

► Pennsylvania
Individual Income Tax
Form PA-40
and Instructions
for Residents,
Nonresidents, and
Part-Year Residents

Tax break for working families. Check it out!
TAX BACK
Tax Forgiveness page 20

“TAX BACK” (Tax Forgiveness)

Thousands more Pennsylvania families can get their state Tax Back this year. An increase in the TAX BACK/Tax Forgiveness income allowance for each dependent child from \$7,500 to \$8,500 means a working family with dependent children could get up to 100 percent of their state Tax Back. Families could receive hundreds of dollars in credits or refunds depending on their family and filing situation.

For example, a single parent with two children with eligibility income of \$23,500 could get as much as \$658 back, or a family of five could get up to \$1,075 back. Check out the eligibility income tables (page 22) and **PA Schedule SP** instructions (page 20).

PROGRAMS THAT CAN AFFECT YOUR TAX REFUND

STATE TAX REFUND OFFSET PROGRAM FOR DELINQUENT CHILD SUPPORT

Federal law requires Pennsylvania to establish a child support offset program. The Department of Revenue, in cooperation with the Department of Public Welfare (DPW), intercepts PA income tax refunds of taxpayers that are delinquent in child support, and provides the offsets to the PA Child Support Enforcement System (PACSES).

IMPORTANT: A married person that is liable for child support **must** file a separate PA tax return (Married, Filing Separately).

TREASURY OFFSET PROGRAM FOR DELINQUENT PA INCOME TAXES

The Internal Revenue Service (IRS) will intercept Federal Income Tax refunds for delinquent PA income tax liabilities. The Department of Revenue will notify delinquent taxpayers about its intention to intercept their federal refund and allow them 60 days to pay their liabilities.

OUTREACH SITES OFFER TAX ASSISTANCE NEAR YOU

Between February and March, staff from the Department of Revenue and the IRS will be at locations across the Commonwealth. They will answer questions, provide forms, and help you file your income tax return. Bring this booklet containing your Personal Identification Number, and we will give you a free gift if you file your return electronically from the location.*

Location	Area	Dates
Century III Mall	Pittsburgh	February 4 – 8
Millcreek Mall	Erie	February 11 – 15
Johnstown Galleria	Johnstown	February 26 – 28
Montgomery Mall	North Wales	March 11 – 15
Wyoming Valley	Wilkes Barre	March 18 – 22

Assistance will also be available at the following Universities:

Millersville University	February 19 & 20
Shippensburg University	February 21 & 22

*Taxpayers who filed a PA tax return last year, but did not receive a booklet with a PIN, can look up the PIN on the Department's home page, or go to the nearest Department district office (see page 4) and receive a PIN by presenting picture identification.

Continued on page 2

PRRST STD
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OF
PENNSYLVANIA
DEPARTMENT OF
REVENUE



Bureau of Individual Taxes
Harrisburg, PA 17129-0002

NEW SCHEDULES

PA SCHEDULE MC – MISCELLANEOUS COMPENSATION

The Department developed this new schedule for reporting miscellaneous compensation (jury duty, executor fees, director fees, etc.). This schedule is included in this booklet.

PA SCHEDULE UE-1 – UNREIMBURSED EMPLOYEE BUSINESS EXPENSES

The new short-form **PA Schedule UE-1** is included in this booklet. The short UE form is for taxpayers that only report the standard mileage allowance, union dues, small tools and supplies, and work clothes.

NOTE. Taxpayers that report other kinds of unreimbursed business expenses should use **PA Schedule UE**, which is not in this booklet.

PA SCHEDULE C-EZ - PROFIT FROM THE OPERATION OF A BUSINESS OR PROFESSION

The Department has developed its own short-form C-EZ form for reporting business income. It is similar to the Federal Schedule C-EZ. This schedule is not in this booklet.

FILING DUE DATE

The deadline is midnight, Monday, April 15, 2002.

April 15, 2002

PAPERLESS FILING OPTIONS

Millions of taxpayers are choosing one of these *fast file* options. Select the one that is right for you and *go paperless!*

PAPERLESS FILING IS:

- **Safe :** Your information is protected by the latest security, plus you receive confirmation that you filed, whatever option you choose;
- **Easy:** The systems perform the math calculations for you; and
- **Fast:** The Department approves paperless refunds within three to four weeks instead of the six to eight weeks for paper returns.

REMEMBER: When you use one of the paperless filing options, you do not have to send a paper copy of your return to the Department. For your records, keep a copy of your return or worksheet. With **pa.direct.file** and **TeleFile**, you receive a confirmation number as proof that you filed your PA tax return.

PERSONAL IDENTIFICATION NUMBER - PIN

Your five-digit PIN can be found on the name/address insert in this booklet. If you filed jointly, your spouse also has a PIN. To file using **pa.direct.file** and **TeleFile**, you need your PIN(s). Your PIN is the key to filing your return on-line or over the telephone for free.

NOTE: If you obtained this booklet from one of the Department's Forms Ordering Services or a Department district office, it does not contain a personalized label with your PIN. If you filed a 2000 PA tax return, you can look up the PIN on the Department's home page, or go to a Department district office, present your picture identification, and obtain your PIN. If you qualify for a paperless filing option, you can also obtain a **PA Fast File** booklet at the district office.

If you are filing electronically for the first-time, you can complete **(REV-749) Electronic Signature Form** and receive a PIN. You can download **Form REV-749** from the Department's home page, or order from one of the Forms Ordering Services on page 3.

DO-IT-YOURSELF FREE FILING



- **pa.direct.file**

This Internet filing option is fast, easy, safe, and free. Visit the Department's home page. Select the link for **pa.direct.file** and use your Department-assigned PIN.

- **TeleFile**

This is often the easiest way to file simple Personal Income Tax returns! For eligibility and an easy-to-follow worksheet, you can obtain the **TeleFile** information from the Department's home page, or order a **PA Fast File** booklet from one of the Forms Ordering Services on page 3.



THROUGH A TAX PREPARER OR PURCHASED SOFTWARE

- **PA/IRS e-file**

If you pay a professional to complete your federal and PA-40 tax returns, ask your preparer to e-file your return. E-file is a joint initiative with the IRS that allows for the simultaneous filing of your PA and federal tax returns.

If you prepare your own tax returns, you can buy software that allows you to file your PA and federal returns together. Although not free, e-file allows direct refund deposit and electronic funds withdrawal for payment.



Additional Information

The Department has developed a number of brochures to provide information about PA taxes. For a current list of brochures available, please see page 25 or check the Department's home page.

Customer Service & Taxpayer Assistance

Language Service

The Department can assist non-English speaking taxpayers during the 2001 tax season through an interpretation service. Assistance is available in 140 languages, including Spanish, Italian, and German – the most common languages, other than English, spoken in PA households.

El Departamento de Impuestos puede ayudar los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos 2001. La asistencia esta disponible en 140 idiomas incluyendo español, italiano y alemán, además de inglés, los idiomas más comunes en los hogares del estado.

Forms Ordering Services

To obtain forms not available in this booklet, other PA Personal Income Tax forms and schedules, or any of the brochures listed in this booklet, use one of these services.

Internet - Forms are available on the Department's home page, along with filing options and information at www.revenue.state.pa.us

E-mail – Send an e-mail request to the Department at parev@state.pa.us

Telephone Services:

- Automated 24-hour FACT & Information Line touch-tone telephone service (including forms by fax) **1-888-PATAXES** (1-888-728-2937). If in the local Harrisburg area, you can call 717-772-9739. This service provides:
- Answers to some of the most commonly asked tax questions;
- The balance of your PA estimated tax account; and
- The status of a filed PA Personal Income Tax return or Property Tax/Rent Rebate claim.

NOTE: The Department does not have all forms available by fax.

- Toll-free 24-hour, automated Forms Ordering Message Service **1-800-362-2050** serving taxpayers without touch-tone phone service.
- Services for Taxpayers with Special Hearing and/or Speaking Needs **1-800-447-3020 (TT only)**.

Written requests – PA Department of Revenue
Tax Forms Service Unit
711 Gibson Blvd.
Harrisburg, PA 17104-3200

Taxpayer Service and Information Center

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

Free Income Tax Preparation Service

You can receive free assistance in preparing uncomplicated, non-business federal, state, and local income tax returns through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Contact the Department's district office nearest you for information, or call the Internal Revenue Service's toll-free number (1-800-829-1040) for the location of assistance sites. Taxpayers with moderate incomes and senior citizens are urged to take advantage of this service.

Free Federal Tax Assistance from the Internal Revenue Service

Federal tax account or technical information and problem solving are available by calling: 1-800-829-1040.

- Recorded Tele-Tax Service on 150 federal tax topics or 2001 tax refund information is available by calling 1-800-829-4477;
- Federal tax forms and publications are available by calling 1-800-829-FORM (3676).

Taxpayers' Rights Advocate

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

- Send e-mail to: taxadvocate@state.pa.us; or
- Call 717-772-9347; or
- **Write to:** PA Department of Revenue
Taxpayers' Rights Advocate
Lobby, Strawberry Square
Harrisburg, PA 17128

Your Use Tax Responsibility

If you buy items that are subject to Sales Tax for which the seller does not charge and collect the tax on the invoice (or receipt), you are personally responsible for remitting the tax directly to the PA Department of Revenue. This tax is called USE TAX.

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

Return. You can obtain this form from any Department of Revenue district office, from the Department's home page, or from one of the Forms Ordering Services above.

Pennsylvania statutes generally exclude from Sales and Use Tax items such as clothing, most foods purchased from a grocery store, and prescription medicines. **EXAMPLES** of taxable items include: computers, sports and recreational equipment, and formal clothing. A more complete list of taxable and exempt items can be obtained from a district office, the Department's home page, or by calling the Taxpayer Service and Information Center at 717-787-1064.

PA Department of Revenue District Offices

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

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

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

Altoona

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

Bethlehem

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

Bradford

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

Doylestown

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

Erie

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

Greensburg

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

Harrisburg

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

Indiana

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

Johnstown

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

Lancaster

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

New Castle

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

Newtown Square

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

Norristown

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

Philadelphia

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

Pittsburgh

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

Pottsville

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

Reading

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

Scranton

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

Sunbury

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

Washington

(Fayette, Greene, and
Washington)
Rm. 204
Landmark Bldg.
75 E. Maiden St.
Washington, PA 15301-4963
(724) 223-4550

Wilkes-Barre

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

Williamsport

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

York

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



Reminders for Filing Your 2001 PA-40

Entering Information on Your Tax Return

Follow these instructions for completing your **PA-40**. This booklet has two 2001 **PA-40** tax returns. You must submit an original **PA-40**. Complete and keep the other **PA-40** for your records. **Do not send photocopies of your PA-40, but you may send photocopies of the schedules.**

- Print in black ink.
- Fill in all appropriate ovals completely.
- Print neatly within the boxes.
- Use your label, if it is correct. Otherwise, destroy it, but keep your PIN(s).
- Use UPPER CASE letters.
- Print one number or letter in each box.
- Round amounts to the nearest dollar.
- Leave a blank box between words.
- Use the postal format for your address. There are two lines to enter your complete address. If you have an apartment number, suite number, room number, rural route, box number, floor, etc., print it on the first line. Then, print your street address on the second line. If you only have a street address, print it on either line. (See Use Your Label on page 6 for additional information.)

DO

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W	A	S	H	I	N	G	T	O	N		X	N	G		P	A		1	7
2	2	2	7	5		7	1	7		5	5	5		1	3	5	2		

IMPORTANT: Your label may show a postal abbreviation such as WASHINGTON XNG for Washington Crossing. Such abbreviations are correct for mailing purposes. If all other information is correct, **please use your label.**

DO NOT

- Use red pen or pencil.
- Use your label if any of the information is wrong.
- Make any corrections on the label.
- Leave a space or use a punctuation mark if your name, address, or city has Mc, Van, O', etc.
- Use whiteout.

Before You Begin:

PA-40EZ. This short form PA tax return is not in this booklet. The instructions for using **PA-40EZ** are in a box, like this, after each line number. For your convenience, the Department has also placed a box around lines on the **PA-40** that correspond to the **PA-40EZ**.

If you are reporting information only on these lines, you could file the **PA-40EZ** form or use a paperless option.

Supporting Schedules

PA tax laws do not always follow federal rules. If either the Internal Revenue Code or PA law requires an adjustment or election that the other does not permit, you must provide a PA schedule. Read the instructions for each line to determine when you must submit a required PA schedule, or when you can use a federal schedule or **PA Schedule I**. The Department exchanges information with the IRS.

Keep Your Records

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

Who Must File a PA Tax Return?

You must file a 2001 PA tax return if:

- You received total PA gross taxable income in excess of \$35 during 2001, even if no tax is due with your PA return; and/or
- You incurred a loss from any transaction as an individual, sole proprietor, partner in a partnership, PA S corporation shareholder, or association member.

General Instructions:



IMPORTANT: The Department will not issue a refund check or credit for less than \$1.00. If you owe \$1.00 or less, you do not have to make a payment when you file your PA tax return.

Filing for a Decedent, Disabled Individual, or a Minor Child

If you are responsible for the care of a person who cannot prepare his or her own return, you must file his or her PA tax return. This includes someone who died in 2001, disabled persons, and minor children. PA law does not have any exclusions or exemptions for minor children or any other person who must file a PA tax return.

When to File?

You must report all taxable income received or accrued from January 1, 2001, through December 31, 2001. You must file before midnight, Monday, April 15, 2002. The U.S. Postal Service postmark date on your envelope is proof of timely filing. **CAUTION:** Late filing can result in penalty and interest.

Extension of Time to File Your 2001 PA-40

Fill in this oval if you received an extension to file your 2001 **PA-40**. See the instructions on page 23.

Amended Return

Fill in this oval only if you are amending your 2001 PA tax return. You must file a paper amended return, even if you filed your 2001 PA tax return using **PA/IRS e-file**, **TeleFile**, or **pa.direct.file**.

Residency Status

Fill in the oval that describes your status in 2001. PA law taxes nonresidents on the income earned, received, or realized from PA sources during

General Instructions

2001. PA law taxes part-year residents on all income from all sources while a PA resident, and then on the income earned, received, and realized from PA sources while a nonresident.

If you are not sure that you were a resident of Pennsylvania during 2001, or that you may be subject to PA Personal Income Tax for part of 2001, request **Form REV-611, Residency for PA Personal Income Tax Purposes**, for additional information.

(R) RESIDENT

(N) NONRESIDENT

(P) PART-YEAR RESIDENT

Nonresidents and part-year residents file the **PA-40**. Request the **Instructions for Nonresidents and Part-Year Residents of Pennsylvania** from the Department's Internet home page, or one of the Forms Ordering Services on page 3.

The Department offers a special brochure for PA resident college students attending school outside Pennsylvania, and for nonresident college students attending schools within this Commonwealth. Request **Form REV-758, PA Personal Income Taxes for College Students**.

Nonresidents and part-year residents may not file a PA-40EZ

Type Filer

(S) Single

You must file as single if on December 31, 2001:

- You were not married; or
- You divorced or became a widow or widower during 2001.

(J) Married, Filing Jointly

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

- Your taxable years end on the same date; and
- Neither of you is individually claiming one or more of the credits on Lines 24 through 26 of the **PA-40**; and
- Your spouse is still living; and
- Neither of you is individually liable for the payment of child support.



FILING TIP: A person does not have to file a PA tax return if he or she does not individually meet the requirements described under **Who Must File a PA Tax Return** on page 5.

Joint Income – Joint Returns

Married taxpayers file a joint **PA-40** for convenience only. If you and your spouse jointly own income-producing property, you must each report your share of any income or loss. Income-producing property includes savings accounts, businesses, stock, and real estate. Spouses usually evenly divide income from jointly owned property.

CAUTION: *On a joint return, both you and your spouse are each separately liable for the entire amount of PA tax due, even if only one had taxable income, and even if either of you paid your own PA tax through withholding or estimated payments.*

(M) Married, Filing Separately

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

- Your taxable years end on different dates; or
- Either of you are claiming one or more of the credits on Lines 24 through 26 of the **PA-40**; or

- **NEW.** One of you is individually liable for the payment of child support.



IMPORTANT: If married and one spouse is a PA resident and the other is not, you generally file separate PA returns. However, you can file jointly if you both elect to file as PA residents and meet all other requirements for filing jointly. See **Married, Filing Jointly** above.

(F) Final Return

Use this filing status if you lived in Pennsylvania during 2001, but permanently moved away and will not have any PA taxable income (or loss) in 2002. You will not receive a 2002 booklet. Provide the reason for using this filing status, such as you moved to another state.



IMPORTANT: You **must** file your 2001 **PA-40** as a PA resident or part-year resident and report all your PA taxable income.

(D) Deceased

As the executor, administrator, or other responsible person, you use this status to file a separate **PA-40** for a decedent. You report all income that the decedent actually or constructively received during 2001. If the decedent was married and made PA estimated payments, you may transfer payments between the spouses to their separate **PA-40** returns. Request **Form REV-459B, Consent to Transfer, Adjust or Correct PA Estimated Personal Income Tax Account**. **CAUTION:** *The surviving spouse must file a separate **PA-40**.*

You may not file a PA-40EZ as the final return for a decedent

Use Your Label

Read the label within this booklet. If all of this information is correct, affix your label to the **PA-40** that you file. Do not complete the identification information on your **PA-40**.



IMPORTANT: Your label may show a postal abbreviation such as E MCKEESPORT for East McKeesport. Such abbreviations are correct for mailing purposes. If all other information on your label is correct, please use it.

REMINDER: Military personnel stationed abroad should use their APO or FPO address.

Identification Label Change

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

Fiscal Year Filer

Fill in this oval only if you file both your federal and PA Personal Income Tax returns on a fiscal year basis. Enter the beginning and ending dates of your fiscal year.

Daytime Telephone Number (optional)

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

School Code and School District Name

You must enter the five-digit code (see pages 26 and 27) and name of the school district where you lived on December 31, 2001, even if you moved after December 31, 2001. Do not enter the school district where you work. **CAUTION:** *If you were not a PA resi-*

dent on December 31, 2001, enter 99999. Using an incorrect code may affect your school district's funding.

County

Enter the name of the county where you lived on December 31, 2001.

Municipality

Enter the name of the city, town, borough, township, or other municipality where you lived on December 31, 2001.

PA INCOME CLASSES

PA law imposes the Personal Income Tax on eight separate classes of income:

1. Gross Compensation
2. Interest Income
3. Dividend Income
4. Net Income or Loss from the Operation of a Business, Profession, or Farm
5. Net Gain or Loss from the Sale, Exchange, or Disposition of Property
6. Net Income or Loss from Rents, Royalties, Patents, and Copyrights
7. Estate or Trust Income
8. Gambling and Lottery Winnings

Regardless of how you file your federal tax return, you report income and loss in the PA income classes in which you directly earned, received, or realized the income or loss. Read the instructions for each income class.



FILING TIP: Generally for PA purposes, other or miscellaneous income is either compensation or business income. Read the instructions for Line 1a, Gross Compensation on page 9, and for Line 4, Net Income or Loss from the Operation of a Business, Profession, or Farm on page 10.

Tax Rate

For calendar year 2001, and fiscal years beginning in 2001, the tax rate is 2.8 percent (0.028).

Costs, Expenses, and Deductions

PA law does not allow any personal expenses, itemized deductions, personal exemptions, or standard deductions. You may only deduct the PA allowable costs and expenses that you directly incur in earning or receiving income.



IMPORTANT: PA taxable interest income (Line 2), dividend income (Line 3), and gambling and lottery winnings (Line 8) are gross taxable income classes. You may not deduct any expenses to compute income in these classes.

PA Resident Members of Partnerships and PA S Corporations

As a PA resident partner or PA S corporation shareholder, you must report your share of income whether distributed or not from the **PA Schedule RK-1** that your partnership or PA S corporation provides. You must enclose a copy of each **PA Schedule RK-1**. **CAUTION:** If the partnership refuses to provide a **PA Schedule RK-1**, you must classify the income or loss according to the instructions for each PA income class.

PA Resident Shareholders of Subchapter S Corporations in Other States

If you are a shareholder in another state's Subchapter S corporation, that is not also a PA S corporation, you only report the cash or property you actually received out of the corporation's earnings and profits as dividend income on **PA Schedule B**. Do not report the amount of your distributable income or submit your Federal Schedule K-1. You may not claim a PA Resident Credit for any tax paid to the other state. **EXAMPLE:** A New York Subchapter S corporation, that is not a PA S corporation, distributes all its earnings and profits to its sole stockholder, Carolyn, a PA resident. The corporate income was from the operation of a department store, investments, and rental properties in Pennsylvania. Notwithstanding the PA income classes of the sources of the earnings and profits, the distribution represents taxable dividend income to Carolyn in the year received.

Income Checklist

Report the following as PA Taxable Income:

- Salaries, wages, tips, and gratuities
- Employer provided fringe benefits, unless excludable. Read the instructions on page 9.
- Commissions, bonuses, and incentive payments
- Vacation and holiday pay
- Termination pay
- Allowances and reimbursements in excess of allowable employee business expenses
- The value of property received as payment for services
- A discharge of indebtedness, unless specifically excludable from taxable income
- Damage awards and settlements to the extent that the payments represent back wages or other uncollected entitlement to PA taxable income
- Delay damages received in connection with a court judgment or settlement
- Honorariums
- Compensation as fees for performing services as an executor or a director of a corporation
- Income for performing services as an executor or director in the normal operation of your business or profession
- Severance pay and incentive payments received for terminating employment before reaching normal retirement age
- Covenants not to compete, or for refraining from the performance of services
- Jury fees
- Expert witness fees
- Other income described in the PA income classes
- Cash reimbursements for personal expenses, such as commuting and day care


Do Not Report as PA Taxable Income:

- Social Security benefits
- Railroad Retirement benefits
- Commonly recognized pension, old age, or retirement benefits paid after meeting the conditions of the qualifying retirement plan and retiring
- Public assistance

- Unemployment compensation
- Payments you received under workers' compensation acts, occupational disease acts, or similar legislation, including payments for injuries you received while working, and damages received, whether by suit or otherwise, for personal injuries
NOTE: If your employer includes your payments for on-the-job injuries in your Form W-2, provide a statement from your employer verifying the amount of these payments.
- Employer paid group term life insurance premiums
- Awards, unless given in recognition for past, present, or future service
- Damage awards and settlements from physical injury or sickness - if pain and suffering, emotional distress, or another non-economic element was or would have been a significant evidentiary factor in determining the amount of the taxpayer's damages
- Child support
- Alimony
- Inheritances, death benefits, and income in respect of a decedent
- Federal active-duty pay earned outside Pennsylvania
- Gifts made from detached or disinterested generosity, unless a transfer of cash or property in payment for past or present services or as an inducement to perform future services
- Personal use of an employer's owned or leased property and/or services, at no cost or at a reduced cost
- Federally taxable punitive damages received for personal physical injury or physical sickness, whether received by suit or by settlement

Sick Pay and Disability Benefits

These payments, including payments made by third party insurers for sickness or disability, are not taxable income for PA purposes. Your employer should not include periodic payments for sickness or disability in box 16 of your Form W-2. If your employer includes this income and withholds PA tax, you must obtain and submit a corrected Form W-2, or a statement from your employer explaining the error.

 **IMPORTANT:** Sick pay and sick leave are taxable compensation when representing your regular wages, and your employer must include them as compensation and withhold PA tax. Request **Form REV-634, Employee Fringe Benefits and Wage/Salary Supplements**, for more information.

SPECIAL REPORTING RULES

Reciprocal Compensation Agreements

Pennsylvania has agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Under these agreements, one state will not tax a resident of the other state on compensation that is subject to employer withholding. These agreements apply to employee compensation only.

- If you are a PA resident working in one of these states, and your employer withheld the other state's income tax, you must file for a refund from that state. File early so you will have your refund before the due date for paying your PA tax liability.
- If you are a resident of a reciprocal agreement state working in Pennsylvania, and your employer withheld PA income tax, you may request a refund of the PA tax. You report zero taxable compensation on Line 1a, and the PA tax withheld on Line 14. Submit

a photocopy of your Form W-2 (or the actual Form W-2), and a signed copy of the resident income tax return that you filed/will file with your resident state. Also, submit a statement explaining that you are a resident of a reciprocal agreement state.


Request **Form REV-615, Reciprocal Compensation Agreements and Pennsylvania Personal Income Tax**, for more information.

Reimbursement for Expenses

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

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

You do not report these expenses on PA Schedule UE-1 or PA Schedule UE.


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

Scholarships, Fellowships, and Stipends

A scholarship, fellowship, or stipend is taxable compensation if the award is for past or present services or in expectation of future employment. A scholarship or fellowship award made on the basis of need or academic achievement is not taxable if awarded to encourage or allow the recipient to further his or her educational development. For more information, request **Form REV-614, Scholarships, Fellowships, and Stipends for Pennsylvania Personal Income Tax Purposes**.

Employer-Sponsored Retirement, Pension, and other Deferred Compensation Plans

Do not report your retirement benefits if you are fully retired. This means that you retired **after** meeting the eligibility requirements for separation from service by retirement based on old age, infirmity, long-continued service, or a combination of old age or infirmity and long continued years of service. If you have questions about your plan, ask your employer.

 **IMPORTANT:** The contributions you make to your employer sponsored retirement plan are PA taxable compensation, even if your contributions are not taxable for federal purposes.

Distributions from Employer-Sponsored Deferred Compensation Programs

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

1. Payments you receive after you qualify for retirement **and** retire.
2. Payments you receive that you rollover into another deferred payment program or IRA, but only when the transferred amounts are not taxable income for federal purposes. Amounts rolled over into a Roth IRA not more than 60 days following distribution from the IRA are not subject to tax in the year of the rollover.

3. Payments paid to the estate or designated beneficiary upon an employee's death. Such payments are not taxable on the employee's final return, or on the decedent's PA estate or trust return (**PA-41**).

If your distribution does not meet any of these exceptions, you must report your distribution as compensation, but only to the extent that the amount you receive exceeds the amount you contributed. If you have PA taxable distributions from an employer-sponsored deferred income plan, an IRA, or any other retirement arrangement, go to the Department's home page for additional information on reporting such distributions.

Early Retirement Incentive Plans

Payments you receive as an inducement to retire early are taxable compensation. Such payments are not part of a PA qualifying retirement program. Your employer includes these incentive payments on your Form W-2 and withholds PA tax. Even when you move out of Pennsylvania, these incentive payments remain taxable to Pennsylvania.

Annuities

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

Employee Welfare Benefit Plans

Employers establish and maintain employee welfare benefit plans to provide miscellaneous benefits to eligible employees, or their beneficiaries. Unless specifically excluded, box 16 of your Form W-2 includes the cost of the PA taxable benefits that your employer provides. Your employer must include the value of these benefits, regardless of the type of plan your employer has. **CAUTION:** *You may not take a deduction for any contributions you make to an employer-sponsored benefit plan.*

Personal Use of Employer Property and Services

The value of your personal use of your employer's owned or leased property is not PA taxable income. **EXAMPLE:** Using your employer's company car, using your employer's services at no cost, or at a reduced cost, and using your employer's dependent care facilities are not taxable for PA purposes. However, you must include the value of your personal use of your employer's owned or leased property when determining your TAX BACK/Tax Forgiveness Eligibility Income on **PA Schedule SP**.

Personal Expenses Paid by an Employer

If your employer reimburses you for personal expenses, the reimbursement is PA taxable compensation. **EXAMPLE 1:** Your employer reimburses you for the lease on your own car. Your lease is a personal cost. Your employer must include the reimbursement in box 16 of your Form W-2, but you may deduct any allowable employee business expenses on PA Schedule UE. **EXAMPLE 2:** Your employer reimburses you for dependent care costs and retirement counseling. These are personal costs, and PA law does not allow you a deduction. If you have any questions concerning the value of benefits that your employer included in your PA taxable compensation, ask your employer.

Clergy and Statutory Employees

PA law does not have provisions similar to the federal rules for clergy, statutory employees, or any other specific employees. Housing allowances are always taxable for PA purposes. Clergy must make estimated payments unless their employers voluntarily withhold PA tax. Statutory employees report compensation on Line 1a, not as business income on Line 4. You must limit your expenses to those on a **PA Schedule UE**.

PA-40 LINE INSTRUCTIONS

Rounding Amounts

Please round all amounts on your return and all schedules to the nearest whole dollar. Eliminate any amount less than \$.50. Increase any amount that is \$.51 or more to the next highest dollar.

Line 1a. Gross Compensation

For both PA-40 and PA-40EZ

Compensation includes salaries, wages, tips and gratuities; commissions, bonuses, and incentive payments; vacation pay and holiday pay; and termination pay.

W-2 Wage and Tax Statement

You must report the PA compensation and withholding from each 2001 Form W-2 from each employer. Enter your total PA taxable compensation from box 16 of your 2001 Form(s) W-2. Do not use box 1, federal wages. Enter the state or PA amounts from any other statements.

For reporting PA taxable compensation, you have these options:

1. Complete **PA Schedule W-2S**, Wage Statement Summary, see the schedule instructions on page 16; or
2. Submit photocopies of each Form W-2 on 8½ by 11-inch paper. You may photocopy more than one Form W-2 on each sheet. Be sure we can read the information you copied; or
3. Submit your actual Form(s) W-2.



IMPORTANT: You must submit your actual Form W-2, or a legible photocopy, if:

- The PA compensation you enter on Line 1a of your **PA-40** is not the same as box 16 on your Form W-2. You must also submit a written statement explaining the difference.
- Your employer gave you a hand-written Form W-2.
- Your employer reported an incorrect amount on your Form W-2. You must also submit a written statement from your employer.
- You were a resident of a reciprocal agreement state in 2001.

If you do not have a Form W-2 or a federal substitute W-2, Form 4852, you must submit evidence of your PA compensation and tax withheld by providing pay stubs and a statement identifying your employer and the reason you do not have a Form W-2. Please submit photocopies and keep your original documents.

Line 1b. Unreimbursed Employee Business Expenses

For both PA-40 and PA-40EZ

PA law does not follow federal law for allowable employee business expenses. **EXAMPLE:** You may deduct 100 percent of your PA allowable expenses on **PA Schedule UE-1**. See the Schedule instructions beginning on page 17.

IMPORTANT: The Department has the legal authority to request evidence that your expenses are allowable for PA purposes.

Line 1c. Net Compensation

For both PA-40 and PA-40EZ

Subtract Line 1b from Line 1a.

Line 2. Interest Income

For both PA-40 and PA-40EZ

You must report all PA taxable interest income received or credited during the year. Generally, Forms 1099-INT and similar statements from financial institutions show the interest amount. You do not have to submit these forms and statements. If your interest income is more than \$2,500, you must complete and submit **PA Schedule A**. The instructions for this schedule are on page 16.

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

IMPORTANT: You must classify interest, regardless of how you report the income for federal purposes. Report personal interest on Line 2. Include interest attributable to a business or another income class in that class, such as, interest from business accounts, working capital interest, and accounts receivable on your business schedule, interest from installment sales on **PA Schedule D-1**, interest from rental security deposits on your rental schedule, and interest income from estates or trusts on **PA Schedule J**.

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

You include these distributions as dividend income on Line 3.

Forfeited Interest Penalty

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

Line 3. Dividend Income

For both PA-40 and PA-40EZ

You must report all dividend income received or credited during the year. You do not have to submit your Forms 1099-DIV and other statements. If your dividend income is more than \$2,500, you must complete and submit **PA Schedule B**. The instructions for this schedule are on page 16.

Capital Gains Distributions

Report these distributions as PA taxable dividend income, even though you report such distributions as capital gains on Federal Schedule D.

CAUTION: If you are a shareholder in another state's Subchapter S corporation, and that corporation is not a PA S corporation, you include the cash or property you actually received out of the corporation's earnings and profits as dividend income on Line 3. Do not report the amount of your distributable income, and do not submit the Federal Schedule K-1. You may not claim a credit for income tax paid to the other state.

IMPORTANT: You must include nontaxable interest and dividends as Eligibility Income on **PA Schedule SP**.

Gains and Losses - on Lines 4, 5, and 6

You may not offset income in one PA income class with a loss in any other PA income class. You cannot carry forward or carry back gains or losses to other tax years. If entering a loss on Lines 4, 5, or 6, fill in the oval next to the line.

Spouses, whether filing jointly or separately, may not use each other's expenses to reduce income or offset each other's income and losses. This applies to each income class. If you both have activity in the same income class, follow these reporting rules:

1. You each realize a net profit, gain, or income – add your net income amounts together and report that total on the appropriate line.
2. You each realize a net loss – add your net losses together and report that total on the appropriate line. Fill in the oval next to that line.
3. One spouse has net profit, income, or gain and the other spouse has a net loss - report only the net income on the appropriate line.

EXAMPLE: Mary and Ben file a joint **PA-40**. Mary owned a flower shop and realized a net profit of \$5,000. Ben was a shareholder in a PA S corporation and his share of the net profits from its business operations was \$35,000. They jointly owned a small retail store and realized a loss of \$8,000.

They report \$32,000 on Line 4 - Mary's net income of \$1,000 (\$5,000 less her half of the \$8,000 loss), plus Ben's net income of \$31,000 (\$35,000 less his half of the \$8,000 loss).

They sold the retail store for a \$6,000 loss. Mary sold stock that she owned individually for a \$9,000 gain. Ben sold stock he individually owned for a \$3,000 loss. On Line 5, they report a gain of \$6,000. Mary's net gain is \$6,000 (\$9,000 less her half of the \$6,000 loss). Ben's net loss is \$6,000 (his \$3,000 stock sale loss and his half of the \$6,000 loss on the sale of the store). Since Ben's separate loss may not reduce Mary's gain, they report a gain of \$6,000 on Line 5.

Mary and Ben also jointly owned a rental property and realized a loss of \$2,000. Mary was a partner in a rental partnership and her share of the partnership's loss was \$1,000. Ben's PA S corporation realized a loss from its rental operations. His share of the loss was \$4,000. Mary's total loss was \$2,000 and Ben's total loss was \$5,000. On Line 6, they report the total loss of \$7,000 (and fill in the oval) since they each individually realized a total net loss.

On their jointly filed 2001 **PA-40**, they report total taxable income of \$38,000 (Line 4 of \$32,000 and Line 5 of \$6,000, not taking into consideration their Line 6 loss of \$7,000).

PA and Federal Schedules

You must submit a PA schedule for each amount on Lines 4 through 8. You may submit federal schedules, but only when the amounts are correct for PA purposes. If you receive only a Federal Schedule K-1 from your partnership, you must submit that schedule and classify your income using PA rules. Read the instructions for each income class carefully.

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

- You must report all income and losses from business, farm, partnership, and PA S corporation schedules.

- In determining this amount, you may offset your own business income from one schedule with your own business loss from another.
- If you report a total net loss, fill in the oval next to Line 4 on your **PA-40**.

What is a Business or Profession?

A business or profession has certain common characteristics. You realize income from the operation of a business or profession if you meet ALL of the following:

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

Your allowable business expenses are the direct, ordinary, necessary, and reasonable expenses that you paid or incurred during the taxable year. Expenses are allowable when directly related to, necessary for, and actually paid in the production and marketing of your products, goods, or services. Your personal expenses are never deductible.

The following activities DO NOT constitute the operation of a business, profession, or farm:

1. A sale, discontinuation, or abandonment of a business or segment thereof;
2. An isolated or nonrecurring transaction that is not a normal or routine business activity;
3. The ownership or disposition of assets that you hold for long-term investment purposes;
4. Trading in securities for personal purposes; or
5. A nonoperating interest in coal, oil, gas, or minerals-in-place, unless they serve an operational function in the operation of the owner's business.



IMPORTANT: You may not deduct any tax imposed on, or measured by, gross or net earned or unearned income. You may deduct any business privilege tax for which you would be liable even if you have no actual gross income.

PA Schedule C-F Reconciliation

For PA purposes, you determine net income or loss under accepted principles and practices. If you keep separate books and records for PA purposes, you must file a **PA Schedule C** or a **PA Schedule F**. You can obtain these schedules from the Department's home page, or from one of the Forms Ordering Services on page 3. Otherwise, review **PA Schedule C-F**. If you do not have any required adjustments and choose not to make allowable adjustments, submit your Federal Schedule C or Federal Schedule F, or **PA Schedule I**. If you

use either **PA Schedule C-F** or **PA Schedule I**, you do not have to also submit your federal schedule.

PA Schedules RK-1 and NRK-1

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

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

- You must report your gain or loss from each sale, exchange, or disposition of any kind of real or tangible property. You must report your share of partnership or PA S corporation gains or losses. Report the total of your **PA Schedules D, D-1, D-71, RK-1** or **NRK-1**.
- You may offset your own net gains and losses in determining this line. If married and you both have income or losses in this class, see **Gains and Losses – on Lines 4, 5, and 6**, on page 10.
- If you realize an overall net loss, fill in the oval next to Line 5 on your **PA-40**.

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

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

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

- A distribution from a PA Tuition Account Program (TAP) that you do not use for education – you report the net gain after deducting your contributions;
- A distribution from an education savings program in another state, whether used for education or not – PA law only provides an exclusion for PA TAP withdrawals used for education;
- A distribution from a Medical Savings Account – you report the same amount that is taxable for Federal Income Tax purposes;
- A nonqualifying sale of your principal residence – obtain the Department's **Form PA-19**.

Loss on the Disposition of Property

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




possibility of any eventual recovery. You do not recognize a loss on the sale of property that you did not acquire for profit, such as a personal car, furniture, or a qualifying sale of your principal residence.

Capital Gain Distributions are dividend income on Line 3 for PA purposes.

Exempt Obligations — Originally Issued before February 1, 1994


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

- Direct obligations of the U.S. Government, such as federal treasury bills and treasury notes;
- Obligations of certain agencies, instrumentalities, and territories of the U.S. Government;
- Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions.

 **IMPORTANT:** You may not use any loss realized on the disposition of the above obligations to offset other gains.

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

You must report the gain or loss realized on the sale, exchange, or disposition of the above obligations, if the original issue date was on or after February 1, 1994.

 **IMPORTANT:** You must report all such gains and can use any losses to offset other gains.

Sale of Your Principal Residence

If you sold your principal residence in 2001 and meet the requirements for the 100 percent gain exclusion, do not report the sale on your PA-40. This exclusion is not identical to the federal exclusion. Generally, if during the five years preceding the sale of your home, you owned it for at least two years, and used it as your principal residence for at least two years, you are eligible for this exclusion.

For a complete explanation of this exclusion, request **Form REV-625, Sale of a Principal Residence for Pennsylvania Personal Income Tax Purposes, and the PA-19, Sale of a Principal Residence.**

CAUTION: *If you sold your principal residence, but you do not qualify for the exclusion, report your gain on PA Schedule D. If you sold your principal residence at a loss, enter zero on PA Schedule D.*

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

Rents are income you receive for the use of your real or tangible property. Royalties are income you receive upon the extraction of coal, oil, gas, or minerals, or for the use of your patent or copyright.

- Report the total income or loss from all **PA Schedules E** and all **PA Schedules RK-1** or **NRK-1**.
- You may offset your own net income and losses in determining this line. If married and you both have income or losses in this class, see **Gains and Losses – on Lines 4, 5, and 6**, on page 10.
- If you realize a total net loss, fill in the oval next to Line 6 on your **PA-40**.

Do not use Federal Schedule E unless reporting only Part 1. If making PA adjustments to Part I of your Federal Schedule E, enclose an

explanation of your adjustments or complete **PA Schedule E**. If reporting a net loss, fill in the oval next to Line 6. **CAUTION:** *PA follows IRS guidelines if you rent or lease your property, but do not intend to realize a profit. Therefore, you may only deduct your rental expenses up to your rental income, and you may not use a loss against other income. If you rent or lease your property to realize a profit, read the **Rents or Net Profit from the Operation of a Business** instructions below.*

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.

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

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

Such expenses include advertising, cleaning and maintenance, agent commissions, insurance, legal fees, management fees, interest, repairs, supplies, utilities, depreciation, and depletion. Deductions allowable under MACRS, including the IRC Section 179 additional first year depreciation allowable for small businesses, are acceptable deductions for PA purposes. You may not deduct expenses for your own labor, capital investment, or capital improvements. You may not deduct personal expenses or that part of an allowable deduction that is personal.

Rents or Net Profit from the Operation of a Business

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

1. The average period of customer use is 30 days or less; or
 - Your property is customarily made available for use only during defined business hours; or
 - In addition to the property, you also provide significant services to your lessee; or
 - You incur significant operating expenses in making the property available for lease; or
 - The leasing activity is incidental to a real estate sales business; and
2. You offer the use of your property intending to realize a profit; or
3. The leasing of your property is a regular and continuous activity.

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

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

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

Line 7. Estate or Trust Income

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

Estates or trusts that must distribute, pay, or credit to the beneficiaries the income realized on assets must report your share of the PA taxable income. **CAUTION:** *You should receive a PA Schedule L from the estate or trust. If you received a Federal Schedule K-1, you must report only the positive income, not taking into account any losses, shown on the Federal Schedule K-1. If you included interest and/or dividend income on your Federal Schedule B, report that income on PA Schedule J. You should adjust all your PA schedules to properly report your correct PA taxable amounts.*



FILING TIP: Cash and property you acquire from an estate or trust by gift, bequest, devise, or inheritance is not taxable.

Revocable Trusts

If you establish such a trust, you report the income/loss that you constructively received in each PA income class in which you earned, received, or realized the income/loss. Do not report the amounts on **PA Schedule J**. If submitting supporting schedules and statements showing the name of the trust, write **REVOCABLE** clearly on the schedule.

Grantor Trust

A grantor trust, whether revocable or irrevocable, files a PA-41. The beneficiaries of the trust, including the grantor if he/she receives income from the trust, report the income as beneficiaries on the **PA Schedules J**.

However, the person (settlor) that established the revocable trust does not file a PA-41 if under the governing instrument he/she retains authority to:

- (i) Completely revoke the trust without the declaration of new uses or the consent of any other party; and
- (ii) Revest in himself/herself the legal title to the corpus of the trust, without the consent of any other party.

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

Line 8. Gambling and Lottery Winnings

Report all gambling and lottery winnings, including lottery winnings from other states and countries. You may only offset gambling and lottery losses (not expenses such as travel, meals, lodging, etc.) to determine Line 8. You may not deduct any losses from playing the PA Lottery against taxable gambling and lottery winnings. Submit a statement explaining your gambling and lottery winnings.

Pennsylvania Lottery Winnings

Do not include on Line 8 any PA Lottery winnings that you won in 2001.

Line 9. Total Gross PA Taxable Income

Line 4 if filing a PA-40EZ

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

Line 10. Contributions to your Medical Savings Account

Pennsylvania follows federal rules for this deduction. If married, filing separate returns, only one spouse may take this deduction. The amount you report on Line 10 must be the same amount that you report on your federal return. **CAUTION:** *Do not report any itemized medical expenses from Federal Schedule A on this line.*

Line 11. Adjusted PA Taxable Income

Subtract Line 10 from Line 9.

Line 12. PA Tax Liability

Line 5 if filing a PA-40EZ

Multiply Line 11 by 2.8 percent (0.028), and enter your 2001 PA tax liability on side 2 of your **PA-40**, Line 13.

PA PAYMENTS AND CREDITS

Line 14. Total PA Tax Withheld

Line 6 if filing a PA-40EZ

Enter your total PA tax withheld from your **PA Schedule W-2S** or from box 17 of your Form(s) W-2.



IMPORTANT: If your PA tax withheld is more than 2.8 percent, you must submit your Form W-2, or a legible photocopy, and a written explanation with the reason that your employer withheld more than 2.8 percent. The Department may also request an explanation from your employer.

Estimated Payments and Credits



FILING TIP: Call the Department's FACT and Information Line at 1-888-PATAXES (728-2937) and verify your 2000 credit and 2001 PA estimated payments before completing Lines 15, 16, and 17.

Line 15. Credit from your 2000 PA Income Tax Return

Enter your credit from your 2000 **PA-40**. If you originally requested a credit to your 2001 PA estimated account, but later requested a refund, or the Department sent you a refund, do not claim the credit.

Line 16. 2001 Estimated Installment Payments

Enter your total 2001 estimated payments. Include your spouse's 2001 estimated payments if filing jointly. Do not include any payment of tax due made with a PA tax return.



FILING TIP: If you and your spouse made separate estimated payments, you should file separately, each claiming only your own payments. If you and your spouse made your estimated payments jointly, you should file jointly. This avoids processing delays and correspondence from the Department.

CAUTION: *If filing separately with a joint estimated account, the Department may delay processing until we process both tax returns. To ensure that the Department applies your estimated*

payments correctly, request and file **Form REV-459B, Consent to Transfer, Adjust, or Correct PA Estimated Personal Income Tax Account**. Follow the instructions to tell the Department which payments to post under each name and Social Security Number. Both spouses must sign this form.

Line 17. 2001 Extension Payment

Enter the payment you made with your 2001 extension request.

Line 18. Nonresident Tax Withheld

Enter the PA tax withheld by your partnership or PA S corporation. You must submit your PA Schedule(s) NRK-1.

Line 19. Total Estimated Payments and Credits

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

TAX BACK/Tax Forgiveness Credit

Transfer the amounts for these lines from **PA Schedule SP** that you submit with your PA tax return.

Line 20a. Filing Status from Part A

Line 20b. Dependent Children from Part B, Line 2

Line 21. Eligibility Income from Part C, Line 11

Line 7b if filing a PA-40EZ

Line 22. TAX BACK/Tax Forgiveness Credit from Part D, Line 16

Line 8 if filing a PA-40EZ

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

Enter your total allowable credit for income taxes you paid to other states or countries. You must submit **PA Schedule G** and a **photocopy of the signed tax return you filed in the other state or country** to claim a credit for Personal Income Tax that you paid. You may only claim a credit for the Personal Income Tax paid on income that you also report on your PA-40. If filing for credit for income tax paid to another country that does not have a tax return system, you must attach the same forms and evidence you submitted, or would submit, to claim a credit on your federal tax return.

Resident shareholders in PA S corporations must submit the **PA Schedule RK-1** to claim a credit for taxes paid to another state or country through the PA S corporation. **CAUTION.** PA law does not permit a PA resident who is a shareholder in another state's Subchapter S corporation to claim a resident credit. In this case, the PA resident only reports dividend income (cash or property received from the other state's S corporation) on **PA Schedule B**. The PA resident should not submit the other state's Schedule K-1 or Federal Schedule K-1. PA law does not tax the same income that the other state taxes, therefore the Department cannot allow a resident credit.

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



IMPORTANT: A statement from the partnership, signed by the tax partner or other appropriate partner, must accompany this schedule.

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

1. The income that the other state taxes is also taxed by Pennsylvania in the same taxable year, and is also taxable under the other state's laws, regardless of your place of residence or domicile; and
2. You cannot claim any credit for Pennsylvania tax against the other state's tax.

PA BUSINESS CREDITS

Line 24. PA Employment Incentive Payments Credit

You must submit a complete **PA Schedule W**, with a copy of the certification from the PA Department of Labor and Industry for each employee. Partners and PA S corporation shareholders enter the credit amount from **your PA Schedules RK-1 or NRK-1**.

Line 25. PA Jobs Creation Tax Credit

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

Line 26. PA Research and Development Tax Credit

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

Line 27. Total Payments and Credits

Line 9 if filing a PA-40EZ

Add Lines 14, 19, and 22 through 26.

Line 28. Tax Due

Line 10 if filing a PA-40EZ

If Line 13 is more than Line 27, enter the tax you owe. You must pay the tax due, in full, on or before April 15, 2002. Use your **Form PA-V**.

CAUTION. If you pay your tax after the due date, you must also pay applicable penalty and interest, see page 24. Do not include the penalty and interest on Line 28. Your tax return must be mathematically correct. Enter only the tax due on Line 28, but include the applicable penalty and interest in your payment. Your check and **Form PA-V** will be more than Line 28. The Department will apply your payment to tax, interest, and penalty.

Line 29. Overpayment

Line 11 if filing a PA-40EZ

If Line 27 is more than Line 13, enter your overpayment.



IMPORTANT: The Department may apply your overpayment to any outstanding PA Personal Income Tax liability. The Department will not issue your overpayment if you owe delinquent child support payments.

Lines 30 through 36. Application of Overpayment

If you do not enter amounts on Lines 30 through 36, or the total of Lines 30 through 36 does not equal Line 29, you will receive a refund check. If you overpaid, you may apply all or part of your overpayment as follows:

Line 30. Enter the amount of Line 29 that you want as a refund check.

Line 12 if filing a PA-40EZ

Line 31. Enter the amount of Line 29 that you want as a credit to your 2002 estimated tax account.

Line 32. Enter the amount of Line 29 that you want to donate to the Wild Resource Conservation Fund.

Line 13 if filing a PA-40EZ

Line 33. Enter the amount of Line 29 that you want to donate to the U.S. Olympic Committee.

Line 14 if filing a PA-40EZ

Line 34. Enter the amount of Line 29 that you want to donate to the Governor Robert P. Casey Memorial Organ and Tissue Donation Awareness Trust Fund.

Line 15 if filing a PA-40EZ

Line 35. Enter the amount of Line 29 that you want to donate to the Korea/Vietnam Memorial Inc.

Line 16 if filing a PA-40EZ

Line 36. Enter the amount of Line 29 that you want to donate to the Breast and Cervical Cancer Research Fund.

Line 17 if filing a PA-40EZ

The total of Lines 30 through 36 must equal Line 29. See page 25 for additional information about these funds.

Review Your Return

Before you sign your return, did you:

- Report your Social Security Number(s), name(s), and address correctly?
- Fill in the "Identification Label Change" oval, if necessary?
- Report all your PA taxable income, and claim all your allowable PA credits?
- Check all the entries from Form(s) W-2 and schedules?
- Round amounts to the nearest dollar?
- Check your math?
- Enclose all required supporting forms and schedules?
- Make a complete copy of your PA tax return for your records?

Your Signature(s) and Date

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

Occupation

Enter your occupation(s).

Preparer or Company Name and Telephone Number

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

Assembling your PA-40:

- ✓ Original PA-40. Do not send a photocopy of your PA-40.
- ✓ PA Schedule W-2S, or photocopies of your Form(s) W-2 on an 8 1/2 by 11 inch sheet of paper (be sure the information is legible), or your actual Form(s) W-2.
- ✓ Photocopies of your Forms 1099 and other statements showing your PA compensation and withholding.
- ✓ PA Schedules RK-1, PA Schedules NRK-1, and Federal Schedule(s) K-1.
- ✓ All required PA schedules and forms, including any additional sheets you prepared.
- ✓ All other required documents, including federal schedules that explain the information you entered.
- ✓ Your PA-V and payment, behind your PA-40 in the envelope.



IMPORTANT: Do not staple your check or money order to your PA-V or your PA-40.

How to Pay

If you received a personalized tax booklet, your PA-V is on the insert. If you owe tax and have a correct Form PA-V, use it to make your payment. Follow the instructions, and place your PA-V and check in the same envelope with your PA-40. If you do not have a Form PA-V or a correct Form PA-V, submit your payment with your paper PA tax return. Please do not staple your payment to your return.

You must submit your payment on or before midnight, Monday, April 15, 2002. Make your check or money order payable to PA Dept. of Revenue. Write your Social Security Number and 2001 PA Tax on your payment. If filing for another person, write that taxpayer's name and SSN on the payment. Do not staple the payment to the return or PA-V.



FILING TIPS:

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



IMPORTANT: The PA-V only shows one SSN.

- If you and your spouse file separately, DO NOT use the PA-V unless it shows your SSN.
- If you do not have a correct PA-V, enclose (do not staple) your payment with your PA tax return.

MAILING INSTRUCTIONS

For Both PA-40 and PA-40EZ

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

Follow these instructions for mailing your PA tax return:

1. Remove the labels from the envelope flap.

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

If you do not have a Department provided envelope, send your return to:

If you owe tax (You have an amount on Line 28)	If you overpaid (You have an amount on Line 29)
PA DEPT OF REVENUE	PA DEPT OF REVENUE
PAYMENT ENCLOSED	REFUND/CREDIT REQUESTED
1 REVENUE PLACE	3 REVENUE PLACE
HARRISBURG PA 17129-0001	HARRISBURG PA 17129-0003

If you neither owe nor overpaid
(You have zeros on Lines 28 and 29)

PA DEPT OF REVENUE
NO PAYMENT/NO REFUND
2 REVENUE PLACE
HARRISBURG PA 17129-0002

Do not use these mailing labels to send other correspondence to the Department.

SCHEDULE INSTRUCTIONS

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

Reproducing PA Returns and Schedules

You can make photocopies of the schedules in this booklet, or prepare your own schedules. Do not photocopy the **PA-40**.

PA Schedule W-2S

The Department requests that you use this schedule if you can. Read the schedule instructions.

CAUTION: *You may not use this schedule if your employer withheld PA income tax at more than 2.8 percent, or you believe that a PA amount on your Form W-2 is incorrect. You must submit a legible photocopy of that Form W-2 with a written explanation. You must submit photocopies of your Form(s) 1099 and other statements for other compensation on your PA tax return.*



IMPORTANT: The Department has the statutory authority to require your actual forms, including Form(s) W-2.

PA Schedule A

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

1. If your federal and PA taxable interest are the same, you may enter that amount on **PA Schedule A**; or
2. Submit a copy of your federal schedule instead of submitting **PA Schedule A**; or
3. You may complete **PA Schedule A** with the payer name and PA taxable interest from each Form 1099 or other statement. You may enclose additional sheets if you need more space. You do not need to submit your federal schedule when filing a **PA Schedule A**.

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

Interest from the following is taxable for PA purposes:

- Savings and loan associations
- Credit unions - even if reported as dividends on your statement
- Bank deposits
- Bonds
- Certificates of deposit
- Interest-bearing personal checking accounts
- PA, federal, and local tax refunds
- Other deposits, investments, and obligations
- GNMA and FNMA certificates and other obligations that are guaranteed by the U.S. Government, but not direct federal obligations of the U.S. Government
- Obligations of other states or countries
- Mutual savings banks and cooperative banks - even if reported as dividends

Interest from the following is not taxable for PA purposes:

- 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



IMPORTANT: You must include PA tax-exempt interest in Eligibility Income for TAX BACK/Tax Forgiveness purposes.

PA Schedule B

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

1. If your federal and PA taxable dividend income are the same, you may enter that amount on **PA Schedule B**; or
2. Submit a copy of your federal schedule instead of submitting **PA Schedule B**; or
3. You may complete **PA Schedule B** with the payer name and PA taxable dividend income from each Form 1099 or other statement. You can enclose additional sheets if you need more space. You do not need to submit your federal schedule when filing a **PA Schedule B**.

Capital Gain Distributions

Such distributions are taxable dividend income for Pennsylvania. Do not report capital gain distributions on **PA Schedule D**.

Stock Dividend Reinvestment Plans

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

Dividend income does not include:

1. Dividends distributed by a corporation to its stockholders as stock if the distribution is not personal income for federal purposes.
2. Distributions designated as return of capital by utility companies and other corporations that reduce the basis of your stock in the corporation. Once such distributions reduce your basis to zero, further distributions are taxable as gain on **PA Schedule D**. See Taxable Return of Capital Distributions on page 19.

3. Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. You include such payments as PA taxable interest income on Line 2.
4. Ordinary dividends paid by a mutual fund or a registered investment company that the fund/company statement designates as being exempt-interest dividends. This means the percentage of the total dividend income that is from exempt PA and exempt federal obligations.

NOTE: You should include income from an estate or trust on **PA Schedule J**, even if you received a Federal Schedule K-1 from the estate or trust and reported that income on Federal Schedule B.

Unreimbursed Employee Business Expenses. What Expenses Does Pennsylvania Allow?

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

- **Ordinary** — customary and accepted in the industry or occupation in which you work; and
- **Actual** — paid while performing the duties of your employment; and
- **Reasonable** — in amount and not excessive; and
- **Necessary** — to enable you to properly perform the duties of your employment; and
- **Directly related** — to performing the duties of your occupation or employment.
- **100 percent allowable** — PA does not have federal expense and percentage accounting limitations and thresholds, such as 50 percent of meal and entertainment expenses and the 2 percent of adjusted gross income limitation.

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

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

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

What Expenses Are Not Allowable for PA Purposes?

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

- Personal, living, or family expenses;
- Dues to fraternal organizations, professional societies, Chambers of Commerce, or recreational club memberships;
- Dues and subscriptions to publications, including trade and professional publications;
- Political candidate or campaign contributions;
- Charitable contributions;
- Commuting expenses;
- Cost of meals while working late, unless while traveling away from home overnight on business;
- Child care or elderly care expenses;
- Life, disability income, and health insurance premiums;

- Contributions to deferred compensation plans or other pension plans;
- Legal fees (except to recover back wages), fines, penalties, and bad debts;
- Bribes, kickbacks, or other illegal payments;
- Job hunting or other pursuit of employment expenses;
- Malpractice insurance premiums, except when allowed in Part B, Line 14;
- Moving expenses, except when allowed in Part D;
- Educational expenses, except as allowed in Part E; and
- Capital expenditures. Depreciation may be allowable in determining expenses. Federal depreciation or cost recovery deductions are acceptable for computing allowable business expenses.

Married Taxpayers

If filing jointly, you and your spouse **must** each submit separate **PA Schedules UE-1**, or **PA Schedules UE**. You may not combine expenses.

PA Schedule UE-1

The Department has changed this schedule for taxpayers to report the most common expenses claimed on PA income tax returns. Use **PA Schedule UE-1** if claiming these expenses:

- Lines 1, 2, 3, and 5 of Federal Schedule 2106 or Schedule 2106-EZ
- Union Dues
- Work Clothes and Uniforms
- Small Tools and Supplies

You must obtain a long form **PA Schedule UE** from the Department if you want to claim these expenses:

- Actual Vehicle Expenses
- Professional License Fees, Malpractice Insurance, and Fidelity Bond premiums
- Office or Work Area Expenses
- Moving Expenses
- Education Expenses
- Depreciation Expense
- Miscellaneous Expenses (Line 4 of Federal Schedule 2106 or 2106-EZ)

1. Vehicle Expenses — Standard Mileage Rate

Enter the amount from your Form 2106 or Form 2106-EZ. Otherwise, enter your business miles and the federal mileage allowance. Calculate your allowable business mileage expense.

CAUTION: *Commuting costs to and from any job, including the cost of transportation between different jobs for different employers, are not allowable for PA purposes.*

NOTE: For Lines 2 through 4, enter your actual expenses, or the amounts from your Federal Form 2106 or 2106-EZ. For PA purposes, you may deduct 100 percent of your allowable expenses.

2. Parking Fees, Tolls, and Transportation

3. Expenses Away from Home Overnight

4. Meals and Entertainment

5. Union Dues

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

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

6. Work Clothes and Uniforms

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

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

7. Small Tools and Supplies

Expenditures for small tools and supplies that your employer does not provide, but you must have to perform the duties of your job, are allowable business expenses. Include tools and supplies that you may currently expense only if allowable under IRC Section 179. **CAUTION:** *If any of these tools or supplies has a useful life of more than one year, you must obtain a PA Schedule UE and depreciate or amortize the cost.*

8. Total PA Schedule UE-1 Expenses

Add the expenses you are claiming on Lines 1 through 7. If you are a nonresident or part-year resident who earned income and incurred expenses within and outside Pennsylvania, you must complete **PA Schedule NRH**.

9. Reimbursements

If your employer did not include your reimbursement in box 16 of your Form W-2, enter the amount you received from your employer.

10. Net Expense or Reimbursement

- If Line 8 is more than Line 9, include the difference on Line 1b of your PA tax return.
- If Line 9 is more than Line 8, include your excess reimbursement on Line 1a of your PA tax return.

Keep Your Records

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

PA Schedule C-F Reconciliation

Read the instructions and enter all the required information. Use this schedule to account for differences between PA and IRS rules when you start with the income or loss from your federal business schedule to determine your net PA taxable income or loss.

Part A. Identification Information

Complete all applicable information. Enter your PA Sales Tax License Number, if you have one.

Part B. Receipts from Business or Activity

Copy the gross income information from your Federal Schedule C or F. **CAUTION:** *PA law does not allow the federal elections to defer income to another taxable year or to report income that you will receive in a future year.*

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

Part C. Business Expenses


7. Enter your total expenses from your federal schedule.

Part D. Adjustments for PA Income Tax Purposes

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

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

The list below includes common, but not all, differences.

 **IMPORTANT:** You must make any applicable adjustments for Lines 13 through 16.

8. The federal percentage limitation on business meals and entertainment does not apply. You may deduct 100 percent of these expenses.
9. Sales Tax on depreciable business assets can be a current expense for PA purposes. On disposition, your PA basis and federal basis will be different.
10. Charitable contributions you make from your business account that the recipient publicly acknowledges are allowable deductions. Personal charitable contributions are never allowable.
11. You may use the capitalization rules established by your trade, profession, or industry under its generally accepted accounting principles and practices. Once elected, you must consistently use this method.
12. You may use any generally recognized and accepted depreciation method for your business or farm activity, including IRC Section 179 current expensing. Once you elect a method, you

must consistently follow that depreciation method. Enter the method you elected, if making this adjustment.

13. The federal labor hired deduction or federal wage deduction does not apply for PA purposes. If claimed on your federal schedule, you must add back these deductions to your wage expense.
14. If you are claiming the PA Employment Incentive Payments (EIP) Credit and/or the PA Jobs Creation Tax Credit, you must reduce your total wages expense by your credit.
15. Contributions you make as a self-employed individual to your own IRA or Keogh or deferred income plan are not allowable expenses. PA does not have any special reporting requirements. If you deducted this kind of expense for yourself, or your personal portion of such expense, on your federal schedule, you must reduce your expenses.
16. You may not deduct taxes based on gross or net income, Federal Income Taxes, and one-half of the self-employment taxes that the IRS allows. You may not deduct taxes paid to other states or foreign countries based on income. You may not deduct estate taxes, and inheritance, legacy, succession, and gift taxes. Assessments for betterments and improvements are not allowable. The Philadelphia Business Privilege Tax is an allowable deduction on this schedule, if not already deducted on your federal form. Single member limited liability companies that file as sole proprietors and LLCs that file as partnerships and PA S corporations may deduct the PA Capital Stock/Franchise Tax paid. Other federal, state, and local taxes are allowable deductions.
17. Contributions to your own health or welfare benefits plan are not allowable expenses. Pennsylvania does not have any special reporting requirements. If you deducted such an expense for yourself, or your personal portion of such an expense, on your federal schedule, you must reduce your expenses.
18. If you are claiming the PA Research and Development Tax Credit, you must reduce your direct business expenses by the amount of expenses you incurred in the activities that qualified your claim for this credit.
19. **Other.** Itemize expenses that are allowable under GAAP or FASB rules, but are not allowable or limited under federal rules.
20. **Total Adjustments.** Add Lines 8 through 19. Enter the net amount.
21. **Total Allowable PA Business Expenses.** Total Lines 7 and 20 and enter the net amount.

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

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

PA Schedule D

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

Columns a through f

- a). List and describe the property sold or otherwise disposed of for cash or other property.

- b). Enter the month, day, and year acquired. If you acquired properties over a time, you may enter "VARIOUS."
- c). Enter the month, day, and year sold.
- d). Enter the gross sales price or fair market value of cash and property received less the applicable expenses of sale.
- e). Enter the Adjusted Basis of the property sold.
- f). Determine whether your property was either I or II, and follow the appropriate instructions:
 - I. If your property was income-producing property, such as stock, bonds, an ownership interest in a business, a rental property, a patent or copyright, or you held your property in connection with a business, profession, or occupation (but not inventory or an operational asset), then:
 - Subtract Column e from Column d. Enter either the gain or the loss or zero in Column f;
 - II. If your property was other than income-producing property (a personal automobile or furniture), then:
 - Enter the gain or zero in Column f; if the adjusted basis is less than or equal to Column d.
 - Enter zero in Column f, if the adjusted basis is greater than Column d you do not have a loss.



IMPORTANT: You may only deduct losses from transactions you entered into for profit.

2. Net Gain or Loss

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

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

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

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

- Reporting gains from the sale of intangible personal property;
- Transactions where the object is the lending of money or the rendering of services.

4. Taxable Return of Capital Distributions

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

Calculating Line 4

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

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

5. Net Gain or Loss from the Sale of 6-1-71 Property from PA Schedule D-71

You determine your gain or loss on the sale of property that you bought or acquired before June 1, 1971, on **Form REV-1742, PA Schedule D-71**.

6. Net Gain or Loss from Partnerships and PA S Corporations
Report the taxable gain or loss from your **PA Schedules RK-1 or NRK-1**.

7. Taxable Gain from the Sale of Your Principal Residence

PA law excludes the qualifying gain from the sale of your principal residence. Generally, if you owned and used property as your principal residence for at least two of the five years preceding the sale, your gain is exempt. However, you must report a gain if you do not meet the requirements. For more information request **Form REV-625, Sale of a Principal Residence for Pennsylvania Personal Income Tax Purposes**. Report your taxable gain, if any, on this line. If you realized a loss from the sale of your principal residence, enter a zero.

8. Total PA Taxable Gain

Add Lines 2 through 7. You may offset your taxable gain and losses. Include your net gain or loss on Line 5 of your **PA-40**.

PA Schedule E

Read the instructions. The instructions for this schedule follow generally accepted principles and practices. See page 12 for additional guidance. You may use Federal Schedule E, Part I only, and make adjustments for PA purposes on the federal schedule. If you do not have to make any adjustments, you may use the Federal Schedule E or **PA Schedule I**. **CAUTION:** *If you make your property available for rent, but do not intend to realize a profit (you use the receipts to offset the expenses directly related to the property), you may not claim any depreciation. If you make your property available with the intention of making a profit, you may offset any loss you realize against other income in this class. You may also be in a business and have to report your income or loss on Line 4 of your **PA-40**.*

PA Schedule J

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

PA Schedule SP

What is TAX BACK/Tax Forgiveness?

TAXBACK/Tax Forgiveness is a credit that allows eligible taxpayers to reduce all or part of their PA tax liability. This credit gives back some taxpayers their state tax and forgives some taxpayers their liabilities, but have not paid taxes. If **unmarried**, as defined below, you must calculate your own Eligibility Income. If **married**, as defined below, you and your spouse must always determine and use your Joint Eligibility Income, even if filing separate returns. If you have children, you use your Eligibility Income and the number of your dependent children to calculate your percentage of TAX BACK/Tax Forgiveness.



IMPORTANT: READ ALL THE INSTRUCTIONS BEFORE YOU BEGIN.

REMINDER. You must include the following kinds of nontaxable income in Part C when determining your Eligibility Income:

- Support you receive from a spouse or former spouse that does not live in your household;
- Nontaxable payments to your employer's cafeteria plan for hospitalization, sickness, disability, or death, supplemental unemployment, or strike benefits;
- Payments, if you are a foster parent, you receive for providing in-home care of foster children;
- The value of the personal use of employer owned or leased property, including tuition reductions; and
- The value of government education grants

Who is Eligible for TAX BACK/Tax Forgiveness?

You, and your spouse, are eligible if:

1. You are **subject** to PA Personal Income Tax. You and/or your spouse have PA taxable income; and
2. You are **not** a dependent on another person's federal tax return, under IRC §151; and
3. You **meet** the Eligibility Income test.

NOTE. A dependent child with taxable income in excess of \$35 must file a PA tax return. If that child's parent(s) is (are) eligible for TAX BACK/Tax Forgiveness, that child may also be eligible for this credit. The child must file a **PA Schedule SP**, and determine his/her PA taxable income and Eligibility Income in the same manner as any claimant. The child must also include in Eligibility Income any child support paid to his/her parent.

Student Claimant

Generally, a dependent child cannot claim TAX BACK/Tax Forgiveness. However, if the parents of a dependent child are eligible, the child can also file a **PA Schedule SP**.

Therefore, a full-time student that is a dependent on his or her parents' Federal Income Tax return cannot claim this credit, regardless of his/her income, unless his/her parents are eligible for TAX BACK/Tax Forgiveness. In this case, the student claimant must file his/her own **PA-40** and **PA Schedule SP**.

General Information

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

Unmarried (separated) means that during 2001 you were:

- Single; or
- Separated and living apart at all times during the last six months of 2001; or
- Separated pursuant to a written separation agreement.

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

Married, whether filing separately or together, means that during 2001 you were:

- Married and lived together; or
- Separated and lived apart, but for less than the last six months of 2001; or
- Separated, but not by a written separation agreement.

If **married**, you may claim TAX BACK/Tax Forgiveness if you both meet the eligibility requirements. **Married** claimants are not dependents of one another for Federal Income Tax purposes or for TAX BACK/Tax Forgiveness purposes, even when one spouse does not have any Eligibility Income. **CAUTION:** *If you and your spouse choose to file separate PA-40 returns, you must use your Joint Eligibility Income and Eligibility Income Table 2.*

General Instructions for PA Schedule SP

You must complete and submit **PA Schedule SP**. If **unmarried**, complete ALL the information for yourself in the Your Column. If **married**, complete all the information in the Your and Spouse Columns, even if filing separately. Then enter the Joint Total to calculate TAX BACK/Tax Forgiveness.

Joint or Separate Returns



IMPORTANT: There is no advantage to filing separately. Married claimants must always report their Joint Eligibility Income.

One Spouse is a Dependent – The Other Spouse is Eligible for TAX BACK/Tax Forgiveness

A spouse (the husband) is a dependent on another person's Federal Income Tax return, and is not eligible for TAX BACK/Tax Forgiveness. The other spouse (the wife) is eligible. Each spouse must file separate PA tax returns. The wife may claim this credit, and **must** include the husband's income in her Eligibility Income.

Deceased

Fill in this oval if you are filing for a person who died during 2001.



IMPORTANT: You must annualize the decedent's income before determining if he or she is eligible.

Who is a Dependent for TAX BACK/Tax Forgiveness?

A dependent is a child that you claimed on your Federal Income Tax return. If you cannot claim a child on your federal return, you cannot claim that child on **PA Schedule SP**. Only the person who claims a child on his or her federal return may claim the child.

You may claim an adult child as a dependent on **PA Schedule SP** when you also report that adult child as a dependent on your Federal Income Tax return. You may not claim any other adults, even if you may do so for Federal Income Tax purposes.



IMPORTANT: It is possible that you and your spouse file jointly for federal purposes, but **must** file separately for PA purposes. If you qualify for TAX BACK/Tax Forgiveness, you may not claim the same dependent on your separate **PA Schedules SP**. You must determine which spouse will claim the dependent child or children on each **PA Schedule SP**. You must fill in the oval on your **PA Schedule SP**, under Part B, certifying you both agree that the child or children are properly reported. **CAUTION:** *Even when filing separately, you must use the other spouse's income to determine eligibility for TAX BACK/Tax Forgiveness.*

SPECIFIC INSTRUCTIONS FOR PA SCHEDULE SP

Part A. Type Filer for TAX BACK/Tax Forgiveness

Fill in the appropriate oval.

Part B. Dependent Children



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

Complete Lines 1 and 2.

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

CAUTION: *If claiming an adult child, an adopted child, or a foster child, the Department may ask for a copy of page 1 of your 2001 Federal Income Tax return, or you may enclose page 1 of your Federal Form 1040 or 1040A with your PA-40, identifying your dependents for Federal Income Tax purposes.*

Part C. Eligibility Income

If you do not have any income to report on a line, leave the line blank. Read each description carefully.

1. PA Taxable Income

Enter your total PA Taxable Income amount from your **PA-40** or **PA-40EZ**.

2. Nontaxable income, including interest, dividends, and gains

Include income that you do not report as taxable on your PA return, but must include for TAX BACK/Tax Forgiveness purposes. Include payments to your employer's cafeteria plan, and the value of the personal use of employer owned or leased property. Include payments received as a foster parent, and nontaxable gains from investments in direct obligations of the federal government, Pennsylvania, and political subdivisions of Pennsylvania. Include the nontaxable portion of gain from the sale of any property. Include nontaxable income received as a beneficiary of an estate or trust.



FILING TIPS: To determine employer benefits, include the difference between the Medicare wages on your Form W-2 and the amount in box 16. Include any gains realized from sales of PA exempt obligations if originally issued before February 1, 1994. Include the nontaxable portion of gain from the sale of any property. Also include nontaxable income received as a beneficiary of an estate or trust.

3. Alimony

Enter the amount of federally taxable alimony that you receive.

4. Insurance proceeds and inheritances

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

5. Gifts, awards, and prizes

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

6. Nonresident income



IMPORTANT: Part-year residents and nonresidents **must** complete this line. Enter the total of all other income earned, received, and realized while residing outside Pennsylvania.

Eligibility Income Tables

ELIGIBILITY INCOME TABLE 1. Unmarried and Deceased Taxpayers

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:										
YOU →	\$6,500	\$6,750	\$7,000	\$7,250	\$7,500	\$7,750	\$8,000	\$8,250	\$8,500	\$8,750
▼ DEPENDENT CHILDREN										
1	\$15,000	\$15,250	\$15,500	\$15,750	\$16,000	\$16,250	\$16,500	\$16,750	\$17,000	\$17,250
2	\$23,500	\$23,750	\$24,000	\$24,250	\$24,500	\$24,750	\$25,000	\$25,250	\$25,500	\$25,750
3	\$32,000	\$32,250	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250
4	\$40,500	\$40,750	\$41,000	\$41,250	\$41,500	\$41,750	\$42,000	\$42,250	\$42,500	\$42,750
5	\$49,000	\$49,250	\$49,500	\$49,750	\$50,000	\$50,250	\$50,500	\$50,750	\$51,000	\$51,250
6	\$57,500	\$57,750	\$58,000	\$58,250	\$58,500	\$58,750	\$59,000	\$59,250	\$59,500	\$59,750
7	\$66,000	\$66,250	\$66,500	\$66,750	\$67,000	\$67,250	\$67,500	\$67,750	\$68,000	\$68,250
8	\$74,500	\$74,750	\$75,000	\$75,250	\$75,500	\$75,750	\$76,000	\$76,250	\$76,500	\$76,750
9	\$83,000	\$83,250	\$83,500	\$83,750	\$84,000	\$84,250	\$84,500	\$84,750	\$85,000	\$85,250
Then your Percentage of TAX BACK/Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

ELIGIBILITY INCOME TABLE 2. Married Taxpayers

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:										
YOU & SPOUSE	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
▼ DEPENDENT CHILDREN										
1	\$21,500	\$21,750	\$22,000	\$22,250	\$22,500	\$22,750	\$23,000	\$23,250	\$23,500	\$23,750
2	\$30,000	\$30,250	\$30,500	\$30,750	\$31,000	\$31,250	\$31,500	\$31,750	\$32,000	\$32,250
3	\$38,500	\$38,750	\$39,000	\$39,250	\$39,500	\$39,750	\$40,000	\$40,250	\$40,500	\$40,750
4	\$47,000	\$47,250	\$47,500	\$47,750	\$48,000	\$48,250	\$48,500	\$48,750	\$49,000	\$49,250
5	\$55,500	\$55,750	\$56,000	\$56,250	\$56,500	\$56,750	\$57,000	\$57,250	\$57,500	\$57,750
6	\$64,000	\$64,250	\$64,500	\$64,750	\$65,000	\$65,250	\$65,500	\$65,750	\$66,000	\$66,250
7	\$72,500	\$72,750	\$73,000	\$73,250	\$73,500	\$73,750	\$74,000	\$74,250	\$74,500	\$74,750
8	\$81,000	\$81,250	\$81,500	\$81,750	\$82,000	\$82,250	\$82,500	\$82,750	\$83,000	\$83,250
9	\$89,500	\$89,750	\$90,000	\$90,250	\$90,500	\$90,750	\$91,000	\$91,250	\$91,500	\$91,750
Then your Percentage of TAX BACK/Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

This includes income that would be taxable if earned and received in Pennsylvania, and nontaxable PA income that you would report on this schedule if you were a PA resident.

7. Nontaxable military income

This amount represents the difference between the total military income you earned and the amount you report on your PA tax return. Do not include combat zone pay.

8. Gain excluded from the sale of a residence

Enter your nontaxable gain.

9. Nontaxable educational assistance

Include the total value of all nontaxable scholarships, fellowships, and stipends. Also, include the value of tuition reductions offered as part of your employer's benefit plan.

10. Cash receipts for personal purposes from outside your home

If a spouse or former spouse that does not live in your household pays support to you, include that support in your Eligibility Income. Also, include any payments received from other persons outside your household, including nontaxable cash or property received for personal use, such as cash received from a parent to buy clothing,

or gifts from grown children. Do not include monies paid pursuant to a cost-sharing arrangement.

11. Total Eligibility Income

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

Part D. Calculating Your TAX BACK/Tax Forgiveness

12. PA Tax Liability

Enter the amount of your tax due from your **PA-40** or **PA-40EZ**.

13. Less Resident Credit

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

14. Net PA Tax Liability

Subtract Line 13 from Line 12.

15. Percentage of TAX BACK/Tax Forgiveness

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

16. TAX BACK/Tax Forgiveness Credit

Multiply Line 14 by the decimal on Line 15. Enter this amount on your **PA-40** or **PA-40EZ**.

PA Schedule I

You can use **PA Schedule I** to report the same amounts that you report for federal purposes, and you do not have to submit any other PA or federal schedule. **CAUTION:** *You may not use **PA Schedule I** if you are a PA S corporation shareholder or a partner. Obtain and read the instructions for **PA Schedule I**. Use it for your convenience and reduce the amount of paper that you must send to the Department.*

Appendix

2002 PA Estimated Personal Income Tax Requirements

If you expect more than \$8,000 of PA taxable income in 2002 that will not be subject to employer withholding, you must make PA Estimated Tax installment payments. **EXAMPLE:** You paid \$224 or more on your 2001 PA tax return, and expect the same PA taxable income in 2002. You should make 2002 estimated tax payments.



IMPORTANT: If you are a PA resident working in a reciprocal agreement state (page 8), and your employer is not withholding PA tax, you must make PA estimated tax payments.

If you made 2001 estimated payments, the Department will send you 2002 forms. If you do not receive your forms by April 15, 2002, contact the Department district office nearest you, or one of the Forms Ordering services on page 3. Request **Form PA-40ESR**, with the **Form REV-413I** (instructions) and **Form REV-414I** (worksheet). You need these forms if paying PA estimated taxes for the first time in 2002.

Members of the Armed Forces

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



IMPORTANT: A PA resident in the U.S. Public Health Service, the National Oceanic and Atmospheric Administration, or the

U.S. Foreign Service outside Pennsylvania is not on federal active duty as a member of the Armed Forces. His or her compensation is taxable for PA purposes.

Extension of Time to File

PA law allows an automatic four-month extension if you have an approved federal extension. Fill in the extension request oval at the top of your **PA-40**, and submit a copy of the extension form when you file. An extension of time to file does not extend the time to pay your PA tax. If requesting an extension, you must send your application **Form REV-276, Application for Extension of Time to File**, and pay the full amount of the tax you reasonably expect to owe before the due date. An extension cannot exceed six (6) months unless you are outside the United States.

You must submit your request in sufficient time for the Department to consider and act upon it. You will only receive correspondence if the Department has a question concerning your request.

Mail your request for an extension, with or without a payment, to the PA Department of Revenue, Bureau of Individual Taxes, Dept. 280504, Harrisburg, PA 17128-0504.

The Department will assess underpayment penalty if:

- By April 15, 2002, you did not pay at least 90% of your 2001 tax due; and
- You do not pay the remaining balance with a timely filed return.

The Department will charge interest on the amount you do not pay by April 15, 2002.

Appendix

Amended Returns

Do not submit a complete photocopy of your original return. Use a PA return from the same tax year you are amending. **EXAMPLE.** To amend for 2000, use another 2000 PA tax return.

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

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

The Department will take your original refund or payment into account. Be sure to sign your amended return and mail it with all explanations and attachments to: PA Department of Revenue, Bureau of Individual Taxes, Dept. 280502, Harrisburg, PA 17128-0502. For more information, request **Form REV-630, Amending PA-40 Returns**.

Refunds from Amended Returns

You can file an amended PA return and request a refund if you over-reported income or did not claim allowable credits or deductions. You must file your amended PA return within three years from the original due date.

Under PA law, a taxpayer must file a refund petition not later than three years following the date of payment. For a refund of tax shown on a timely filed PA tax return, the Department may not accept an amended return unless the taxpayer files the amendment within the three-year statutory timeframe. The Department will accept an amended return within three years of an extended due date only when the taxpayer requests a refund of the tax paid after the statutory due date.



IMPORTANT: You may not file an amended PA return after the Department issued an assessment, if your amendment relates to the same taxable year and item of income, gain, deduction, or loss that the Department assessed. You must either file a timely petition for reassessment or pay the assessment and file a timely refund petition. Under PA law, you must submit a refund petition, **Form REV-65**, not later than six months after the date shown on the assessment.

Underreported Income for Amended Returns

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

Interest for Nonpayment or Late Payment

If you do not pay the tax due on or before the due date, PA law imposes interest from April 15, 2002, to the date of payment. The annual interest rate is that rate established January 1 of each calendar year by the U.S. Secretary of the Treasury.

Penalties for Not Filing or for Filing a Late Return

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

Penalties for Underpayment or for Late Payment

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

You are liable for these penalties if your underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud. The Department may assess both late filing and underpayment penalty if you file your return after the due date, or extended due date, and do not pay your tax liability with your return.



IMPORTANT: If any part of any underpayment of the tax is due to fraud, PA law imposes a penalty of 50 percent of the underpayment.

Other Penalties

PA law imposes a \$500 penalty on a taxpayer that files a frivolous return. A frivolous return is one that:

- Does not contain sufficient information for the Department to determine the correct liability; or
- Contains information indicating the liability is significantly incorrect; or
- Indicates that the taxpayer is filing in a manner to delay or impede the administration of the PA tax law.

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

Brochures Available From The Department

The Department has developed a number of brochures to provide more information about PA taxes. You can order these brochures directly from the Department's Forms Ordering Service at 1-800-362-2050, or by selecting the forms ordering option on the FACT Line at 1-888-PATAXES (728-2937).

These brochures are also available on the Department's home page.

(CAQ - Commonly Asked Questions)

REV-23	Practices and Procedures of the Board of Appeals
REV-502	FACT LINE 1-888-PATAXES
REV-527	Taxpayer's Bill of Rights
REV-571	CAQ – So You Are Moving to PA
REV-573	CAQ –Property Tax and Rent Rebate
REV-577	CAQ – Estimated Tax Payments
REV-580	CAQ – Employer Withholding
REV-581	CAQ – Personal Income Tax
REV-582	CAQ – Corporation Taxes
REV-584	CAQ – Inheritance Tax
REV-585	CAQ – Sales and Use Tax
REV-588	The Beginner's Guide for Starting a Business in PA
REV-591	CAQ – IFTA and Motor Fuel Taxes
REV-610	Voluntary Disclosure Program Guidelines
REV-611	CAQ – Determining Residency for PA Purposes
REV-612	CAQ – Military Pay
REV-614	CAQ – Scholarships, Fellowships, and Stipends
REV-615	CAQ – Reciprocal Agreements
REV-617	CAQ – Hiring Household Workers
REV-618	CAQ – Realty Transfer Tax
REV-625	CAQ – Sale of Your Principal Residence
REV-627	CAQ – Construction Contracts
REV-629	CAQ – How Nonresidents are Taxed
REV-630	CAQ – Amending PA-40 Returns
REV-631	CAQ – TAX BACK/Tax Forgiveness
REV-634	CAQ – Employee Fringe Benefits and Wage/Salary Supplements
REV-635	CAQ – S Corporations
REV-636	CAQ – Roth IRAs
REV-637	CAQ – Unreimbursed Allowable Employee Business Expenses
REV-663	CAQ – Sales Tax License Revocation Procedures
REV-671	Keystone Opportunity Zones: The Benefits of Living in a KOZ
REV-672	Keystone Opportunity Zones: How They Effect Business Owners
REV-695	Keystone Opportunity Zones: How Property Owners Benefit
REV-744	Brochure-Sales Tax Free PC Holiday
REV-745	Brochure-Paperless Filing
REV-748	E-Commerce for Businesses
REV-758	Brochure-PA PIT for College Students

Donations

Do Something Wild



WILD RESOURCE CONSERVATION FUND

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

You can also send a direct contribution. Make your check or money order payable to Wild Resource Conservation Fund, P.O. Box 8764, Harrisburg, PA 17105-8764.

U. S. OLYMPIC COMMITTEE, PA DIVISION

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



You can also send a direct contribution. Make your check or money order payable to U.S. Olympic Committee, Development Office, One Olympic Plaza, Colorado Springs, CO 80909-5760.

GOVERNOR ROBERT P. CASEY MEMORIAL ORGAN AND TISSUE DONATION AWARENESS TRUST FUND



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

You can also send a direct contribution. Make your check or money order payable to Governor Robert P. Casey Memorial Organ and Tissue Donation Awareness Trust Fund, P.O. Box 90, Harrisburg, PA 17108-0090.

KOREA/VIETNAM MEMORIAL, INC.



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

You can also send a direct contribution. Make your check or money order payable to Korea/Vietnam Memorial, Inc., 2761 Distillery Rd, Fogelsville, PA 18051-2122.

BREAST AND CERVICAL CANCER RESEARCH FUND



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

You can also send a direct contribution. Make your check or money order payable to PA Department of Health, Breast and Cervical Cancer Research, Bureau of Administrative and Financial Services, P.O. Box 90, Harrisburg, PA 17108-0090.

PA School Districts & Codes By County

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
ADAMS		BERKS		CENTRE		DELAWARE	
Bermudian Springs . . . . .	.01110	Antietam . . . . .	.06050	Palmerton Area . . . . .	.13650	Middletown Area . . . . .	.22600
Conewago Valley . . . . .	.01160	Boyetown Area . . . . .	.06075	Panther Valley . . . . .	.13660	Millersburg Area . . . . .	.22610
Fairfield Area . . . . .	.01305	Brandywine Heights Area . . . . .	.06085	Weatherly Area . . . . .	.13900	Steelton Highspire . . . . .	.22800
Gettysburg Area . . . . .	.01375	Conrad Weiser Area . . . . .	.06110			Susquehanna Township . . . . .	.22830
Littlestown Area . . . . .	.01520	Daniel Boone Area . . . . .	.06150	CHESTER		Susquenita . . . . .	.50600
Upper Adams . . . . .	.01852	Exeter Township . . . . .	.06200	Bald Eagle Area . . . . .	.14100	Upper Dauphin Area . . . . .	.22900
		Fleetwood Area . . . . .	.06250	Bellefonte Area . . . . .	.14110	Williams Valley . . . . .	.54880
ALLEGHENY		Governor Mifflin . . . . .	.06300	Keystone Central . . . . .	.18360		
Allegheny Valley . . . . .	.02060	Hamburg Area . . . . .	.06350	Penns Valley Area . . . . .	.14700		
Avonworth . . . . .	.02075	Kutztown Area . . . . .	.06400	Philipsburg-Osceola Area . . . . .	.17700		
Baldwin Whitehall . . . . .	.02110	Muhlenberg Township . . . . .	.06550	State College Area . . . . .	.14800		
Bethel Park . . . . .	.02125	Oley Valley . . . . .	.06650	Tyrone Area . . . . .	.07800		
Brentwood Borough . . . . .	.02145	Reading . . . . .	.06700				
Carlynton . . . . .	.02160	Schuylkill Valley . . . . .	.06750	CHESTER			
Chartiers Valley . . . . .	.02175	Tulpehocken Area . . . . .	.06800	Avon Grove . . . . .	.15050		
Clairton City . . . . .	.02190	Twin Valley . . . . .	.06810	Coatesville Area . . . . .	.15190		
Cornell . . . . .	.02210	Upper Perkiomen . . . . .	.46860	Downingtown Area . . . . .	.15200		
Deer Lakes . . . . .	.02225	Wilson . . . . .	.06910	Great Valley . . . . .	.15350		
Duquesne City . . . . .	.02250	Wyomissing . . . . .	.06935	Kennett Consolidated . . . . .	.15400		
East Allegheny . . . . .	.02280			Octorara Area . . . . .	.15650		
Elizabeth Forward . . . . .	.02315	BLAIR		Owen J. Roberts . . . . .	.15660		
Fort Cherry . . . . .	.63240	Altoona Area . . . . .	.07050	Oxford Area . . . . .	.15670		
Fox Chapel Area . . . . .	.02391	Bellwood Antis . . . . .	.07100	Phoenixville Area . . . . .	.15720		
Gateway . . . . .	.02410	Claysburg-Kimmel . . . . .	.07150	Spring Ford Area . . . . .	.46730		
Hampton Township . . . . .	.02460	Holidaysburg Area . . . . .	.07350	Tredyffrin Easttown . . . . .	.15780		
Highlands . . . . .	.02475	Spring Cove . . . . .	.07750	Twin Valley . . . . .	.06810		
Keystone Oaks . . . . .	.02500	Tyrone Area . . . . .	.07800	Unionville-Chadds Ford . . . . .	.15850		
McKeesport Area . . . . .	.02600	Williamsburg Community . . . . .	.07900	West Chester Area . . . . .	.15900		
Montour . . . . .	.02630						
Moon Area . . . . .	.02634	BRADFORD		CLARION			
Mount Lebanon . . . . .	.02640	Athens Area . . . . .	.08050	Allegheny Clarion Valley . . . . .	.16030		
North Allegheny . . . . .	.02685	Canton Area . . . . .	.08100	Armstrong . . . . .	.03085		
Northgate . . . . .	.02687	Northeast Bradford County . . . . .	.08300	Clarion Area . . . . .	.16120		
North Hills . . . . .	.02690	Sayre Area . . . . .	.08600	Clarion-Limestone Area . . . . .	.16170		
Penn Hills . . . . .	.02735	Towanda Area . . . . .	.08650	Keystone . . . . .	.16650		
Penn-Trafford . . . . .	.65710	Troy Area . . . . .	.08665	North Clarion County . . . . .	.16750		
Pine-Richland . . . . .	.02100	Wyalusing Area . . . . .	.08900	Redbank Valley . . . . .	.16800		
Pittsburgh . . . . .	.02745			Union . . . . .	.16900		
Plum Borough . . . . .	.02750	BUCKS		CLEARFIELD			
Quaker Valley . . . . .	.02775	Bensalem Township . . . . .	.09100	Clearfield Area . . . . .	.17100		
Riverview . . . . .	.02820	Bristol Borough . . . . .	.09130	Curwensville Area . . . . .	.17180		
Shaler Area . . . . .	.02830	Bristol Township . . . . .	.09135	Dubois Area . . . . .	.17200		
South Allegheny . . . . .	.02865	Centennial . . . . .	.09200	Glendale . . . . .	.17300		
South Fayette Township . . . . .	.02870	Central Bucks . . . . .	.09210	Harmony Area . . . . .	.17350		
South Park . . . . .	.02875	Council Rock . . . . .	.09235	Moshannon Valley . . . . .	.17500		
Steel Valley . . . . .	.02883	Easton Area . . . . .	.48330	Philipsburg-Osceola Area . . . . .	.17700		
Sto Rox . . . . .	.02885	Morrisville Borough . . . . .	.09720	Purchase Line . . . . .	.32730		
Upper Saint Clair Township . . . . .	.02920	Neshaminy . . . . .	.09750	West Branch Area . . . . .	.17900		
West Allegheny . . . . .	.02940	New Hope Solebury . . . . .	.09760				
West Jefferson Hills . . . . .	.02955	North Penn . . . . .	.46570	CLINTON			
West Mifflin Area . . . . .	.02960	Palisades . . . . .	.09800	Jersey Shore Area . . . . .	.41400		
Wilkinsburg Borough . . . . .	.02980	Pennridge . . . . .	.09810	Keystone Central . . . . .	.18360		
Woodland Hills . . . . .	.02990	Pennsbury . . . . .	.09820	West Branch Area . . . . .	.17900		
		Quakertown Community . . . . .	.09840				
		Souderton Area . . . . .	.46710	COLUMBIA			
ARMSTRONG				Benton Area . . . . .	.19100		
Allegheny Clarion Valley . . . . .	.16030	BUTLER		Berwick Area . . . . .	.19110		
Apollo-Ridge . . . . .	.03060	Allegheny Clarion Valley . . . . .	.16030	Bloomsburg Area . . . . .	.19120		
Armstrong . . . . .	.03085	Butler Area . . . . .	.10125	Central Columbia . . . . .	.19150		
Freeport Area . . . . .	.03305	Freeport Area . . . . .	.03305	Millville Area . . . . .	.19500		
Karns City Area . . . . .	.10360	Karns City Area . . . . .	.10360	Mount Carmel Area . . . . .	.49510		
Kiski Area . . . . .	.65440	Mars Area . . . . .	.10500	North Schuylkill . . . . .	.54500		
Leechburg Area . . . . .	.03450	Moniteau . . . . .	.10535	Southern Columbia Area . . . . .	.19750		
Redbank Valley . . . . .	.16800	Seneca Valley . . . . .	.10790				
		Slippery Rock Area . . . . .	.10750	CRAWFORD			
BEAVER		South Butler County . . . . .	.10780	Conneaut . . . . .	.20103		
Aliquippa Borough . . . . .	.04050	CAMBRIA		Corry Area . . . . .	.25145		
Ambridge Area . . . . .	.04070	Blacklick Valley . . . . .	.11060	Crawford Central . . . . .	.20135		
Beaver Area . . . . .	.04120	Cambria Heights . . . . .	.11120	Jamestown Area . . . . .	.43360		
Big Beaver Falls Area . . . . .	.04150	Central Cambria . . . . .	.11130	Penncrest . . . . .	.20470		
Blackhawk . . . . .	.04160	Conemaugh Valley . . . . .	.11140	Titusville Area . . . . .	.61720		
Center Area . . . . .	.04190	Ferndale Area . . . . .	.11200	Union City Area . . . . .	.25910		
Ellwood City Area . . . . .	.37200	Forest Hills . . . . .	.11220				
Freedom Area . . . . .	.04285	Glendale . . . . .	.17300	CUMBERLAND			
Hopewell Area . . . . .	.04410	Greater Johnstown . . . . .	.11250	Big Spring . . . . .	.21050		
Midland Borough . . . . .	.04530	Northern Cambria . . . . .	.11450	Camp Hill . . . . .	.21100		
Monaca . . . . .	.04545	Penn Cambria . . . . .	.11600	Carlisle Area . . . . .	.21110		
New Brighton Area . . . . .	.04565	Portage Area . . . . .	.11630	Cumberland Valley . . . . .	.21160		
Riverside Beaver County . . . . .	.04585	Richland . . . . .	.11650	East Pennsboro Area . . . . .	.21250		
Rochester Area . . . . .	.04690	Westmont Hilltop . . . . .	.11850	Mechanicsburg Area . . . . .	.21650		
South Side Area . . . . .	.04740	Windber Area . . . . .	.56910	Shippensburg Area . . . . .	.21800		
Western Beaver County . . . . .	.04930			South Middleton . . . . .	.21830		
				West Shore . . . . .	.21900		
BEDFORD		CAMERON		DAUPHIN			
Bedford Area . . . . .	.05100	Allegheny Clarion Valley . . . . .	.16030	Central Dauphin . . . . .	.22140		
Chestnut Ridge . . . . .	.05150	Cameron County . . . . .	.12270	Derry Township . . . . .	.22175		
Claysburg-Kimmel . . . . .	.07150	CARBON		Halifax Area . . . . .	.22250		
Everett Area . . . . .	.05300	Hazleton Area . . . . .	.40330	Harrisburg City . . . . .	.22275		
Northern Bedford County . . . . .	.05600	Jim Thorpe Area . . . . .	.13500	Lower Dauphin . . . . .	.22400		
Tussey Mountain . . . . .	.05800	Lehigh Area . . . . .	.13550				

Part-Year Residents who moved out of Pennsylvania during 2001 use code 99999.

PA School Districts & Codes By County

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

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For forms & additional information, visit the Department's home page at www.revenue.state.pa.us

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