

PA Schedule SP (Line 21)



What is TAX BACK/Tax Forgiveness?

TAX BACK/Tax Forgiveness is a credit that allows eligible taxpayers to reduce all or part of their PA tax liability. TAX BACK/Tax Forgiveness:

- Gives state tax back to some taxpayers; and
- Forgives some taxpayers their liabilities even if they have not paid their PA Personal Income Tax.

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 are liable for PA tax on your income (or would be liable if you earned, received, or realized PA taxable income); and
2. You are not a dependent on another person's federal tax return, and
3. You meet the Eligibility Income test.

Dependent Child

A dependent child with taxable income in excess of \$35 must file a PA tax return. If that child's parents qualify for TAX BACK/Tax Forgiveness, that child is also eligible for this credit. The child must file a **PA-40** and a **PA Schedule SP**, just as any claimant. The child must also include any child support paid to his/her parent in his/her Eligibility Income.

Student Claimant

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**.

How Do I Claim TAX BACK/Tax Forgiveness?

To claim TAX BACK/Tax Forgiveness, complete and submit a **PA Schedule SP**. On **PA Schedule SP** you:

1. Determine your PA taxable income. If married, whether filing jointly or separately, determine your spouse's taxable income.
2. Determine your Type Filer status in Part A.
3. Determine if you may claim any dependent children in Part B.
4. Determine your Eligibility Income. If married, whether filing jointly or separately, determine your spouse's Eligibility Income in Part C.
5. Calculate your TAX BACK/Tax Forgiveness Credit, using the applicable Eligibility Income Table, in Part D.

If you are unmarried, complete ALL the information for yourself in the "Your" column. If you are married, complete all the information in the "Your" and "Spouse" columns, even if filing separately.



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

Claiming Dependents on Separate PA Schedules SP

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 must each complete **PA Schedule SP** as if filing jointly. You each must report the same information including dependents and your joint eligibility income. You **must** fill in the **Married and Filing Separate** oval in Part A of each **PA Schedule SP**. You must each submit a copy of the **PA Schedule SP** with your PA tax return.

Part A. Type Filer

Unmarried or Separated

Fill in the correct oval if during 2002 you were:

- Single; or
- Separated and living apart at all times during the last six months of 2002; or
- Separated pursuant to a written separation agreement.

Married

Fill in this oval whether filing separately or jointly. Married means that during 2002 you were:

- Married and lived together; or
- Separated and lived apart, but for less than the last six months of 2002; or
- Separated, but not by a written separation agreement.

Also, fill in the correct oval for your specific filing conditions.

If you and your spouse choose to file separate **PA-40** returns, you must use your Joint Eligibility Income and Eligibility Income Table 2.

CAUTION: If married, you both **must** meet the eligibility requirements. A married spouse cannot claim TAX BACK/Tax Forgiveness independently of his or her spouse. Married claimants are not dependents of one another for TAX BACK/Tax Forgiveness purposes, even when one spouse does not have any Eligibility Income.

One Spouse is a Dependent

Married taxpayers otherwise meet the income requirements for claiming TAX BACK/Tax Forgiveness, except when one spouse is claimed as a dependent on another person's Federal Income Tax return. They **must** file separately. **EXAMPLE:** A husband is a dependent on his parent's Federal Income Tax return. The wife is not a dependent. As a dependent, the husband is not eligible for TAX BACK/Tax Forgiveness. The eligible wife may complete **PA Schedule SP**. The wife may not claim her husband as a dependent, but must include his Eligibility Income when calculating Total Eligibility Income on her **PA Schedule SP**.

Deceased

Fill in this oval if you are filing for a person who died during 2002. You must annualize the decedent's income before determining if he or she is eligible for TAX BACK/Tax Forgiveness. The Department will accept a reasonable calculation of the decedent's annual Eligibility Income.

Reminder:

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 as a foster parent for providing in-home care for foster children;
- The value of the personal use of employer owned or leased property, including tuition reductions; and
- The value of government education grants.

Part B. Dependent Children

A dependent is a child, including a disabled child, that you claimed on your 2002 Federal Income Tax return. If you cannot claim a child on your federal return, you cannot claim that child on **PA Schedule SP**. If unmarried for **PA Schedule SP** purposes, and your (former) spouse



may claim an adult child as a dependent on his or her 2002 Federal Income Tax return and **PA Schedule SP**, you cannot claim that child on your **PA Schedule SP**. You may not claim any other adults, even if you may do so for Federal Income Tax purposes.

 **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 the number of dependent children you are claiming.

CAUTION: If claiming an adult child, an adopted child, a foster child, or a child with a different last name than yours, the Department may ask for a copy of page 1 of your 2002 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

You must enter an amount or zero on each line. Read each description carefully. If you are claiming tax forgiveness as Married, whether filing jointly or separately, you must enter an amount or zero for each line under "Your" Income and the "Spouse" Income columns.

1. PA Taxable Income

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

2. Nontaxable income, including PA nontaxable interest, dividend, and gain income

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.

 **FILING TIP:** If you claim a child in Part B as a "foster child," include payments received as a foster parent. However, if the Foster Care Program did not place the child in your home, or you did not receive any payments for providing foster care, submit a written explanation that you do not have any income to report as a foster parent. Include an explanation of the child's relationship to you.

Include 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 TIP:** To determine employer benefits, include the difference between the Medicare wages on your Form W-2 and the amount in box 16.

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 prizes from all games of 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. 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 received for personal use 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, and enter the total. Eligibility Income is the total amount of your PA taxable and nontaxable income that 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**, Line 12.

13. Less Resident Credit

Enter your credit from your **PA-40**, Line 22.

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 on page 26. 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**, Line 21.

PA Schedule G (Line 22)

The instructions for **PA Schedule G** are on the schedule.

PA Schedule OC (Line 23)



Submit the required supporting document for each credit you are claiming. If a shareholder of a PA S corporation or a partner, enter your share of each credit from your **PA Schedule RK-1** or **PA Schedule NRK-1**.

1. Employment Incentive Payments Credit

If you employ welfare recipients, you may be eligible for this credit. Submit a completed **PA Schedule W** with copies of the Certification Form from the PA Department of Labor and Industry for each employee. If a partner or a PA S corporation shareholder, enter the credit amount from the **PA Schedule(s) RK-1** or **NRK-1** the estate or trust received.

