 4. Federal-Exempt Dividend Income Taxable for Pennsylvania Personal Income Tax
Enter the amount reported on federal Schedule K from line "Other tax-exempt income."

Line 5. Other Dividend Income not included on Line 3 and Line 4
If the entity received dividend income reported on a line other than federal 1120S Schedule K, Line 5a or federal 1065 Schedule K, Line 6a then report as dividend income for Pennsylvania personal income tax purposes on Line 5 of PA-20S/PA-65 Schedule B.

Line 6. Capital Gains Distributions Income
Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Column D, Line 6 and Line 7.

NOTE: Pennsylvania taxes capital gains distributions from mutual funds as dividends.

Line 7. Gross Pennsylvania-Taxable Dividend Income
Add Lines 3 through 6, and enter the result on Line 7.

Line 8. Pennsylvania-Exempt Dividend Income Included on Line 7
Enter income reported as federal dividend income that has been taxed federally and is exempt for Pennsylvania purposes. This number can be obtained from entity level books and records.

Line 9. Pennsylvania-Taxable Dividend Income and Capital Gains Distributions Income
Subtract Line 8 from Line 7, and enter the result on Line 9. Enter this amount on the PA-20S/PA-65 Information Return, Page 1, Part III, Line 4.