

## **WHAT'S NEW THIS YEAR**

### **Line Change**

Line 8 - "Out-of-State Credits for Resident Partners and Shareholders" was changed to "Resident Credit."

## **GENERAL INSTRUCTIONS**

### **Purpose of Form**

The PA-20S/PA-65 Schedules RK-1 and NRK-1 shows each owner's share of income, losses and credits from the partnership, PA S corporation, estate, trust, and/or limited liability company. Pennsylvania residents receive PA-20S/PA-65 Schedule RK-1. Nonresidents of Pennsylvania receive PA-20S/PA-65 Schedule NRK-1.

A copy of the PA-20S/PA-65 Schedules RK-1 and/or NRK-1 for each member/partner/shareholder (owner) must accompany the PA-20S/PA-65 Information Return. Owners must receive a copy or copies to prepare Pennsylvania tax or information returns. The PA S corporation or partnership must also retain a copy of all PA-20S/PA-65 Schedules RK-1 and NRK-1.

Owners that are estates, trusts, other PA S corporations, other partnerships, and other pass through entities receive both PA-20S/PA-65 Schedules RK-1 and NRK-1. The Pennsylvania-taxable income passes through to the final taxpayer. Therefore, the immediate partners and shareholders must know the total Pennsylvania-taxable income in the event the final owner is a Pennsylvania resident. In the event that the final owner is not a resident of Pennsylvania, the owner must know Pennsylvania-source taxable income.

The PA-20S/PA-65 Schedule RK-1 does not need to be issued to the corporate partners unless a credit from the PA-20S/PA-65 Schedule OC has been allocated. Partnerships, PA S corporations, estates, trusts, and/or limited liability companies must submit PA-20S/PA-65 Schedules RK-1 with the applicable Pennsylvania tax returns.

If a PA-20S/PA-65 Schedule RK-1 and/or NRK-1 is received, amounts from this schedule must be reported on the appropriate Pennsylvania tax return.

### **Part-Year Resident Owners**

The requirements are different for PA S corporations and partnerships to issue PA-20S/PA-65 Schedules RK-1 and/or NRK-1 to its owners.

#### **PA S Corporations Only**

##### **1. Residency Period - PA-20S/PA-65 Schedule RK-1**

The PA S corporation must submit a separate PA-20S/PA-65 Schedule RK-1 for that portion of the tax year during which the shareholder was a resident.

The PA-20S/PA-65 Schedule RK-1 determines the shareholder's pro rata distributive share of each item reported on the PA-20S/PA-65 Information Return as follows:

Step 1. Determines the daily amount by dividing the income (loss) or credit by the number of days in the PA S corporation's tax year.

Step 2. Determines the shareholder's daily part by multiplying the daily amount from Step 1 by the percentage of stock owned by the shareholder on each day of the residency portion of the PA S corporation's tax year.

Step 3. Totals the shareholder's daily part for the number of days for which the shareholder was a resident. Multiply the shareholder's daily amount from Step 2 by the number of days the shareholder was a Pennsylvania resident.

##### **2. Nonresidency Period - PA-20S/PA-65 Schedule NRK-1**

The PA S corporation must submit a separate PA-20S/PA-65 Schedule NRK-1 for that portion of the tax year during which the shareholder was a nonresident.

The PA-20S/PA-65 Schedule NRK-1 determines the shareholder's pro rata distributive share of each item reported on the PA-20S/PA-65 Information Return by subtracting the amount from Step 3 from the total income (loss).

#### **Partnerships Only**

##### **1. Residency Period - PA-20S/PA-65 Schedule RK-1**

The partnership must submit a separate PA-20S/PA-65 Schedule RK-1 for each individual partner if during the partnership's taxable year, the partner was:

- a. A resident at the close of the taxable year;
- b. Deceased and a resident at the time of his/her death during the taxable year; and/or
- c. A resident at the close of business on the day during the taxable year that he/she sold, exchanged, disposed of, liquidated, redeemed his/her entire interest in the partnership.

##### **2. Nonresidency Period - PA-20S/PA-65 Schedule NRK-1**

The partnership must submit a separate PA-20S/PA-65 Schedule NRK-1 for each individual partner if during the partnership's taxable year the partner was:

- a. A nonresident at the close of the taxable year;
- b. Deceased and a nonresident at the time of his/her death during the taxable year; and/or
- c. A nonresident at the close of business on the day during the taxable year that he/she sold, exchanged, disposed of, liquidated, redeemed his/her entire interest in the partnership.

## **SPECIFIC INSTRUCTIONS**

### **PART I**

#### **General Information**

Complete all the identification information for the Pennsylvania resident owner (shareholder, partner, or beneficiary).

Complete all the identification information for the entity.

**NOTE:** The PA Account #, formally known as Box #, is assigned by the Bureau of Corporation Taxes.

**Amended Schedule**

Fill in the oval if the PA-20S/PA-65 Schedule RK-1 is an amended schedule.

**Final**

Fill in the oval if the PA-20S/PA-65 Schedule RK-1 is a final schedule.

**PA S Corporations**

Enter the shareholder's percentage of stock ownership.

**Estates/Trusts**

Enter the beneficiary's percentage of year-end distributions.

**Partnerships**

Enter the partner's percentage of each of the following at the close of the taxable year:

- Profit sharing
- Loss sharing
- Ownership of capital

**What Type of Entity is the Owner**

Fill in one oval.

**What Type of Partner**

Fill in one oval.

**PART II**

**Owner's Distributive Share of Pennsylvania-Source Income (Loss)**

**Line 1. Pennsylvania-Taxable Business Income (Loss) from Operations**

Enter the owner's pro rata distributive share from the PA-20S/PA-65 Information Return, Line 1e. The entity must report the owner's share of income (loss) whether distributed or not. If reporting a loss fill in the oval.

**NOTE:** Guaranteed payments should not be included on Line 1 of the PA-20S/PA-65 Schedule RK-1.

**Lines 2 through 7**

Enter the owner's pro rata distributive share of the separately stated items of other Pennsylvania-taxable income (loss) from the PA-20S/PA-65 Information Return. Pennsylvania-taxable income includes total of Pennsylvania-source and outside Pennsylvania income (loss). If reporting a loss on Lines 4, 5 and/or 7, fill in the oval.

**NOTE:** The PA S corporation includes distributions to Pennsylvania resident shareholders from its PA C corporation earnings and profits as taxable dividend income on the PA-20S/PA-65 RK-1, Part II, Line 3.

**PART III**

**Owner's Share of Pennsylvania Credits**

Enter the owner's pro rata distributive share of the separately stated

credits that the PA S corporation or partnership passes through to the owners from the PA-20S/PA-65 Information Return.

**Line 8. Resident Credit. Submit Statement**

Enter the resident owner's pro rata distributive share of credit calculated from composite returns filed by the PA S corporation or partnership on behalf of resident owners. Submit a statement with the PA-20S/PA-65 RK-1 to notify the owner of the breakdown of states, breakdown by Pennsylvania income class, taxes paid to those states and the resident credit claimed.

**Line 9. Total Other Credits. Submit Statement**

Enter the owner's pro rata share from the PA-20S/PA-65 Information Return, Line 13a. The entity must provide the owner with a statement listing which credit(s) have been passed through to them.

**PART IV**

**Distributions from Partnerships**

Noncorporate shareholders and partners should use amounts from PA-20S/PA-65 Schedule RK-1, Part IV through Part VII (other than Line 8) to determine or calculate owner's basis. Partners include Line 8 in net classified income on their Pennsylvania tax returns.

**Line 10. Distribution of Cash, Marketable Securities, and Property - Not Including Guaranteed Payments**

Enter the partner's share of distributions of cash, marketable securities, and property, other than guaranteed payments. With respect to non-liquidating property distributions, this line will include the total cash and the partnership's adjusted basis in marketable securities and property distributed to the resident partner. With respect to liquidating property distributions, this line will include the total of cash and the fair market value of marketable securities and property distributed to the resident partner.

**Line 11. Guaranteed Payments for Capital or Other Services**

Enter the partner's share of guaranteed payments for capital or other services.

Pennsylvania personal income tax rules classify distributions of guaranteed payments for capital or other services as follows:

- A withdrawal proportionately from the capital of all partners;
- A gain from the disposition of the recipient's partnership interest and a loss from the disposition of the other partners' partnership interests, to the extent derived from the capital of the other partners; and
- A return of capital by the recipients to the extent derived from their own capital. The distributions that the partnership makes that represent repayments of the partner's own capital are not considered income.

**Line 12. All Other Guaranteed Payments for Services Rendered**

Enter the partner's share of such payments. Typically, guaranteed payments to partners are paid to the extent the services are rendered directly in the production of income from a business, profession, or farm, and/or from rental or royalty income.

**NOTE:** The partner must know the class of income from which the partnership made the guaranteed payments. The partner must then properly classify the payments on his/her PA-40 Individual Income Tax Return.

**IMPORTANT:** If the total distribution includes more than one of the income classes described below, the partnership must provide a statement to the partners showing the amounts for each line.

For Pennsylvania personal income tax purposes guaranteed payments are classified as follows:

- If services are rendered directly in the production of income from a business, profession, or farm, the guaranteed payments are gross income from that income class.
- If services are rendered directly in the production of rental or royalty income, the guaranteed payments are gross income from that income class.

A guaranteed payment is allocable to Pennsylvania to the extent it is deductible from net profits or rental and royalty income that is allocable to Pennsylvania. Income allocable to Pennsylvania is income derived from Pennsylvania sources.

#### **Health Savings Accounts (HSA)**

Contributions by a partnership to a bona fide partner's HSA are not contributions by an employer. The contributions are treated as a distribution of money and are not included in the partner's income. Contributions by a partnership to a partner's HSA for services rendered, however, are treated as guaranteed payments that are deducted by the partnership and included in the partner's income. In both situations, the partner can deduct the contribution made to the partner's HSA. Contributions to a nonresident partner's HSA for services must be apportioned.

Contributions by an S corporation to a 2 percent shareholder-employee's HSA for services rendered are treated the same as guaranteed payments to partners for services rendered and are deducted by the S corporation as wage or salary expense and included in the shareholder-employee's gross compensation. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

#### **Line 13. Guaranteed Payments to the Retired Partner**

Guaranteed payments to the retired partner must meet the exception described in IRC § 1402(a)(10).

### **PART V**

#### **Distributions from PA S Corporations**

##### **Line 14. Distribution from the Pennsylvania Accumulated Adjustments Account**

Enter the shareholder's share of such distributions. If a liquidating distribution, fill in the oval.

##### **Line 15. Distribution of Cash, Marketable Securities, and Property**

Enter the shareholder's share of such distributions. This line will include the total of cash and the fair market value of all marketable securities and property distributed to the shareholder.

**NOTE:** The PA S corporation includes distributions to Pennsylvania resident shareholders from its PA C corporation earnings and profits as taxable dividend income on the PA-20S/PA-65 Schedule RK-1, Part II, Line 3.

### **PART VI**

#### **Nontaxable Income (Loss) - Owner's Basis**

##### **Line 16. Nontaxable Income or Nondeductible Expenses Required to Calculate Owner's Basis. Submit a Statement**

Submit a statement and provide a breakdown of all nontaxable income earned and all nondeductible expenses not taken. This amount should only include permanent differences needed to calculate the owner's basis in the entity. If reporting a loss, fill in the oval.

The entity provides the owners with this information so the owners can calculate their basis. Examples of nontaxable income are tax-exempt interest, gifts, inheritance, loan proceeds, insurance proceeds and federal tax refunds. Examples of nondeductible expenses are partner's retirement contributions, partner's life and health insurance premiums.

These items are listed on federal Form 1120S Schedule K as "Items Affecting Shareholder Basis" and on federal Form 1065 Schedule K as "Other Information". The entity will use the figure(s) from federal Schedule K and multiply by the owner's ownership percentage and enter the result on PA-20S/PA-65 Schedule RK-1, Line 16.

### **PART VII**

#### **Supplemental Information**

The owners need this information to determine their personal Pennsylvania basis in the entity, taking into consideration the Pennsylvania Tax Benefit Rule and distributions that may exceed their ownership interests. Refer to the Pennsylvania Personal Income Tax Guide, Chapter 16 for more information on the Pennsylvania Tax Benefit Rule.

##### **Line 17. Owner's Share of IRC § 179 Allowed According to Pennsylvania Rules**

Enter the owner's share of IRC § 179 depreciation expense. Each entity and individual taxpayer is limited to \$25,000 of IRC § 179 depreciation expense. Do not deduct this amount from any income class. This amount is used to verify the owner has not exceeded the Pennsylvania limit.

##### **Line 18. Owner's Share of Straight-Line Depreciation**

Enter the owner's share of the entity's total expense. In years in which the entity incurs a loss and the owner is not able to use the entire loss, the Pennsylvania Tax Benefit Rule requires the owner to reduce their basis in the entity by their share of straight-line depreciation. Therefore, assets for which accelerated depreciation has been calculated must be recalculated using straight-line depreciation in order to calculate Pennsylvania basis. Refer to the Pennsylvania Personal Income Tax Guide, Chapter 16 for more information on the Pennsylvania Tax Benefit Rule.

##### **Line 19. Partner's Share of Nonrecourse Liabilities at Year-End**

Enter the partner's share of nonrecourse liabilities at year-end. A nonrecourse liability is a secured liability, identified by the partnership,

**PA-20S/PA-65 Schedule RK-1**  
**Resident Schedule of PA S Shareholder/Partner/  
Beneficiary Pass Through Income, Loss and Credits**  
**Instructions**  
PA-20S/PA-65 Schedule RK-1 (12-09)



for which the partners are not personally liable. Nonrecourse liabilities apportion such debts to each partner's outside basis and validate deductions based on such liabilities.

**Line 20. Partner's Share of Recourse Liabilities at Year-End**

Enter the partner's share of recourse liabilities at year-end. A recourse liability is one for which a partner is personally liable.

NOTE: Lines 16 through 20 are for information purposes only.