

**Instructions for Form PA-20S/PA-65**

PA S Corporation/Partnership Information Return

Form PA-20S/PA-65 (09-16)

**WHAT'S NEW**

Tax year changes for the PA-20S/PA-65 Information Return, schedules and forms include:

The Capital Stock/Foreign Franchise Tax has expired for tax years beginning after December 31, 2015. References to the capital stock and foreign franchise taxes have been removed from all tax forms and instructions.

**PA-20S/PA-65, Schedule H-Corp**

Effective for tax years beginning after 12/31/15, the capital stock/foreign franchise tax has expired. The PA-20S/PA-65 Schedule H-Corp has been updated to remove the property and payroll factors.

**PA-65 Corp, Directory of Corporate Partners**

A "Final Return" oval has been added in the upper right legend where the demographic fields are located for 100% corporate owned entities filing a final PA-65 Corp, Directory of Corporate Partners return.

**Schedule T**

With the passing of Act 84, retroactive to January 1, 2016, the Pennsylvania personal income tax applies to cash prizes from the Pennsylvania Lottery. Previously only gambling and lottery winnings from sources other than the Pennsylvania Lottery were taxable.

**Schedule OC****Coal Refuse Energy and Reclamation Tax Credit:**

This new tax credit is designed to incentivize eligible facilities that generate electricity in the commonwealth to use coal refuse for power generation, control acid gasses for emission control and use ash produced by the facility to reclaim mining-affected sites. Credits may be awarded at a rate of \$4 per 2,000 pounds of qualified refuse

capped at 22.2 percent of the available budget allocation per fiscal year. The allocation is \$7.5 million for the 2016-17 fiscal year and \$10 million each fiscal year thereafter.

**PA-20S/PA-65, Schedule M and Schedule D**

Effective September 11, 2016, Section 1033 of the Internal Revenue Code shall be applicable to the personal income tax. This federal provision allows a taxpayer to acquire replacement property and make an election to defer recognition of gain following an involuntary conversion, for example when the original property is destroyed by fire or natural disaster.

**HOW TO GET FORMS AND PUBLICATIONS**

**Internet.** Visit the department's website at [www.revenue.pa.gov](http://www.revenue.pa.gov) to:

- Download forms, instructions and publications;
- Research tax questions by using the Online Customer Service Center; or
- Search publications online by topic or keyword.

If you do not have Internet access, visit your local public library or district office.

**Email.** Forms for tax year 2011 through the current year can be found on the department's website at [www.revenue.pa.gov](http://www.revenue.pa.gov). Requests for forms prior to 2011 should be sent to [ra-forms@pa.gov](mailto:ra-forms@pa.gov).

**Written Requests.** Send written requests for forms to:

PA DEPARTMENT OF REVENUE  
TAX FORM SERVICE UNIT  
1854 BROOKWOOD ST  
HARRISBURG PA 17104-2244

**By phone and in person.** You can order forms and publications by calling

the department's automated, 24-hour, toll-free forms ordering message service at 1-800-362-2050.

You can also get most forms and publications at your nearest district office. Please call ahead to verify a district office's address and services or visit [www.revenue.pa.gov](http://www.revenue.pa.gov) for more information. Taxpayer assistance hours are 8:30 a.m. to 5:00 p.m.

**Copies of Previously Filed Returns**

To receive copies of previously filed tax returns, complete and sign Form REV-467, Authorization for Release of Tax Records, and send it to:

PA DEPARTMENT OF REVENUE  
BUREAU OF  
ADMINISTRATIVE SERVICES  
12TH FLOOR  
STRAWBERRY SQUARE  
HARRISBURG PA 17128-1200

You may also fax the request to 717-783-4355. If someone other than the taxpayer is making the request, Form REV-677, Power of Attorney and Declaration of Representative, must be submitted with the request for the release of the tax records. If a taxpayer is deceased, sufficient evidence to establish authority to act for the taxpayer's estate must be provided to the department.

Please allow four to six weeks for a request to be processed.

**PRIVACY NOTIFICATION**

By law (42 U.S.C. §405(c)(2)(C)(i); 61 Pa. Code §117.16), the department has the authority to use the Social Security number (SSN) to administer the Pennsylvania personal income tax and other Commonwealth of Pennsylvania tax laws.

The department uses the SSN to identify individual taxpayers and verify their

incomes. The department also uses the SSN to administer a number of tax-offset and child-support programs that federal and Pennsylvania laws require.

The commonwealth may also use the SSN in exchange-of-tax information agreements with governmental authorities. Except for official purposes, Pennsylvania law prohibits the commonwealth from disclosing information that individuals provide on income tax returns, including the SSN(s).

## GENERAL INFORMATION

### PURPOSE OF FORM

The PA-20S/PA-65 form is an information return and personal income tax filing requirement used to report the income (losses), deductions, credits, etc., from the operation of foreign or domestic PA S corporations, partnerships or limited liability companies classified as partnerships or S corporations for federal income tax purposes (further referred to as “entity” or “entities”).

These entities do not pay tax on their income but “pass through” any profits or losses to their owners (shareholders, partners or members). When preparing the PA-20S/PA-65 PA S Corporation/Partnership Information Return, it is best to start with the completed federal Form 1120S or federal Form 1065 and then proceed to the Pennsylvania schedules.

**TIP** The information on the PA-20S/PA-65 Information Return has no relevance to C corporations except if a credit from PA-20S/PA-65 Schedule OC has been allocated on the PA Schedule RK-1, Line 9 or NRK-1, Line 7. Otherwise, the only information relevant to a corporate taxpayer is the PA-20S/PA-65 Schedule H-Corp for calculating CNI tax.

Act 52 of 2013 authorizes the assessment of partnerships and PA S corporations at the entity level for understating income by more than \$1 million. While the provision does not apply to publicly traded partnerships, it does apply to partnerships with 11 or more partners; partnerships with at least one partner that is a corporation,

limited liability company, partnership, S corporation or trust; PA S corporations with 11 or more shareholders; or any partnership or PA S corporation that elects to be subject to the provision.

**IMPORTANT:** Pass-through entities that fail to maintain accurate lists of owner/beneficiary names, addresses, and tax identification numbers now subject the general partner, tax matters partner, corporate officer and/or trustee of the partnership, S corporation, trust or estate to responsible party assessments holding them individually liable for tax, penalty, and interest owed by the entity.

### WHO MUST FILE

Every domestic or foreign PA S corporation (72 P.S. §7330.1), partnership (72 P.S. §7335(c)) or entity formed as a limited liability company that is classified as a partnership or S corporation for federal income tax purposes must file the PA-20S/PA-65 Information Return if any of the following apply:

1. During the taxable year, the partnership, PA S corporation or its qualified subchapter S subsidiary earned, received or acquired any gross taxable income (loss) allocable or apportionable to Pennsylvania, regardless of the amount of its income (loss) and whether or not the income was distributed; or
2. During the taxable year, the PA S corporation had at least one shareholder that was a Pennsylvania resident individual or part-year resident estate, trust or disregarded entity owned by a resident individual or part-year resident; or
3. The partnership, at year-end, had at least one partner that was a Pennsylvania resident individual, estate, trust or disregarded entity owned by a resident individual.

A \$250 penalty is imposed for failure to file the PA-20S/PA-65. In addition, a \$250 penalty is imposed for each missing RK-1, NRK-1 and Schedule H-Corp.

**IMPORTANT:** All income for an S corporation must be proportionally distributed and cannot be specifically allocated.

## Inactive S Corporations and Partnerships

If the PA S corporation or partnership was inactive during the entire tax reporting period, the entity must still submit the PA-20S/PA-65 Information Return and fill in the Inactive oval. Schedules and supporting documentation do not need to be included with the PA-20S/PA-65 Information Return.

### CLASSIFYING INCOME

In many instances, Pennsylvania personal income tax law and regulations differ from federal tax laws. This is especially true with regard to federal elections concerning the timing of income and expense items.

Taxpayers should not use federal elections to determine Pennsylvania personal income tax income (loss).

PA S corporations, partnerships and limited liability companies classified as partnerships or S corporations for federal income tax purposes report income (loss) using the Pennsylvania personal income tax rules. Pennsylvania does not adopt federal rules for purposes of personal income taxation. Accordingly, the determination of reportable amounts in each personal income tax classification may vary significantly from the classifications and amounts as determined for federal income tax purposes.

For Pennsylvania personal income tax purposes, read the rules for classifying income found in the Pennsylvania Personal Income Tax Guide. The income must be reported on the owner's tax return in the same classification of income as it is reported to them on their PA Schedules RK-1 and/or NRK-1 from the entity.

The entity must maintain sufficient books and records to properly report income (losses), expenses, credits, deductions, and other amounts for Pennsylvania personal income tax purposes. A PA S corporation or partnership that only operates a business, profession or farm must include all activities and transactions to determine Part I or Part II of the PA-20S/PA-65 Information Return, whichever is applicable, regardless of

the name of the transaction and regardless of how it reports for federal income tax purposes. Use PA-20S/PA-65 Schedule M to classify federal income (loss) for Pennsylvania personal income tax purposes. Please review the PA-20S/PA-65 Schedule M instructions on the department's website at [www.revenue.pa.gov](http://www.revenue.pa.gov).



**NOTE:** Pennsylvania personal income tax law taxes resident partners, shareholders and members (owners) on income from sources within and outside Pennsylvania and taxes nonresident owners on Pennsylvania-source income only.

### PENNSYLVANIA S CORPORATION S STATUS (S ELECTIONS)

Starting with tax years beginning on or after Jan. 1, 2006, all corporations, including those incorporated in a state other than Pennsylvania, with a valid federal subchapter S election are considered Pennsylvania S corporations and are no longer required to file the Pennsylvania S Corporation Election and Shareholders' Consent form (REV-1640) in order to be a Pennsylvania S corporation. Under Act 67 of 2006, all federal subchapter S corporations are Pennsylvania S corporations. Act 67 also includes a provision for federal subchapter S corporations to make an election to **not** be taxed as a Pennsylvania S corporation. To make this election, the taxpayer is required to file a completed REV-976, Election Not to be Taxed as a Pennsylvania S Corporation on or before the due date, or extended due date, of the report for the first period in which the election is to be in effect.



**NOTE:** 72 P.S. §7301(n.1) stipulates all federal S corporations filling in Pennsylvania are automatically PA S corporations.

### PENNSYLVANIA S CORPORATION S STATUS REVOCATIONS

An election to not be taxed as a PA S corporation may not be revoked for five years from the date it went into effect.

A revocation received within this five year period will be effective for the first tax period for which the taxpayer is eligible to revoke the election.

Elections which first went in effect in 2011 may be revoked for 2016. To revoke the election the corporation must send a letter signed by shareholders holding more than one-half of the shares of stock of the corporation on the day on which the revocation is made. This letter must contain the name of the corporation, the federal employer identification number (FEIN), the PA S corporation's 10-digit Revenue ID or seven-digit PA Account ID and the effective date of the revocation. If no effective date is provided the revocation will be effective for the first tax period for which the revocation was timely submitted. In the case of a corporation with qualified subchapter S subsidiaries, the letter must include the name and 10-digit Revenue IDs, if applicable, of all qualified subchapter S subsidiaries doing business in Pennsylvania.

#### Mail the letter to:

PA DEPARTMENT OF REVENUE  
BUREAU OF  
CORPORATION TAXES  
PROCESSING DIVISION  
PO BOX 280705  
HARRISBURG PA 17128-0705

The due date for filing the Election Not to be Taxed as a Pennsylvania S Corporation, REV-976, is the due date or the extended due date of the PA corporate net income tax report for the first year for which the election is to be in effect. A revocation submitted after the due date will be in effect for the next tax period.

### ELECTRONIC FILING

#### Fed/State Electronic Filing for S Corporations and Partnerships

The department will accept original and amended PA S Corporation/Partnership Information Returns (PA-20S/PA-65) including corresponding forms and schedules filed through the Modernized e-File (MeF) platform provided by the IRS (also known as the Fed/State e-File).



**IMPORTANT:** An amended PA-20S/PA-65 Information Return filed through Fed/State e-File will only be accepted for 2014 tax year returns and forward. You may not file an amended PA-20S/PA-65 Information Return through Fed/State e-File prior to 2014 tax year return. See How To Amend a PA-20S/PA-65 Information Return prior to 2014 tax year return.

Fed/State e-File allows you to file federal and state returns together or separately. It is available through tax preparers or computer software. When you file using Fed/State e-file, the department sends an acknowledgement directly to you, your tax professional or Electronic Return Originator (ERO). Whoever submits the tax return will receive the acknowledgement.

The PA-20S/PA-65 Information Return can be filed through Fed/State e-File through an approved vendor that has tested with and been approved by the department to offer electronic filing in Pennsylvania. Even if a vendor is federally approved they must also be approved by Pennsylvania. As a result, every year vendors must go through a testing process for the department's approval of their software. When the vendors complete the testing process, they will be listed on Revenue's e-Services Center at [www.doreservices.state.pa.us](http://www.doreservices.state.pa.us).



**NOTE:** Mandatory e-filing is required for third-party preparers who prepare 11 or more PA-20S/PA-65 returns. The department published a "Method of Filing" notice [43 Pa.B. 5772] for electronic filing requirements in a Pennsylvania Bulletin on the PA Department of Revenue website. Once subject to this mandate, the preparer must continue to e-file regardless of how many returns are prepared during a calendar year.

Tax filers may direct third party preparers to file returns in a different method than mandated.

#### Electronically Filed Returns with Attachments


When the PA-20S/PA-65 S Corporation/Partnership Information Return is filed through the Fed/State e-File, all



attachments other than the PA-20S/PA-65 schedules must be sent in PDF format.

Examples of other attachments to an electronically filed PA-20S/PA-65 Information Return may include statements required with the PA-20S/PA-65 Information Return; PA Schedules RK-1 and NRK-1 that a pass through entity receives from another pass through entity; federal Form 8824, Like-Kind Exchanges; federal Form 3115, Application for Change in Accounting Method; and federal Form 7004, Application for Automatic Extension of Time To File.

The department will consider the tax return incomplete if all required documents are not submitted with an electronically filed return.

 **IMPORTANT:** Do not include the PA-20S/PA-65 Schedules RK-1 and NRK-1 that the entity issues to its owners as a PDF attachment. These schedules are part of the e-File package for the PA-20S/PA-65 Information Return.


#### HOW TO PAY ELECTRONICALLY

##### Fed/State Electronic Filing Option for Estimated Nonresident Individual Quarterly Withholding Payments

The department accepts through the MeF Fed/State program the electronic payment of the quarterly estimated withholding tax for nonresident owners filed with the PA-65ESR. The following types of payments can be electronically transferred if filed through Fed/State e-File program:


- Final nonresident individual tax withholding tax “catch-up” payment submitted with the 2016 tax year PA-20S/PA-65 Information Return; and
- 2017 (future) estimated payments for nonresident individual quarterly withholding tax submitted with the 2016 tax year PA-20S/PA-65 Information Return; and
- PA-65ESR Quarterly Estimated Payments for nonresident individuals.


Future estimated nonresident individual tax withholding payments for tax year 2017 will be stored in the system as separate electronic transaction payments until the specified due date.

 **IMPORTANT:** The nonresident individual quarterly withholding payment may not be submitted through Electronic Funds Transfer (EFT), credit/debit cards or e-TIDES.

##### Payment Not Submitted with Electronic Return

If the PA-20S/PA-65 Information Return has been electronically submitted and the nonresident withholding was not sent at the time of electronic submission of the return, then you may send a paper check for the nonresident withholding.

 **TIP** You may send in the PA-40 ESR (F/C) with a check if the entity electronically files the PA-20S/PA-65 Information Return. Submit a check or money order made payable to the PA Dept. of Revenue along with the PA-40 ESR (F/C). Print the entity's federal employer identification number (FEIN) and “2016 Final Nonresident Withholding” on the check or money order.

 **CAUTION:** Failure to include the PA-40 ESR (F/C) with your check will result in a delay of processing.

##### Mail the payment to:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280502  
HARRISBURG PA 17128-0502

For payment by check with paper tax return, See How To Pay.

#### HOW TO AMEND THE PA-20S/PA-65 INFORMATION RETURN

##### Prior to 2014 Tax Year Return

If after filing the PA-20S/PA-65 Information Return, the entity discovers that an incorrect PA-20S/PA-65 tax return has been submitted to the department and/or has amended federal Form 1065 or 1120S or if the IRS changed or corrected any items of income, gain or loss previously reported, the entity must submit an amended PA-20S/PA-

65 Information Return to the Pennsylvania Department of Revenue.

Prior to the 2014 tax year return, an amended PA S Corporation/Partnership Information Return (PA-20S/PA-65) cannot be filed through Fed/State e-File Program.

When amending a PA-20S/PA-65 Information Return that was originally filed through Fed/State e-File, the entity must:

- Obtain the paper form PA-20S/PA-65 Information Return for the year the entity wants to amend. **Do not submit a photocopy of your original PA-20S/PA-65 Information Return;**
- Complete the amended return including all schedules by entering the corrected information and submit it with the amended PA-20S/PA-65 Schedules RK-1 and/or NRK-1;
- Clearly mark the “Amended Information Return” oval on PA-20S/PA-65 Information Return and the “Amended Schedule” oval on the Schedules RK-1 and/or NRK-1;
- Enter the amended amounts and enclose a statement explaining the reasons an amended return is being filed. Submit only the forms or schedules supporting the amended amounts;
- Provide a copy of the amended PA-20S/PA-65 Schedules RK-1 and/or NRK-1 to the partners, shareholders or members; and
- Enclose a copy of the amended federal Form 1120S or federal Form 1065.

##### Tax Year Return 2014 and Forward

For tax years 2014 and forward, the department will accept amended PA-20S/PA-65 Information Returns including corresponding forms and schedules filed through Fed/State e-File.

To file a 2014 or later amended return through Fed/State E-File, visit Revenue's e-Services Center at [www.doreservices.state.pa.us](http://www.doreservices.state.pa.us).

Follow all the steps listed above under “Prior to 2014 Tax Year Return” with exception to the first bullet referencing a paper return.

## WHEN TO AMEND THE PA-20S/PA-65 INFORMATION RETURN

### Over-Reported Income

If the entity over reported income, failed to claim allowable credits, failed to report allowable deductions, or events transpired that decreased its reportable Pennsylvania-taxable income, including an IRS Report of Change, the entity must file an amended PA-20S/PA-65 Information Return.


The amended return must be filed within three years of the original due date or extended due date of the PA-20S/PA-65 Information Return. The amended PA-20S/PA-65 Schedules RK-1 and/or NRK-1 must show the corrected Pennsylvania-taxable income, so the shareholders or partners can request refunds of Pennsylvania income tax they overpaid.

In order to obtain any refunds, owners must also file an amended Pennsylvania tax return within three years of the original due date of their return. See *How To Amend a PA-20S/PA-65 Information Return*.

### Under-Reported Income

If the entity under reported income, erroneously claimed credits or deductions to which it was not entitled, or events transpired that increased reportable Pennsylvania-taxable income, including an IRS Report of Change, the entity must file an amended PA-20S/PA-65 Information Return within 30 days from the determination of such increase. The amended PA-20S/PA-65 Schedules RK-1 and/or NRK-1 must show the corrected Pennsylvania-taxable income so the shareholders or partners can pay the tax due.

The entity and owners must also file an amended Pennsylvania tax return within 30 days of the discovery of the error to report any increase in income for taxes due. See *How To Amend a PA-20S/PA-65 Information Return*.

 **IMPORTANT:** There is no statute of limitations to file an amended return when reporting additional income. Amended returns cannot be filed in response to a Department of

Revenue Assessment. In those cases, an appeal must be filed with the Board of Appeals.

## WHAT TO FILE

### PA S Corporations and Partnerships

Each entity submits with the PA-20S/PA-65 Information Return a complete copy of its federal income tax return including all schedules, statements, federal Schedules K-1, and PA-20S/PA-65 Schedules RK-1 and NRK-1 received from other pass through entities.

With the PA-20S/PA-65 Information Return, the entity must also submit copies of the PA-20S/PA-65 Schedules RK-1 that it provides to resident partners/shareholders (owners) and copies of the PA-20S/PA-65 Schedules NRK-1 that it provides to nonresident owners.

### PA S Corporations and Partnerships as Owners of Another Pass Through Entity

If the shareholder, partner, member (owner) of a PA S corporation, partnership, limited liability company or a beneficiary of a trust or estate is classified as a pass through entity, the issuing entity must provide the entity owner with both PA-20S/PA-65 Schedules RK-1 and NRK-1 showing the entity owner's share of the income (loss) passed through from the issuing entity in the same class in which the issuing entity distributed the income to its entity owner.

When the entity owner receives a PA-20S/PA-65 Schedule RK-1 and NRK-1, it has the classified income (loss) amount to complete the PA-20S/PA-65 Information Return, Parts I, II and III. The entity owner is required to file both the PA-20S/PA-65 RK-1 and NRK-1 with their PA-20S/PA-65 Information Return.

**Example.** When a PA S corporation receives income from a partnership, the PA S corporation must file a copy of the PA Schedule RK-1 and NRK-1 it received from the partnership along with the PA-20S/PA-65 Information Return.

### Partnerships with C Corporation Partners

Partnerships or limited liability companies classified as partnerships for federal income tax purposes with operations within Pennsylvania that have corporate partners that have not filed the RCT-101, PA Corporate Tax Report for the prior or current tax year or whose partners are all C corporations must file the PA-65 Corp, Directory of Corporate Partners.

If the partners are all C corporations, the partnership:

- Must include a complete copy of federal Form 1065 with the PA-65 Corp, Directory of Corporate Partners; and
- Does not file a PA-20S/PA-65 Information Return.

For additional information, please review the instructions for the PA-65 Corp, Directory of Corporate Partners on the department's website.

### Limited Partnership Filing as Disregarded Entity for Federal Income Tax Purposes

If an eligible entity has two members under local law but one of the members of the eligible entity is, for federal income tax purposes, disregarded as an entity separate from the other member of the eligible entity, then the eligible entity cannot be classified as a partnership. The eligible entity is either disregarded as an entity separate from its owner or an association taxable as a corporation.

**Example.** A limited partnership (LP A) is owned by a single-member limited liability company (SMLLC) and a limited partnership (LP B). The LP B owns 100 percent of the SMLLC which gives LP B 100 percent control of LP A. The LP B is required to file the PA-20S/PA-65 Information Return and report the income of both LP A and the SMLLC.

### PA S Corporations and Partnerships Filing on Behalf of their Qualified Electing Nonresident Individual Owners

PA S corporations, partnerships and limited liability companies classified as partnerships and S corporations for federal income tax purposes may file a

composite return (PA-40 NRC, Nonresident Consolidated Income Tax Return) on behalf of their qualified nonresident individual owners who elect to be included in the composite filing.

For additional information, please review the instructions for the PA-40 NRC, Nonresident Consolidated Income Tax Return on the department's website.

### **Individual Owners in a PA S Corporation, Partnership or Limited Liability Company Classified as a Partnership or S Corporation for Federal Income Tax Purposes**

Individual owners of an entity must report on the PA-40, Individual Income Tax Return, their share of the income (loss), passed through from the entity in the same class in which the partnership or PA S corporation reported the income to its individual owners, as shown on their PA Schedules RK-1 and/or NRK-1.

### **Classified as a C Corporation**

A limited liability company that elects to file as a C corporation for federal income tax purposes files as a C corporation for Pennsylvania and is subject to Pennsylvania corporate net income tax, reported on the RCT-101, PA Corporate Tax Report. A limited liability company that files as a C corporation with the IRS does not file the PA-20S/PA-65 Information Return.

### **Classified as an S Corporation**

A limited liability company that elects to file as an S corporation for federal income tax purposes and has not elected out of PA Subchapter S status for Pennsylvania by filing form REV-976, Election Not To Be Taxed as A Pennsylvania S Corporation, must file as an S corporation for Pennsylvania using the PA-20S/PA-65 Information Return. The members are subject to Pennsylvania personal income tax.

### **Classified as a Partnership**

A limited liability company that elects to file as a partnership for federal income tax purposes files as a partnership for Pennsylvania using the PA-20S/PA-65 Information Return. The members are subject to Pennsylvania personal income tax.

## **CLASSIFIED AS A SINGLE-MEMBER LIMITED LIABILITY COMPANY**

### **1. Income Reported on Federal Tax Return of an Individual**

For personal income tax purposes, a single-member limited liability company owned by an individual or a limited liability company jointly owned by a taxpayer and spouse is a disregarded entity. The income of the limited liability company is reported on PA-40 Schedule C, Profit or Loss from Business or Profession, or PA-40 Schedule E, Rent and Royalty Income (Loss), of the member's PA-40, Individual Income Tax Return, and the single-member limited liability company does not file a PA-20S/PA-65 Information Return.

### **2. Income Reported on Federal Tax Return of another Business Entity**

The income of a single-member limited liability company owned by another entity is reported on the tax return of the member as if earned by the member.

### **Qualified Subchapter S Subsidiary and its Parent S Corporation**

Pennsylvania personal income tax law does not treat a qualified subchapter S subsidiary (QSSS) owned by a PA S corporation (parent) as a separate corporation for personal income tax.

Pennsylvania personal income tax law treats all assets, liabilities and items of income, deduction and credit of a QSSS as assets, liabilities and items of income, deduction and credit of the parent PA S corporation for income tax purposes.

The parent PA S corporation must report the assets, liabilities and items of income, deduction and credit of the QSSS on the parent's PA-20S/PA-65 Information Return.



**NOTE:** Shareholders receive the income distribution from the parent corporation, not from each QSSS.

The following provisions apply only to a qualified subchapter S subsidiary in Pennsylvania:

- A QSSS cannot elect corporation treatment independent of its parent corporation.

If a QSSS and/or parent of a QSSS does not desire to be taxed as a PA S corporation, the parent must file REV-976, Election Not to be Taxed as a Pennsylvania S Corporation, for itself and all QSSS(s). The parent corporation submits a schedule with the election identifying the name, address, the PA S corporation's Revenue ID and federal employer identification number (FEIN) of each QSSS owned by the corporation and doing business in Pennsylvania.

- The parent corporation is not required to register with the Department of State if its only activity in Pennsylvania is its investment in the QSSS that is registered in Pennsylvania.

The parent is required to file a PA-20S/PA-65 Information Return and list the QSSS(s) on Part IX and include all of the QSSS' items of income, deduction and credit on the return. There is no ownership percentage for the QSSS because it is a division of the parent company.

Since the QSSS is a division of the parent company, the QSSS is not included on the Partner/Member/Shareholder Directory. Only the owners of the parent company are listed on the directory.



The parent PA S corporation may also file the PA-40 Nonresident Consolidated Income Tax Return (NRC) for its nonresident owners if they meet the parameters. See the PA-40 NRC instructions on the department's website.


## **ASSEMBLING THE PA-20S PA-65 S CORPORATION/ PARTNERSHIP INFORMATION RETURN**

Assemble the PA-20S/PA-65 Information Return, forms and schedules in the following order:

- Signed original PA-20S/PA-65 Information Return (Pages 1 through 3). Do not mail a photocopy;
- PA Schedule P-S KOZ – attach behind the information return;



- PA-20S/PA-65 Partner/Member/Shareholder Directory;
- PA-20S/PA-65 Schedule D-I, D-II, D-III and D-IV;
- PA-20S/PA-65 Schedule E;
- PA-20A/PA-65 Schedules RK-1 that the entity provides to resident owners;
- PA-20S/PA-65 Schedules NRK-1 that the entity provides to nonresident owners;
- PA-20S/PA-65 Schedule M;
- PA-20S/PA-65 Schedule OC and the required supporting documents for claiming any of the business credits allowed by Pennsylvania law;
- PA-20S/PA-65 Schedule A;
- PA-20S/PA-65 Schedule B;
- PA-20S/PA-65 Schedule H;
- PA-20S/PA-65 Schedule H-Corp;
- PA-20S/PA-65 Schedule NW;
- PA-20S/PA-65 Schedule J;
- PA-20S/PA-65 Schedule T;
- PA-20S/PA-65 Schedule I;
- All other required supporting and supplemental documentation, including a copy of the federal extension.

 **NOTE:** A complete copy of the federal Form 1120S, U.S. Income Tax Return for an S Corporation, or Form 1065, U.S. Return of Partnership Income, including all schedules, statements and federal Schedules K-1 now must be included with the entity's PA-20S/PA-65 PA S Corporation/Partnership Information Return.



Assemble documents in the order above.

- Do not staple documents.
- On all additional statements included with the return, please include the entity's name, FEIN, tax year and brief line reference to PA-20S/PA-65 Information Return or PA-20S/PA-65 Schedules.
- Do not include federal returns or federal Schedules K-1 in CD format. The PA-20S/PA-65 Information Return will be considered incomplete if the federal informa-

tion is not included with the paper return.



**IMPORTANT:** Do not create a substitute PA-20S/PA-65 Information Return that has not been approved by the department. A spreadsheet is an unapproved and unacceptable tax form. Unapproved tax forms filed with the department may be rejected and returned to the taxpayer or tax return preparer. This may result in an assessment of interest and penalty.

If filing any tax form other than an official tax form, please review Miscellaneous Tax Bulletin 2008-02 on the department's website.

## ESTIMATED QUARTERLY TAX PAYMENTS AND WITHHOLDING

### Estimated Quarterly Tax Payments for Resident Owners

Individual resident partners and shareholders (owners) are subject to the estimated quarterly tax provisions under the Pennsylvania Income Tax Act.

Resident owners must file declarations and make quarterly estimated Pennsylvania tax payments if they reasonably expect income, other than compensation on which Pennsylvania tax is withheld, to exceed \$8,000.

The individual owners use REV-414I, Individuals Worksheet, and REV-413I, Instructions for Estimating PA Personal Income Tax (For Individuals Only), to determine the proper amount of estimated tax payments.

### Estimated Quarterly Withholding Payments for Nonresident Owners

Under Act 22 of 1991, entities must withhold and pay quarterly Pennsylvania personal income tax for nonresident partners and shareholders (owners) that are individuals, estates or trusts.

This quarterly withholding tax payment is based on each nonresident owner's expected share of distributable Pennsylvania-source taxable income.

When there has been a change in an accounting period that requires filing of a short-year return, the tax is calcu-

lated on an annualized basis. See Short-Year Return.

The entity must indicate the amount of Pennsylvania personal income tax it withheld for each nonresident on the PA-20S/PA-65 Schedule NRK-1 and provide the PA-20S/PA-65 Schedule NRK-1 to each nonresident owner.

The entity uses REV-414 P/S, Partnerships and PA S Corporations Withholding Tax Worksheet, and REV-413 P/S, Instructions for Withholding PA Personal Income Tax from Nonresident Owners by Partnerships and PA S Corporations, to determine the proper amount of withholding.

Partnerships or PA S corporations filing a nonresident quarterly withholding tax return for the first time should use PA-40ESR (F/C), Declaration of Estimated Tax or Estimated Withholding Tax for Fiduciaries and Partnerships. Thereafter, the department will provide preprinted forms PA-40ES (P/S).

The partnership or PA S corporation makes the initial quarterly tax withholding payment and all future quarterly tax withholding payments under the federal employer identification number, name and address of the entity.



**CAUTION:** Do not use the seven-digit PA Account ID number or the 10-digit Revenue ID number for submitting non-resident withholding payments.



**IMPORTANT:** An entity cannot withhold Pennsylvania personal income tax on another entity or a Pennsylvania resident individual, and should not withhold Pennsylvania personal income tax on income from intangibles such as interest, dividends or sale of stock.



If the entity did not make any or sufficient estimated quarterly withholding tax payments for its nonresident owners, a final payment or catch-up payment can be made with the filing of the PA-20S/PA-65 Information Return or PA-40 NRC, Nonresident Consolidated Income Tax Return. Failure to remit withholding payments for all nonresident owners on a quarterly basis will result in the imposition of interest, penalty and underpayment

penalty. See Final Payment of Nonresident Withholding Tax for how and where to send the final nonresident withholding tax payment with the PA-20S/PA-65 Information Return.

Please review the instructions on the department's website for the PA-40 NRC, Nonresident Consolidated Income Tax Return, for how and where to send the final nonresident withholding tax payment with the PA-40 NRC, Nonresident Consolidated Income Tax Return.

Be sure to review the electronic option. See Fed/State Electronic Filing Option for Estimated Nonresident Individual Withholding Payments.

### **Overpayment/Adjustment of Withholding Tax for Nonresident Owners**

The PA-20S/PA-65 PA S Corporation/Partnership Information Return is for information purposes only.

It is not a return where you can indicate a refund or carry-forward credit. Payments submitted to this account are for nonresident tax withholding only and are held for transfer to the partner, member or shareholder (owner) as indicated on their individual tax returns. The department will not make the assumption that the entity paid more than was needed.

Under Act 22 of 1991, entities must withhold quarterly Pennsylvania personal income tax from nonresident partners and shareholders (owners) that are individuals, estates or trusts. This withholding tax is based on each nonresident owner's expected share of distributable Pennsylvania-source taxable income. The partnership, PA S corporation or limited liability company classified as a partnership or PA S corporation is required to remit the withholding tax to the department on a quarterly basis.

If the entity overpaid the nonresident withholding tax, the entity should pass through the total nonresident owners' withholding tax payment (including the overpayment) as PA Nonresident Tax Withheld on Line 6 of their PA Schedule NRK-1. The owners can then include the Line 6 amount as a tax payment on their respective PA-40,

Pennsylvania Income Tax Return, on Page 2, Line 17, Nonresident Tax Withheld from your PA Schedule(s) NRK-1.

If the entity did not pass through the overpayment of nonresident tax withholding to its nonresident owners on PA Schedule NRK-1, and if the entity wants a refund or to carry forward to the next tax year the entire amount of tax withheld or the excess over the withholding passed through to the nonresident owners that are individuals, estates or trusts (providing the entity did not file a PA-40 Nonresident Consolidated Income Tax Return), the entity must submit a written request to:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
NONRESIDENT WITHHOLDING  
TAX REFUND  
PO BOX 280600  
HARRISBURG PA 17128-0600

The request must be on company letterhead and include the entity's name, federal employer identification number, tax year, Social Security number(s) of the owner(s), amount of nonresident withholding paid, amount of nonresident withholding tax liability, the requested refund amount and/or carry-forward to the next tax year of nonresident withholding and reason for the request.

## **WHEN TO FILE**

File the PA-20S/PA-65 Information Return for the current calendar year or the fiscal year that begins in the current tax year and ends in the next tax year. Use the current tax year return for a tax year of less than 12 months that begins and ends in the current tax year.

To remain consistent with the federal tax due date, the due date for filing 2016 Pennsylvania tax returns will be on or before midnight, April 18, 2017. The U.S. Postal Service postmark date on the envelope is proof of timely filing. If the return cannot be filed by the due date, request an extension of time to file.

For a calendar-year filer, file the current tax year PA-20S/PA-65 Information Return and PA-20S/PA-65 Schedules RK-1 and NRK-1 on or before April 18,

2017, including an extension date of Sept. 15, 2017.

For a fiscal-year filer, file the current tax year PA-20S/PA-65 Information Return and PA-20S/PA-65 Schedules RK-1 and NRK-1 on or before the 15th day of the fourth month following the close of the fiscal year including an extension date of five months after the original due date. If the due date falls on a Saturday, Sunday or business holiday, the entity must file the PA-20S/PA-65 Information Return no later than midnight on the first business day following the Saturday, Sunday or business holiday. The U.S. Postal Service postmark date on the envelope is proof of timely filing.

If the entity cannot file by the original due date, request an extension of time to file. See Extension of Time To File.

If the entity does not file its return by the original due date or extended due date and does not pay the tax due by the original due date, the department imposes late filing and underpayment penalties.

### **Tax Years**

Pennsylvania follows the same tax year as federal rules.

### **Calendar-Year Entity**

An entity that files on a calendar year basis reports all taxable income recognized between Jan. 1 and Dec. 31. See When To File.

### **Fiscal-Year Entity**

A fiscal year is a period of 12 consecutive months without regard to the calendar year. The fiscal year is designated by the calendar year in which it begins. A fiscal-year entity reports all taxable income recognized during the fiscal year. See When To File.

An entity may use a 52/53 week taxable year if it keeps its books on that basis.

### **Changing From a Fiscal-Year Entity to a Calendar-Year Entity**

To change from a fiscal-year filer to a calendar-year filer, the entity files a short-year return. See Short-Year Return. The entity then files the next calendar year on or before April 18, 2017, including an extension date of Sept. 15, 2017.



The entity is also required to submit a copy of its federal election Form 1128, Application to Adopt, Change or Retain a Tax Year, with both the short-year return and the calendar-year return.

### Short-Year Return

A short year is an accounting period shorter than one year and not a 52/53 week taxable year.

A short-year return is required for the following reasons:

- Changes in the annual accounting period. For example, the entity changes from a fiscal-year filer to a calendar-year filer; or
- An entity is in existence during only part of the tax year. For example, if the year is the initial year or final year for all entities; or, if the partnership or an entity formed as a limited liability company classified as a partnership for federal income tax purposes sells or exchanges 50 percent or more of ownership interest (technical termination).



**NOTE:** When there has been a change in an accounting period that requires filing of a short-year return, the nonresident withholding tax is calculated on an annualized basis.

### How To File a Short-Year Return

If the entity is required to file a short-year return, the entity must use the most recent PA-20S/PA-65 Information Return, schedules and forms on the department's website.

If the tax year on the forms is not the current tax year and/or the tax year for which the entity is filing, then the entity must cross out and write the correct tax year for which it is filing a short-year return.



**IMPORTANT:** Short-year returns are due on the 15th day of the fourth month following the end of the short period.



**TIP** If the entity is a calendar-year filer and files a short-year return, do not fill in the fiscal-year oval. A short-year return is not a fiscal-year return.

### Technical Termination

A technical termination occurs when there is a sale or exchange of 50

percent or more of the total interest in the partnership capital and profits within a 12-month period and the taxable year of the partnership closes.

The terminating partnership is required to file a short-year PA-20S/PA-65 Information Return for the taxable year ending with and including the date of its termination.

The new partnership is required to file a PA-20S/PA-65 Information Return for its taxable year beginning after the date of termination of the terminated partnership. The new partnership retains the employer identification number of the terminated partnership and its Revenue ID if it is a limited liability company.

When the new partnership files its PA-20S/PA-65 Information Return, it is required to list on the Partner/Member/Shareholder Directory all partners/members/shareholders (owners) involved with the entity within the tax year or in this case, short year.

## EXTENSION OF TIME TO FILE

If the entity cannot file the PA-20S/PA-65 Information Return on or before the original return due date, the entity can use REV-276, Application for Extension of Time to File, to file for a five-month extension. The department will now accept REV-276 Application for Extension of Time to File the PA20S/PA65. Information Return through the MeF Fed/State e-file program. See How to Obtain an Extension of Time to File.

The department will not grant an extension for more than five months, except for taxpayers outside the U.S.

An extension of time to file does not extend the payment deadline. Pay in full the amount reasonably estimated as the entity's Pennsylvania tax due on or before the original return due date.

### How To Obtain an Extension of Time to File

Follow one of these procedures when applying for an extension of time to file:

1. If the entity owes catch-up nonresident withholding tax with the

PA-20S/PA-65 Information Return, the entity may either pay by check with a timely filed REV-276, Application for Extension of Time to File or submit the application and payment through the MeF Fed/State e-file program on or before the original return due date. The return due date is usually April 15 for calendar-year filers and the 15th day of the fourth month following the close of the fiscal year for fiscal-year filers. The department will not send a letter granting the extension but it will write if there is a question concerning the request.

2. If the entity has an extension of time to file federal Form 1065 or federal Form 1120S and does not owe Pennsylvania nonresident withholding tax on the PA-20S/PA-65 Information Return, the department will automatically grant the entity a five-month extension of time to file the PA-20S/PA-65 Information Return. The entity is not required to submit REV-276 or federal Form 7004 before the original return due date. However, federal Form 7004 must be submitted with the filing of the PA-20S/PA-65 Information Return.
3. If the entity does not have an extension to file federal Form 1065 or federal Form 1120S, request an extension on REV-276, and file it in sufficient time for the department to consider and act upon it prior to the original return due date. The REV-276 can be filed electronically through the MeF Fed/State program.



**CAUTION:** The REV-276 can be filed in paper form or electronically. If the entity filed the PA-20S/PA-65 Information Return and did not file the REV-276 but requested an extension for the federal return, federal Form 7004 can be substituted for the REV-276. In such cases, include a copy of the federal Form 7004 with the PA-20S/PA-65 Information Return.

A five-month extension of time to file requires PA Schedules RK-1 and NRK-1 to be filed one month earlier and allows owners time to prepare and file their personal income tax returns within

the normal six-month time period for individuals.

### Qualifying for the Extension

When an entity requests an extension of time to file, it does not extend the filing time for its owners. Each owner must individually obtain an extension of time to file the PA-40, Individual Income Tax Return, PA-41, Fiduciary Income Tax Return, or PA-40 NRC, Nonresident Consolidated Tax Return.

An extension of time to file a PA-20S/PA-65 Information Return does not extend the time for full payment of the catch-up nonresident withholding tax, nor does it preclude an assessment of interest and penalty for late payment and underpayment of tax due.

To get the extra time to file you must:

1. Properly estimate the current year nonresident withholding tax liability using the information available to you.
2. Enter the tax liability on REV-276.
3. File REV-276 by the original due date of the return along with a check or money order for the current year tax liability, or file electronically through the MeF Fed/State program.

### Mail REV-276 To:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280504  
HARRISBURG PA 17128-0504

### How to File the PA-20S/PA-65 Information Return with an Extension

When filing a PA-20S/PA-65 Information Return for which an extension was requested, the entity must:

- Fill in the "Extension Requested" oval at the top of the PA-20S/PA-65 Information Return;
- Submit a copy of federal Form 7004 with the PA-20S/PA-65 Information Return if the entity did not file REV-276, Application for Extension of Time to File;
- Submit a statement with the federal confirmation number received if the entity electronically filed a federal extension and did not file REV-276;

- List the extension payment amount on the statement and be sure to include the total nonresident withholding payments on PA-20S/PA-65 Schedule NW, Line B.



**NOTE:** Do not submit REV-276, Application for Extension of Time to File, with the PA-20S/PA-65 Information Return.

### Extension Due Dates

See When To File.

## WHERE TO FILE

The entity must submit the PA-20S/PA-65 Information Return, the PA-20S/PA-65 supporting schedules and the PA-20S/PA-65 Schedules RK-1 and/or NRK-1, and if applicable, the final withholding payment or "catch-up" payment.

Where the entity should mail the PA-20S/PA-65 Information Return depends whether there is a final withholding payment or "catch-up" payment. Choose the appropriate mailing address:

#### Without Payment:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280509  
HARRISBURG PA 17128-0509

#### With Payment:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280502  
HARRISBURG PA 17128-0502

See Final Payment of Nonresident Withholding Tax for how and where to send the final nonresident withholding tax payment.

## HOW TO PAY

### Final Payment of Nonresident Withholding Tax

#### Payment by Check

If your tax preparation software prints a Nonresident Withholding Voucher facsimile approved by the Department of Revenue, that voucher may be used when no preprinted voucher (PA-40ES (P/S)) is available. Mail the voucher and check to the department. See Where to File.

In the event the entity does not have a preprinted voucher and your software

is unable to produce a department approved facsimile, make the check or money order payable to PA Dept. of Revenue. Write the entity's federal employer identification (FEIN) and 2016 Final Nonresident Withholding on the check or money order. The department will need the entity's FEIN to accurately apply the payment. See Where to File.

Do not staple the check or money order to the return.

### Electronic Payment

See Fed/State Electronic Filing Option For Estimated Nonresident Individual Quarterly Withholding Payments.



**IMPORTANT:** The nonresident individual quarterly withholding tax payment may not be submitted through Electronic Funds Transfer (EFT), credit/debit cards or e-TIDES.

### Mailing Address for Final Withholding Payment

See Where To File.

### RECORDKEEPING

An entity must retain all books and records for at least seven years. All amounts reported on the PA-20S/PA-65 Information Return, schedules and forms are subject to verification and audit by the department.

Information that substantiates the calculation of basis for an entity or individual, in any investment (partnership, S corporation, stocks, bonds, real estate, etc.), must be retained indefinitely or for at least four years after the investment is sold.

Information that substantiates the calculation of basis in an investment shall include but not be limited to broker statements, Pennsylvania and other states' income tax returns, PA-20S/PA-65 Schedules RK-1, closing statements, etc.

## COMPLETING PA-20S/PA-65 INFORMATION RETURN

### Foreign Address Standards

If the entity is located outside the U.S., it is important to write the foreign address

on the PA-20S/PA-65 Information Return, according to U.S. Postal Service standards.

Failure to use these standards may delay processing or correspondence necessary to complete the processing of the return.

To comply with foreign address standards, use the following rules when completing the address portion of the PA-20S/PA-65 Information Return.

- Eliminate apostrophes, commas, periods and hyphens. Write the address in all uppercase letters. Addresses should have no more than five lines and must be written in ink or typewritten. Pencil is unacceptable.
- Write the name of the entity in the spaces provided. Mail may not be addressed to a person in one country "in care of" a person in another country. The address of items sent to general delivery must indicate the addressee's full legal name.
- Write the address in the space provided, including street and building name and number, apartment or suite numbers, city name and city or provincial codes. All lines of the delivery address should appear in all capital letters. The house number and street address or box number must appear when mail is addressed to towns or cities.
- Write only the name of the country in the space provided for the city or post office.
- **Do not** include any entries in the state field other than "OC" for Out-of-Country. The ZIP Code spaces should remain blank on the PA-20S/PA-65 Information Return. Providing the address in this format will better ensure that the department is able to contact the entity if we need additional information.

Below are two examples of properly completed foreign addresses:

#### Foreign Address Examples

Name: DIETRICH ENTERPRISES  
Address 1: HARTMANNSTRASSE 7  
Address 2: 5300 BONN 1

City: GERMANY  
State: OC  
ZIP Code: Leave Blank

#### OR


Name: DIETRICH ENTERPRISES  
Address 1: 117 RUSSELL DR  
Address 2: LONDON W1PGHQ  
City: ENGLAND  
State: OC  
ZIP Code: Leave Blank

#### Canada (Only) Address Example

The following address format may be used when the postal address delivery zone number is included in the address:

Name: NORTH BY NORTHWEST CO  
Address 1: 1010 CLEAR ST  
Address 2: OTTAWA ONT K1A OB1  
City: CANADA  
State: OC  
ZIP Code: Leave Blank

If the entity's address does not fit in the available spaces on the PA-20S/PA-65 Information Return using this format, please include a separate statement with the return showing the complete address.

 **NOTE:** For a Canadian address, two spaces must exist between the province abbreviation and the postal code. Please review the example where "ONT" (province abbreviation) and "K1A OBI" (postal code) are separated by two spaces in the address format.

## PAGE 1

#### Filing Status

Fill in the oval for a PA S corporation (PA-20S) or partnership (PA-65).

#### P-S KOZ

Fill in the oval if approved for the Keystone Opportunity Zone and include a PA Schedule P-S KOZ – Keystone Opportunity Zone.

#### TAX IDENTIFICATION NUMBERS

#### Federal Employer Identification Number (FEIN)

Enter the entity's nine-digit federal employer identification number.

#### Revenue ID

Enter the Revenue ID, if applicable.

The Revenue ID is a unique, 10-digit number assigned by the Department of Revenue to replace the seven-digit Tax Account ID number. The seven-digit Tax Account ID number may be used if the 10-digit Revenue ID number is not known.

#### North American Industry Classification System (NAICS) Code

Provide your six-digit federal NAICS code identified on Page 1 of your federal Form 1120S or 1065.

#### Inactive Oval


Fill in the oval if the entity was inactive during the 12-month accounting period. The entity would still be required to file the PA-20S/PA-65 Information Return, but schedules and accompanying documentation do not need to be submitted.

#### Business Name

Enter the complete name of the entity or business.

#### First Line of Address

Enter the street address. If the address has an apartment number, suite or RR number, enter after the street address. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

 **NOTE:** If the street address along with the apartment number, suite or RR number does not fit on the first line of address, then enter the street address on the second line of address and the apartment number, suite or RR number on the first line of address.


#### Second Line of Address

Enter the post office box, if applicable. If there is no post office box, leave the second line of address blank. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

For a foreign address, enter the city or municipal designation. See Foreign Address Examples.

For a Canadian address, enter the city and postal delivery zone number. See Canada (Only) Address Example.



 **IMPORTANT:** If the address has only a post office box, enter on the first line of address.

### City or Post Office, State and ZIP Code

Enter the appropriate information in each box. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.


For Canadian and foreign addresses, the bottom line of the address should show only the country name, written in full (no abbreviations) and in capital letters. See Foreign Address Example and Canada (Only) Address Example.

## FILL IN THE APPLICABLE OVALS

### Method of Accounting

Indicate whether the entity uses the accrual, cash or other method of accounting. If other, please identify your method of accounting on a supplemental statement.

Income is calculated under the method of accounting on which the entity regularly calculates income in keeping its books. If the department determines that no method has been regularly used or the method used does not clearly reflect income, the calculation of income shall be made under a method that clearly reflects income in the opinion of the department.

 **IMPORTANT:** If the entity changes its method of accounting, it must submit a copy of its federal Form 3115, Application for Change in Accounting Method, with its PA-20S/PA-65 Information Return.

### Extension Requested

Fill in the oval if the entity requested an extension of time to file the PA-20S/PA-65 Information Return. If the entity did not file REV-276, Application for Extension of Time to File, submit a copy of federal Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns with the PA-20S/PA-65 Information Return. See Extension of Time To File.

### Initial Year

If the entity is in the first year of operations, fill in the oval.

### Fiscal Year

A fiscal year is a 12-month accounting period, other than a calendar year, ending on the last day of a particular month, for example July 1 to June 30 of the following year.

The entity must use its federal taxable year for Pennsylvania purposes.

If the entity does not file on a calendar-year basis, fill in the fiscal-year oval. Enter the month, day and year (MMD-DYY) when the fiscal year begins and ends.



**NOTE:** A fiscal year includes anything other than a calendar year.



**TIP** Do not fill in the fiscal-year oval for a calendar-year filer whose initial year does not begin 01/01/20XX or for a calendar-year filer whose final return does not end 12/31/20XX.

If the entity is a calendar-year filer and files a short-year return, do not fill in the fiscal-year oval.

### Short Year

Fill in the short-year oval if the entity is filing a short-year return. Enter the month, day and year (MMDDYY) when the short year begins and ends.

For more information about short-year returns, refer to Short-Year Return.

### Final Return

Fill in the oval if the PA S corporation or partnership went out of business during its taxable year.

### FEIN/Name/Address Change

Fill in the oval if the FEIN, name or address on the PA-20S/PA-65 Information Return differs from the last filed return.

### Amended Information Return

Fill in the oval if amending the PA-20S/PA-65 Information Return. The entity must also provide amended PA-20S/PA-65 Schedules RK-1 and NRK-1 to its owners.

For more information on amended returns, see How To Amend PA-20S/PA-65 Information Return.

### Date Activity Began In Pennsylvania

The entity must include the date activity began in Pennsylvania.

If the entity is only filing the PA-20S/PA-65 Information Return because it has a Pennsylvania resident shareholder or partner and has no Pennsylvania-source income, then the date activity began in Pennsylvania would be the date the shareholder or partner moved to Pennsylvania or the date a partnership or S corporation had a resident partner or shareholder invest in the entity.

## LINE INSTRUCTIONS

### PAGE 1 - PART I

### Total Taxable Business Income (Loss) from Operations Everywhere

In Part I, report the entity's income (loss) from all business operations from all sources within and from outside Pennsylvania.

#### LINE 1a

### Taxable Business Income (Loss) from Operations Everywhere

Enter the calculation from PA-20S/PA-65 Schedule M for the total amount of taxable income (loss) from its own separate operation of a business, profession or farm from the books and records of the entity.

This is the entity's total business income (loss) from all of its operations everywhere. Do not include income (loss) received as an owner from other entities providing PA-20S/PA-65 Schedules RK-1 or federal Schedules K-1 on Line 1a. Report only the income (loss) from an entity's own operations from all locations inside Pennsylvania and outside Pennsylvania. If a negative amount, fill in the "loss" oval.

#### LINE 1b

### Share of Business Income (Loss) from All Other Entities

Enter the share of net profit (loss) that the entity receives as a partner or shareholder (owner). Also complete the PA-20S/PA-65 Information Return,

Part IX on Page 3. If a negative amount, fill in the "loss" oval.

If the entity completing the PA-20S/PA-65 Information Return received a PA-20S/PA-65 Schedule RK-1 from another entity in which it is a shareholder or partner (owner), this PA-20S/PA-65 Schedule RK-1 already has the classified income (loss) amount for completing PA-20S/PA-65 Information Return.

On Line 1b, enter the business income (loss) received as an owner from all other entities reported on the PA-20S/PA-65 Schedules RK-1, Line 1.

### LINE 1c

#### Total Income (Loss)

Add Line 1a and Line 1b. Include losses when determining Line 1c. If Line 1c is a negative, fill in the "loss" oval.

### LINE 1d

#### Previously Disallowed Corporate Net Income (CNI) Deductions

##### PA S Corporations Only

Enter the total amount of previously disallowed corporate net income deductions on this line.

The department allows any deduction that it disallowed when the corporation was subject to Pennsylvania corporate net income tax as an additional deduction while the corporation is in a PA S corporation status, except a net loss carry forward deduction.

Pennsylvania limits the additional deduction to the same extent and in the same manner that the additional deduction would have been allowed had the corporation remained subject to Pennsylvania corporate net income tax.

Any previously disallowed Pennsylvania corporate net income deduction shall be separately determined and must be taken against net profits from a business, profession or farm. Resident shareholders are allowed the full amount of any previously disallowed Pennsylvania corporate net income deduction.

Nonresident shareholders are allowed only a previously disallowed Pennsylvania corporate net income deduction to the extent that the deduction would have been considered a deduction against income from sources within Pennsylvania in the year disallowed.

Submit a separate statement for each deduction indicating the basis for each claimed deduction and the year in which the deduction was disallowed. Use the earliest previously disallowed Pennsylvania corporate net income deduction first.

#### Disallowed Accelerated Depreciation on Tax Preference Items

Pennsylvania allows accelerated depreciation of tax preference items that were disallowed when the corporation was subject to Pennsylvania corporate net income tax as an additional deduction, to the extent and amount allowed had the corporation remained subject to Pennsylvania corporate net income tax. For further information, refer to the department's regulations in 61 Pa. Code §153.14.

### LINE 1e

#### Total Adjusted Business Income (Loss)

Subtract Line 1d from Line 1c. Include losses when determining Line 1e. If a negative amount, fill in the "loss" oval.

## PAGE 1 - PART II

#### Apportioned/Allocated PA-Taxable Business Income (Loss)

In Part II, an entity that has business operations within and outside Pennsylvania must allocate or apportion its income (loss), costs, expenses and liabilities if it has an owner that is:

- A nonresident individual;
- A resident or nonresident estate or trust;
- A PA S corporation; or
- A partnership



**NOTE:** If the entity's operations are entirely within Pennsylvania, the amounts in Part I will be the same as the amounts in Part II, PA Source Column. Part

II, Outside PA Column, will have all zero amounts.

When an entity operates a business that is neither wholly within nor wholly outside Pennsylvania and is required to allocate or apportion its income (loss), it allocates by separate accounting if both of the following conditions are met:

- The business operations within Pennsylvania and the business operations outside Pennsylvania constitute independent profit centers. This means there are no transfers of finished or partly finished goods, raw materials, supplies, services, or operational assets interspersed; each center is free to buy outside; and because of geographical location, no center is in direct competition with another; and
- The entity retains its books so that the amounts of revenues, costs, and expenses attributable to Pennsylvania operations can be properly disclosed.

For more information on the apportionment and allocation of income from a business carried on partly within and partly outside Pennsylvania, refer to 61 Pa. Code §109.5.

If the entity must apportion income, submit a completed PA-20S/PA-65 Schedule H, Apportioning Income from a Business, Profession or Farm derived from sources both within and outside Pennsylvania. Please review the PA-20S/PA-65 Schedule H instructions on the department's website.



**NOTE:** For reporting income (loss) from another entity on Lines 1b, 2b and 2f, the Pennsylvania entity needs both a PA-20S/PA-65 Schedule RK-1 and NRK-1 so it can pass through Pennsylvania-source amounts and amounts from sources outside Pennsylvania to its owners.

If the other entity is not a PA S corporation, partnership or entity formed as a limited liability company that is classified as a partnership or S corporation for federal

income tax purposes, a supplemental statement must be provided by the other entity that shows Pennsylvania-source amounts in the same class in which the other entity received the income.

#### LINE 2a

##### **Net Business Income (Loss) Outside PA Column**

Subtract Line 2e in Part II from Line 1a in Part I. Enter the difference. If a negative amount, fill in the "loss" oval.

#### LINE 2b

##### **Share of Business Income (Loss) from Other Entities**

###### **Outside PA Column**

Subtract Line 2f in Part II from Line 1b in Part I. Enter the difference. If a negative amount, fill in the "loss" oval.

If the entity completing the PA-20S/PA-65 Information Return received a PA-20S/PA-65 Schedule RK-1 and/or NRK-1 from another entity in which it is an owner, it already has the classified income (loss) amount for completing the PA-20S/PA-65 Information Return.

If the entity completing this PA-20S/PA-65 Information Return received a federal Schedule K-1 from another entity, in which it is an owner, it should request a PA-20S/PA-65 Schedule RK-1 and/or NRK-1 from the entity because the federal Schedule K-1 does not classify income for Pennsylvania personal income tax purposes.

#### LINE 2c

##### **Previously Disallowed PA-Source Corporate Net Income Deductions Outside PA Column PA S Corporations Only**

Subtract Line 2g in Part II from Line 1d in Part I. Enter the difference.

#### LINE 2d

##### **Calculate Adjusted/Appportioned Net Business Income (Loss) Outside PA Column**

Add Line 2a and Line 2b and then subtract Line 2c. Enter the difference. Include losses when determining Line

2d. If a negative amount, fill in the "loss" oval.

#### LINE 2e

##### **Net Business Income (Loss) PA-Source Column**

If the entity has operations inside and outside of Pennsylvania, enter the apportioned income (loss) from PA-20S/PA-65 Schedule H, Line 7. If the entity only has operations inside Pennsylvania, enter the allocated income (loss) from its PA-20S/PA-65 Schedule M, Part B, Section G, Line 1. If a negative amount, fill in the "loss" oval.

#### LINE 2f

##### **Share of Business Income (Loss) from Other Entities**

###### **PA-Source Column**

Enter the sum of Line 1 of all the PA-20S/PA-65 Schedules NRK-1 received. If a negative amount, fill in the "loss" oval.

If the entity completing the PA-20S/PA-65 Information Return received a PA-20S/PA-65 Schedule NRK-1 from another entity in which it is an owner, this PA-20S/PA-65 Schedule NRK-1 already has the classified income (loss) amount for completing PA-20S/PA-65 Information Return.

If the entity completing the PA-20S/PA-65 Information Return received a federal Schedule K-1 from another entity in which it is an owner, it should request a PA-20S/PA-65 Schedule RK-1 and/or NRK-1 from the entity because the federal Schedule K-1 does not classify income for Pennsylvania personal income tax purposes.

#### LINE 2g

##### **Previously Disallowed PA-Source Corporate Net Income Deductions**

###### **PA-Source Column PA S Corporations Only**

Multiply Line 1d by the applicable apportionment figure(s) from the RCT-101, PA Corporate Tax Report, for the year(s) in which the deduction was disallowed.

The corporation's corporate net income apportionment decimal for the year in which the deduction was disallowed may be used. Enter the result.

#### LINE 2h

##### **Calculate Adjusted/Appportioned Net Business Income (Loss)**

###### **PA-Source Column**

Add Line 2e and Line 2f and then subtract Line 2g. Include losses when determining Line 2h. If a negative amount, fill in the "loss" oval.

#### PAGE 1 - PART III

##### **Allocated Other PA PIT Income (Loss)**


In Part III, the entity must allocate all other income (loss) to Pennsylvania source and outside Pennsylvania. If all owners are full-year nonresident individuals, zero amounts must be shown in Part III on Lines 3 and 4.

#### LINE 3

##### **Interest Income from PA Schedule A PA-Source**

Enter the amount from PA-20S/PA-65 Schedule A, Line 8. This is the total amount of interest income earned by the entity.

The entity must report on Line 3 any amount it received for the use of its money that it does not include in another income class. Do not report on Line 3 interest from obligations that are statutorily free from Pennsylvania tax.

 Include in Line 1a, not Line 3, interest from assets to generate working capital and interest used in operating commercial activities (generally from current assets) when determining net profit (loss).

#### LINE 4

##### **Dividend Income from PA Schedule B**

###### **PA-Source**

Enter the amount from PA-20S/PA-65 Schedule B, Line 9.

Dividend income is any distribution to the entity of cash or property from the



accumulated earnings and profits or current earnings and profits of a corporation, association, or business trust.



Include in Line 1a, not Line 4, dividend income from assets to generate working capital and dividend income that the entity used in operating its commercial activities (generally current assets) when determining its net profit (loss).

#### LINE 5

##### **Net Gain (Loss) from PA Schedule D**

##### **PA-Source Column**

A PA-20S/PA-65 Schedule D must be completed for any net gain (loss) income.

These figures represent net gains or net income, less net losses, derived from the sale, exchange or disposition of property including real or personal, whether tangible or intangible, as determined in accepted accounting principles and practices per 72 P.S. §7303(a)(3).

#### LINE 5a

##### **Net Gain (Loss) from PA Schedule D**

##### **Outside PA Column**

If the entity disposed of property located outside Pennsylvania, complete PA-20S/PA-65 Schedule D-III and Schedule D-IV. Enter the amount from PA-20S/PA-65 Schedule D-III, Line 16. If a negative amount, fill in the "loss" oval.

#### LINE 5b

##### **Net Gain (Loss) from PA Schedule D**

##### **PA-Source Column**

If the entity disposed of property located inside Pennsylvania from information on its books and records complete PA-20S/PA-65 Schedule D-I and Schedule D-II. Enter the amount from PA-20S/PA-65 Schedule D-I, Line 16. If a negative amount, fill in the "loss" oval.



**IMPORTANT:** Include the sales, exchanges or dispositions of in-

ventories and/or stock-in-trade in determining net business income (loss).

#### LINE 6

##### **Rent/Royalty Net Income (Loss) from PA Schedule M, Part B**

##### **Net Rent**

Net rents and royalties from real and tangible personal property located in Pennsylvania are allocable to Pennsylvania.

##### **Net Royalties**

Patent, copyright and other intangible royalties are allocable to Pennsylvania to the extent that the payer of such income uses the patent or copyright in Pennsylvania.

A business uses a patent in Pennsylvania to the extent that it employs the patent in the production, fabrication, manufacturing, or other processing in Pennsylvania, or to the extent that it produces a patented product in Pennsylvania.

A business uses a copyright in Pennsylvania to the extent that it prints or otherwise publishes in Pennsylvania.

#### LINE 6a

##### **Rent/Royalty Net Income (Loss) from PA Schedule M, Part B**

##### **Outside PA Column**

Complete and submit a PA-20S/PA-65 Schedule E. The PA-20S/PA-65 Schedule E should reflect what is reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or S Corporation.

Complete PA-20S/PA-65 Schedule M, Part B to reflect your Pennsylvania adjustments. From PA-20S/PA-65 Schedule M, Part B, Section G, enter the difference of Line 2 minus Line 1. If a negative amount, fill in the "loss" oval.

#### LINE 6b

##### **Rent/Royalty Net Income (Loss) from PA Schedule M, Part B**

##### **PA-Source Column**

Complete and submit a PA-20S/PA-65 Schedule E. PA-20S/PA-65 Schedule E should reflect what is reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or S Corporation.

Complete PA-20S/PA-65 Schedule M, Part B to reflect your Pennsylvania adjustments. Enter the amount from PA-20S/PA-65 Schedule M, Part B, Section G, Line 1. If a negative amount, fill in the "loss" oval.

#### LINE 7a

##### **Estates or Trusts from PA Schedule J**

##### **Outside PA Column**

Complete and submit the PA-20S/PA-65 Schedule J. If the entity is a beneficiary of an estate or trust, enter the total figure from the PA-20S/PA-65 Schedule J, Column (d) minus the total figure from PA-20S/PA-65 Schedule J, Column (c).

#### LINE 7b

##### **Estates or Trusts from PA-20S/PA-65 Schedule J**

##### **PA-Source Column**

Complete and submit PA-20S/PA-65 Schedule J. If the entity is a beneficiary of an estate or trust, enter the total figure from the PA-20S/PA-65 Schedule J, Column (c).

#### LINE 8

##### **Gambling and Lottery Winnings (Loss) from PA Schedule T**

Complete and submit PA-20S/PA-65 Schedule T. The entity must enter any winnings it realizes from gambling or lotteries including cash prizes from the Pennsylvania Lottery. It may not deduct any expenses related to realizing such income. However, it can offset winnings and losses within this income class. Submit with Schedule T a detailed statement/explanation of any amount reported, including information such as the source of winnings, specific amounts, etc.

#### LINE 8a

##### **Gambling and Lottery Winnings (Loss) from PA Schedule T Outside PA Column**

Enter the total figure from the PA-20S/PA-65 Schedule T, Column (b) Line 5

minus the total figure from PA-20S/PA-65 Schedule T, Column (a) Line 5. If a negative amount, fill in the "loss" oval.

## LINE 8b

### Gambling and Lottery Winnings (Loss) from PA-20S/PA-65 Schedule T

#### PA-Source Column

Enter the total figure from the PA-20S/PA-65 Schedule T, Column (a) Line 5. If a negative amount, fill in the "loss" oval.

## LINE 9

### Total Other PA PIT Income (Loss)

#### PA-Source Column

If all owners are full-year residents, a combination of Pennsylvania residents and nonresidents; or a part-year resident, then Line 9 equals the sum of Lines 3, 4, 5a, 5b, 6a, 6b, 7a, 7b, 8a and 8b. Include losses.

If all owners are full-year nonresident individuals, then Line 9 equals the sum of Lines 5b, 6b, 7b and 8b. Include losses. If a negative amount, fill in the "loss" oval.

**TIP** When determining income (loss) distributable to their owners for each class of income, the entity does not use Line 9 because the income (loss) is reflected in Line 9.

The figure on Line 9 is a sum of total other income used in calculating accumulated adjustments account and the total in Part IV.

### Summary

Below are cross references for resident and nonresident partners and shareholders (owners) for Parts I, II, III from the PA-20S/PA-65 Information Return and the line entries on the PA-20S/PA-65 Schedule(s) RK-1 or NRK-1.

#### Resident Partners and Shareholders (Owners)

##### Business Income

|                 |               |
|-----------------|---------------|
| PA-20S/PA-65    | Schedule RK-1 |
| Part I, Line 1e | RK-1, Line 1  |

##### Interest Income

|                  |               |
|------------------|---------------|
| PA-20S/PA-65     | Schedule RK-1 |
| Part III, Line 3 | RK-1, Line 2  |

#### Dividend Income

|                  |               |
|------------------|---------------|
| PA-20S/PA-65     | Schedule RK-1 |
| Part III, Line 4 | RK-1, Line 3  |

#### Net Gain (Loss) - Schedule D

|                      |               |
|----------------------|---------------|
| PA-20S/PA-65         | Schedule RK-1 |
| Part III, Line 5a+5b | RK-1, Line 4  |

#### Rent, Royalty, Net Income

|                      |               |
|----------------------|---------------|
| PA-20S/PA-65         | Schedule RK-1 |
| Part III, Line 6a+6b | RK-1, Line 5  |

#### Estates or Trust Income

|                      |               |
|----------------------|---------------|
| PA-20S/PA-65         | Schedule RK-1 |
| Part III, Line 7a+7b | RK-1, Line 6  |

#### Gambling and Lottery Winnings

|                      |               |
|----------------------|---------------|
| PA-20S/PA-65         | Schedule RK-1 |
| Part III, Line 8a+8b | RK-1, Line 7  |

#### Nonresident Partners and Shareholders (Owners)

##### Business Income

|                  |                |
|------------------|----------------|
| PA-20S/PA-65     | Schedule NRK-1 |
| Part II, Line 2h | NRK-1, Line 1  |

#### Net Gain (Loss) - Schedule D

|                   |                |
|-------------------|----------------|
| PA-20S/PA-65      | Schedule NRK-1 |
| Part III, Line 5b | NRK-1, Line 2  |

#### Rent, Royalty, Net Income (Loss)

|                   |                |
|-------------------|----------------|
| PA-20S/PA-65      | Schedule NRK-1 |
| Part III, Line 6b | NRK-1, Line 3  |

#### Estates or Trust Income

|                   |                |
|-------------------|----------------|
| PA-20S/PA-65      | Schedule NRK-1 |
| Part III, Line 7b | NRK-1, Line 4  |

#### Gambling and Lottery Winnings

|                   |                |
|-------------------|----------------|
| PA-20S/PA-65      | Schedule NRK-1 |
| Part III, Line 8b | NRK-1, Line 5  |

## PAGE 2 - PART IV

### Total PA S Corporation or Partnership Income (Loss)

In Part IV, the entity calculates the difference between its book income (loss) and the income (loss) it reports on the PA-20S/PA-65 Information Return. The amounts reported to Pennsylvania differ from the federal reportable income (loss).

## LINE 10

### Total Income (Loss) per Books and Records

The entity uses book income to arrive at this figure. This figure (book income) would not take into account any federal or Pennsylvania tax adjustments. This

figure is not Pennsylvania income after adjustments.

Enter the total entity income (loss) from its underlying Pennsylvania books and records for the taxable year. If a negative amount, fill in the "loss" oval.

Interest and gains that the entity derives from government obligations, exempt from Pennsylvania personal income tax, do not pass through to its owners as taxable.

Conversely, the entity cannot use losses on Pennsylvania personal income tax-exempt obligations to offset taxable income.

In addition, the entity must include such income (loss) on Line 10 as the Pennsylvania-exempt income (loss) affects each owner's basis. Accordingly, the entity passes through to each owner its pro rata share of the Pennsylvania-exempt income (loss).

## LINE 11

### Total Reportable Income (Loss)

If the entity has only full-year resident individual owners or both full-year resident and nonresident individual owners, add Line 1e and Line 9. If a negative amount, fill in the "loss" oval.

If entity has only full-year nonresident individual owners, add Line 2h and Line 9. If a negative amount, fill in the "loss" oval.

## LINE 12

### Total Nontaxable/Non Reportable Income (Loss)

This amount represents the difference between book income and Pennsylvania-reportable income (loss). Subtract Line 11 from Line 10 (include losses). If a negative amount, fill in the "loss" oval.

## PAGE 2 - PART V

### Pass Through Credits

In Part V, the entity is required to identify pass through credits that it reports on the PA-20S/PA-65 Information Return.

**LINE 13a****Total Other Credits. Submit PA 20S/PA-65 Schedule OC**

Enter amount from Schedule OC, Line 17. The entity is required to submit the PA-20S/PA-65 Schedule OC detailing all credits.

**LINE 13b****Resident Credit**

This figure is based on composite returns filed in other states on behalf of the individual owners. It is an individual tax credit that is passed through to owners. Submit a copy of the out-of-state returns for all resident credits claimed.

Certain PA S corporations are not taxed as S corporations in other states. Report taxes paid in those other states on PA-20S/PA-65 Schedule OC, Line 5.

The resident credit for taxes paid to other states or countries is now only available as a credit for taxes paid to a state of the U.S., the District of Columbia, the Commonwealth of Puerto Rico or any territory or possession of the U.S. The credit for taxes paid to foreign countries is no longer permitted as a credit against a Pennsylvania Personal Income Tax liability.

**LINE 14a****Pennsylvania 2016 Quarterly Tax Withholding Payments/Extension Payment for Nonresident Owners**

Enter the amount from PA-20S/PA-65 Schedule NW, Line B. The amount on Line 14a will include an extension payment (if one was made) as listed and reported on PA-20S/PA-65 Schedule NW, Line B.

**LINE 14b****Final Payment of Nonresident Withholding Tax**

Enter the amount from PA-20S/PA-65 Schedule NW, Line D. See How To Pay.

**LINE 14c****Total Pennsylvania Income Tax Withheld**

Add Line 14a and Line 14b. Enter the total here.

**International ACH Transactions**

The Federal Office of Foreign Assets Control has imposed additional reporting requirements on all electronic banking transactions that directly involve a financial institution outside of the territorial jurisdiction of the U.S. These transactions are called international ACH transactions (IAT). Presently, the Pennsylvania Department of Revenue does not support IAT debit transactions. Taxpayers who instruct the department to process electronic banking transactions on their behalf are certifying that the transactions do not directly involve a financial institution outside of the territorial jurisdiction of the U.S. at any point in the process.

**PAGE 2 - PART VI****Distributions for Partnerships**

On Lines 15 through 18, list all distributions and guaranteed payments made to partners during the taxable year.

**LINE 15****Distributions of Cash, Marketable Securities, and Property (Do not include guaranteed payments.)**

Distributions that the partnership makes that represent cash, marketable securities, and other property that are not guaranteed payments may represent Pennsylvania-taxable income to the extent the distributions exceed the resident partner's outside basis.

**Non-liquidating Distributions from Partnership to Partner**

With respect to non-liquidating distributions from a partnership to a resident partner, the partner's adjusted basis in its partnership interest is decreased to the extent of the partnership's Pennsylvania personal income tax adjusted basis in the property distributed to the partner.

In non-liquidating distributions, a resident partner will recognize taxable income to the extent that the partnership's

adjusted basis in the property distributed exceeds the resident partner's adjusted basis in its partnership interest. Although not taxable to a nonresident partner, the nonresident partner reduces his or her economic investment by the partnership's adjusted basis in the property distributed.

**Liquidating Distributions from Partnership to Partner**

With respect to liquidating distributions from a partnership to a resident partner, the partner's adjusted basis in its partnership interest is decreased to the extent of the fair market value of the property distributed to the partner.

In liquidating distributions, a resident partner will recognize taxable gain on PA-40 Schedule D to the extent that the fair market value of the property distributed exceeds the resident partner's adjusted basis in its partnership interest.

**LINE 16****Guaranteed Payments for Capital or Other Services**

Enter the total guaranteed payments for capital or other services made to the partners.

Pennsylvania personal income tax law characterizes such distributions as:

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



**IMPORTANT:** Pennsylvania personal income tax law does not allow a deduction for guaranteed payments for capital or if services have not been rendered.



## LINE 17

### All Other Guaranteed Payments for Services Rendered

Enter the total guaranteed payments to partners to the extent that the partnership makes guaranteed payments for services rendered directly in the production of income for a Pennsylvania income class.

The partnership characterizes guaranteed payments to partners in the following manner:

- To the extent paid for services rendered directly in the production of income from a business, profession, or farm, the guaranteed payments are gross income from that income class; and
- To the extent paid for services rendered directly in the production of rental or royalty income, the guaranteed payments are gross income from that income class.



If guaranteed payments have been deducted in calculating business income, include these payments on Line 17.

## LINE 18

### Guaranteed Payments to Retired Partners

Guaranteed payments to retired partners are not taxable if the exception as stated in IRC §1402(a) (10) is met. Only nontaxable amounts should be reported on Line 18. For further detail, refer to the Pennsylvania Personal Income Tax Guide, Chapter 16.



**IMPORTANT:** Pennsylvania does not allow a deduction for guaranteed payments for the use of capital, or if services have not been rendered. Each recipient partner reports its classified income (loss) in each class by adding its guaranteed payments to the amounts in their PA-20S/PA-65 Schedule(s) RK-1 and/or NRK-1, Part IV.

## LINE 19

### Distributions from PA Accumulated Adjustments Account

Generally, distributions from the Pennsylvania accumulated adjustments

account (AAA) are not taxable to the extent of the resident shareholder's basis. The resident shareholder will recognize taxable income to the extent that the Pennsylvania AAA distribution exceeds the shareholder's basis in its stock.

### Distributions for PA S Corporations

On Lines 19 and 20, list all distributions made to shareholders during the taxable year.

A distribution that a PA S corporation makes from its Pennsylvania accumulated earnings and profits before becoming a PA S corporation is dividend income to its resident shareholders. Other distributions can represent a non-taxable return of the resident shareholders' stock basis.

Nontaxable return of basis distribution will reduce each resident shareholder's basis in the stock first. If the non-taxable return of distribution exceeds the shareholder's basis in its stock holdings, the shareholder can apply the excess against the basis of any indebtedness of the PA S corporation to that shareholder. If the distribution exceeds the shareholder's basis in the stock and the PA S corporation's indebtedness, the resident shareholder must report a gain from the disposition of property.

If the PA S corporation distributes appreciated property, it must treat the distribution as if it sold the property to the shareholders at fair market value. Such a distribution will produce a gain from the sale of property that the PA S corporation will have to report as net gain (loss) from the sale, exchange or disposition of property.

Although not taxable to a nonresident shareholder, the nonresident shareholder reduces its economic investment by the fair market value of the property distributed.

A nonresident cannot deduct losses in excess of its economic investment in the PA S corporation.



**IMPORTANT:** When distributions are determined from all income sources and the shareholders are only full-year nonresident individual owners, the Pennsylvania AAA distri-

bution should be factored by the PA-20S/PA-65 Schedule H percentage to prevent premature depletion of the Pennsylvania AAA balance, which may trigger a possible tax event.

## LINE 20

### Distributions of Cash, Marketable Securities, and Property

Distributions by the PA S corporation from its C corporation earnings and profits are Pennsylvania-taxable dividends. Include such Pennsylvania-taxable dividends on each shareholder's PA-20S/PA-65 Schedule RK-1, Line 3.

Distributions of cash, marketable securities and property (other than dividends) in excess of the shareholder's Pennsylvania AAA are considered a tax-free return of investment to the extent of the resident shareholder's basis in its stock. The resident shareholder will recognize taxable income to the extent that the fair market value of such distribution exceeds the resident shareholder's basis in its stock.

Although not taxable to a nonresident shareholder, the nonresident shareholder reduces its economic investment by the fair market value of the property distributed.

## PAGE 2 - PART VII

### Other Information

This section asks a series of questions similar to federal Schedule B. The questions should be answered with a "Yes" or "No." If the entity answered "Yes", supplemental statements must be submitted.

## LINE 1

The entity must answer "Yes" to Question 1 if during the tax year:

- It owned an interest in another partnership, foreign (located outside the U.S.) or domestic; or
- It was the tax owner of a foreign entity, located outside the U.S. that was disregarded as an entity separate from its owner under federal Treasury Regulations §301.7701-2 and 301.7701-3. The tax owner of a foreign entity located outside

the U.S. that was disregarded as an entity is treated as owning the assets and liabilities of the foreign disregarded entity located outside the U.S. for purposes of U.S. income tax law.

The statement must show each entity's name, federal employer identification number (if any), and the country under whose laws the entity was organized if the entity directly or indirectly owned at least a 10 percent interest in any other foreign (located outside the U.S.) or domestic partnership.

## LINE 2

The entity must answer "Yes" if there are any tax-exempt partners/members/shareholders and select tax-exempt as the owner type on the PA-20S/PA-65 Schedule RK-1 and/or NRK-1.

## LINE 3

The entity must answer "Yes" and submit a statement indicating entity and foreign location if the partnership, S corporation or limited liability company classified as a partnership or PA S corporation had any owners located outside the U.S. at any time during the tax year.

## LINE 4

The entity must answer "Yes" if there was a distribution of property or a transfer (e.g., by sale or death) of a partner/member interest during the tax year (partnership only). If the entity answered yes, submit a statement indicating the disposing partner, the acquiring partner and the amount paid for the interest.

## LINE 5

The entity must answer "Yes" if the federal government changed taxable income as originally reported for any prior tax year for which amended returns have not been filed in Pennsylvania. If the entity answered "Yes", submit a statement indicating tax year and include a copy of the Revenue Agent's Report.

If required, the entity must file an amended return within 30 days of the adjustment.

## LINE 6

The entity must answer "Yes" if either 1 or 2 of the following apply to the partnership:

1. At any time during the tax year, the entity had signature or other authority over a bank account, securities account, or other financial account in a foreign country (outside the U.S.); and
  - The combined value of the accounts was more than \$10,000 at any time during the calendar year; and
  - The accounts were not with a U.S. financial institution.
2. The entity owns more than 50 percent of any partnership or 50 percent of the stock in any corporation that would answer the question "Yes" based on item 1 above.

If the entity answered yes:

- Submit a statement with the name of the foreign country/countries; and
- Submit a copy of federal FINCEN Form 114 that was filed with the Department of the Treasury.

## LINE 7

The entity must answer "Yes" if it is involved in a reportable transaction, listed transaction, or registered tax shelter within this return.

Federal Form 8886, Reportable Transaction Disclosure Statement, must be submitted with any return on which a deduction, loss, credit or any other tax benefit is claimed or is reported; or any income the partnership reported from an interest in a registration-required tax shelter. If the partnership is required to file this form with the federal return, submit a copy with the partnership's PA-20S/PA-65 Information Return.

A reportable transaction is any transaction as defined in Treasury Regulation 1.6011-4 and includes, but is not limited to:

- A confidential transaction, which is offered to an entity under conditions of confidentiality and for which the entity has paid a minimum fee;
- A transaction with contractual protections, which provides the entity with the right to a full or partial refund of fees if all or part of the intended tax consequences from the transaction are not sustained;
- A loss transaction under IRC §165, which is at least \$10 million in any one year or \$20 million in any combination of tax years;
- A transaction with a significant book-tax difference; and
- A transaction where the entity is claiming a tax credit of greater than \$250,000 and held the asset for less than 45 days.

A listed transaction is a specific reportable transaction, or one that is substantially similar, which has been identified by the IRS to be a tax avoidance transaction.

A registered tax shelter is any investment that must be registered with the Internal Revenue Service under IRC §6111.

## LINE 8

The entity must answer "Yes" if the entity filing as a partnership has other partnerships as partners.

## LINE 9

The entity must answer "Yes" if tax credits were sold.

If the entity answered "Yes", submit a statement identifying the buyer, the Social Security number or federal employer identification number, the type and amount of credit sold and the sales price.

## LINE 10

The entity must answer "Yes" if it changed its method of accounting for federal income tax purposes during this tax year.

Pennsylvania does not allow the four-year spread of the effect in accounting

method change under IRC §481. The effect of the change must be recognized entirely in the year of the change.

## LINE 11

The entity must answer “Yes” if it entered into any like-kind exchanges under IRC §1031 for the current tax year.

If the entity answered “Yes”, submit federal Form 8824.

If Section 179 properties are involved submit the information provided to the owners on their federal Schedules K-1.

## LINE 12

Enter the Pennsylvania-apportionment decimal from PA-20S/PA-65 Schedule H-Corp used for calculating CNI tax. If using special apportionment, enter that decimal here.

## PAGE 3 - PART VIII

### Accumulated Adjustments Account and Accumulated Earnings and Profits

#### PA S Corporations Only

The Pennsylvania accumulated adjustments account (AAA) should not equal the federal AAA, because Pennsylvania AAA is based on Pennsylvania tax principles; however, Pennsylvania parallels certain federal calculation rules in arriving at Pennsylvania AAA, such as the following:

- The Pennsylvania AAA is based upon the Pennsylvania personal income tax income (loss) and distributions.
- The PA S corporation’s AAA reflects only the income (loss) and distribution from the inception of the election of PA S corporation status.
- The PA S corporation does not make an adjustment for any income (loss) that is not enumerated in Pennsylvania personal income tax law or any non-deductible Pennsylvania personal income tax expense.

**Example.** For Pennsylvania personal income tax purposes, tax-exempt in-

come is not added to income subject to Pennsylvania personal income tax.



**IMPORTANT:** The AE&P column is for former C corporations only. If an entity has been an S corporation from inception, this column will always be zero.

## LINE 1

### Balance at the Beginning of the Taxable Year

For the corporation’s first tax year as a PA S corporation, enter zero. In subsequent years, enter the ending balance from the prior year’s account. If a negative amount, fill in the “loss” oval.



**NOTE:** If an S corporation had no prior earnings in Pennsylvania, the beginning AAA would be zero.

## LINE 2

### Total Reportable Income from Part IV, Line 11

Enter the total Pennsylvania-reportable income from the PA-20S/PA-65 Information Return, Part IV, Line 11.

**Do not** enter a loss from Part IV, Line 11 on this line.

## LINE 3

### Other Additions - Submit an Itemized Statement

Enter other additions to the Pennsylvania AAA. **Do not** enter non-taxable income. Submit an itemized statement of the additions reported on this line.

**Example.** If an S corporation acquired another S corporation, the AAA in the acquired S corporation would be included in this line. The itemized statement must include the name(s) of the S corporation purchased and federal employer identification number(s).

## LINE 4

### Loss from Part IV, Line 11

Enter the loss from Part IV, Line 11 of the PA-20S/PA-65 Information Return.

## LINE 5

### Other Reductions - Submit an Itemized Statement

Enter other reductions to the Pennsylvania AAA. **Do not** enter Pennsylvania non-deductible expenses associated with non-taxable income. Submit an itemized statement of the reductions reported on this line.

**Example.** If an S corporation acquired another S corporation, the negative AAA in the acquired S corporation would be included in this line. The itemized statement must include the name(s) of the S corporation purchased and federal employer identification number(s).

## LINE 6

### Sum of Lines 1 through 5

Enter the sum of Line 1 through Line 5. If a negative amount, fill in the “loss” oval.

## LINE 7

### Distributions

Enter all distributions other than dividend distributions. Dividend distributions are not part of the Pennsylvania AAA.

**IMPORTANT:** When distributions are determined from all income sources and the shareholders are only full-year nonresident individual owners, the Pennsylvania AAA distribution should be factored by the PA-20S/PA-65 Schedule H percentage to prevent premature depletion of the Pennsylvania AAA balance, which may trigger a possible tax event.

## LINE 8

### Balance at Taxable Year-End

Subtract Line 7 from Line 6. Enter the total. If a negative amount, fill in the “loss” oval.

If a PA S corporation reverts to being a corporation subject to corporate net income tax, it may distribute the balance of its Pennsylvania AAA to shareholders as a non-taxable return of capital to the extent of basis. Such distributions,



however, will reduce the shareholder's basis in the C corporation.

If the distributions exceed the resident shareholder's basis in the stock of the former PA S corporation, the shareholders must report the distributions as taxable gains on the sale, exchange or disposition of property to the extent of Pennsylvania AAA.

## PAGE 3 - PART IX

### Ownership in Pass Through Entities

If the entity received income (loss) from an S corporation, partnership, estate or trust, limited liability company or any other pass through entity including a qualified subchapter S subsidiary (QSSS), list the federal employer identification number and name and address of each entity.

If the income (loss) is from a qualified subchapter S subsidiary, enter "yes" in the qualified subchapter S subsidiary box.

The entity filing the PA-20S/PA-65 Information Return would list in Part IX all entities in which it is a shareholder, member, partner or beneficiary.

An S corporation can be a member, partner or beneficiary in a limited liability company, partnership, estate or trust, respectively. An S corporation cannot own another S corporation unless the other corporation is a qualified subchapter S subsidiary.

A partnership can be a member, partner or beneficiary in a limited liability company, partnership, estate or trust, respectively. A partnership cannot be a shareholder in an S corporation.

The entities listed in Part IX provide a Schedule RK-1 and NRK-1 to the entity filing the PA-20S/PA-65 Information Return. However, a qualified subchapter S subsidiary does not issue a PA Schedule K-1.

The entity must report the income from PA Schedules RK-1 and NRK-1 in the same class of income on the PA-20S/PA-65 Information Return.

The entity reports pass through business income from PA Schedules RK-1

and NRK-1 on the PA-20S/PA-65 Information Return, Parts I and II.

Income from PA-20S/PA-65 Schedule RK-1 less the amount reported on PA-20S/PA-65 Schedule NRK-1 is reported in the Outside PA column and income from PA-20S/PA-65 Schedule NRK-1 is reported in the PA Source column on the PA-20S/PA-65 Information Return.



**NOTE:** If additional space is needed, submit on a separate statement. Do not submit additional copies of Page 3 from the PA-20S/PA-65 Information Return.

## PAGE 3 - PART X

### WHO MUST SIGN

#### Paper-Filed Returns

##### General Partner, Principal Officer or Authorized Individual Signature and Name

The PA-20S/PA-65 Information Return must be signed and dated.

The entity has not filed a valid PA-20S/PA-65 Information Return unless it is properly signed. The individual signing the return must be a general partner, principal officer or individual expressly authorized to sign.

The PA S corporation or partnership official signing the return verifies by written declaration, under penalties of perjury, that he or she personally has examined the PA-20S/PA-65 Information Return and its accompanying schedules and to the best of his or her knowledge, PA-20S/PA-65 Information Return is true, correct and complete.

The PA S corporation or partnership official that is responsible for signing the PA-20S/PA-65 Information Return must sign it by hand; signature stamps or labels are not acceptable, and include his or her title, date and daytime phone number.

The responsible official must submit all required schedules with the PA-20S/PA-65 Information Return, including the PA-20S/PA-65 Schedules RK-1 and NRK-1 for each owner, and Schedule H-Corp for each corporate owner.

#### Preparer's Signature and Name

A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program. Pennsylvania follows federal guidelines for signature requirements for the preparer.

If a partner, shareholder or employee of the entity completes the PA-20S/PA-65 Information Return, the paid preparer's space should remain blank. In addition anyone who prepares the PA-20S/PA-65 Information Return but does not charge the entity should not complete the paid preparer section.

Anyone who prepares a PA-20S/PA-65 Information Return for a fee or incident to the performance of services for which the preparer charges a fee, e.g., an attorney provides legal services for a fee and includes for free, the preparation of the PA-20S/PA-65 Information Return, must complete the required paid preparer information listed below:

- Print or type the paid preparer's name in the space provided.
- Sign the return in the space provided for the paid preparer's signature.
- Fill in the other areas in the "Paid Preparer Use Only" section.
- Print or type the paid preparer's company or corporation name and federal employer identification number, if applicable.
- Print or type the paid preparer's Preparer Tax Identification Number (PTIN). If you are a paid preparer, you must use a PTIN issued by the Internal Revenue Service (IRS) to identify yourself in the paid preparer section of the tax return.
- Give a copy of the return to the taxpayer.

If someone prepares the return at no charge, the paid preparer's area need not be completed.

#### Electronically Filed Returns

An electronic return must be signed by a general partner, principal officer or authorized individual.

An electronic return must also be signed by the paid preparer, if applicable.

Two signature options are available:

1. PA-8879-P, Pennsylvania e-File Signature Authorization for PA S Corporation/Partnership Information Return (PA-20S/PA-65) – Directory of Corporate Partners (PA-65 Corp); or
2. PA-8453-P, PA S Corporation/Partnership Information Return (PA-20S/ PA-65) – Directory of Corporate Partners (PA-65 Corp) Tax Declaration for a State e-File Return.

#### **PA-8879-P Form**

The federal self-select PIN option consists of two PINs, one for the taxpayer and one for the practitioner.

In order for the department to accept the federal self-select PIN as a signature, software developers must display a jurat/disclosure statement (similar to the language on the PA-8453-P and meeting the requirements of 72 P.S. §7333 and 61 Pa. Code §121.23) attached as Page 3 to PA-8879-P.

Taxpayers and Electronic Return Originators (ERO) must complete PA-8879-

P when using this method and consenting to electronic funds withdrawals.

The department requires the ERO to retain completed PA-8879-P forms for three years after the due dates of the returns or the dates the returns were filed electronically, whichever is later.

**Do not** mail these forms to the department.

#### **PA-8453-P Form**

If a taxpayer elects not to use the federal self-select PIN option or if the state submission is filed as a state stand-alone (no link to an original federal submission), the department requires the ERO to retain completed PA-8453-P forms for three years after date the returns were filed electronically:

**Do not** mail these forms to the department. PA-8453-P must be completed and signed by all appropriate parties before the return is transmitted electronically.

In the event the department selects an electronic return for examination, the ERO may be required to provide the

PA-8879-P form and, if appropriate, the PA-8453-P form within five business days of the request. A percentage of these forms will be randomly requested yearly for monitoring compliance.

#### **E-File Opt-Out Oval**

Mandatory e-filing is now required for third party practitioners who prepare 11 or more PA-20S/PA-65 returns. Entities that prefer their preparers to complete a paper return should fill in the opt-out e-filing oval.

**Instructions for PA-20S/PA-65 Directory**

Partner/Member/Shareholder Directory

PA-20S/PA-65 Directory (05-16)

**GENERAL INFORMATION****Purpose of Schedule**

PA S corporations, partnerships or limited liability companies filing as partnerships or PA S corporations for federal income tax purposes use PA-20S/PA-65 Partner/Member/Shareholder Directory to list each partner/member/shareholder (owner) involved with the entity within the tax year.

**COMPLETING THE  
PARTNER/MEMBER/  
SHAREHOLDER  
DIRECTORY****Business Name**

Enter the complete name of the entity or business as shown on the PA-20S/PA-65 Information Return.

The entity must list its partners/members/shareholders on this schedule.

**FEIN**

Enter the nine-digit federal employer identification number (FEIN) of the entity or business as shown on the PA-20S/PA-65 Information Return.

Complete all of the following for all partners/members/shareholders.

**LINE INSTRUCTIONS****LINE 1 THROUGH 6****Code**

Enter the type of owner using the following codes:

- B = Bank Financial Institution
- PI = Part-Year Resident Individual (S corporation only)

- T = Trust
- DE = Disregarded Entity
- I = Insurance Company
- P = Partnership
- S = S Corporation
- RI = Resident Individual
- L = LLC taxed as a Partnership
- LC = LLC taxed as a C Corporation
- LS = LLC taxed as a PA S Corporation
- C = C Corporation
- NR = Nonresident Individual
- E = Estate
- X = Exempt

**SSN/FEIN**

Enter the applicable nine-digit Social Security number or nine-digit federal employer identification number (FEIN) of each partner/member/shareholder.

**Revenue ID**

Enter the Revenue ID for the following owner types:

- B = Bank Financial Institution
- I = Insurance Company
- LC = LLC taxed as a C Corporation
- C = C Corporation

The Revenue ID is a unique, 10-digit number assigned by the Department of Revenue to replace the seven-digit Tax Account ID number. The seven-digit Tax Account ID number may be used if the 10-digit Revenue ID number is not known. One of these numbers must be provided.

**OWNERSHIP PERCENTAGE****Partnership**

Enter the owner's percentage of ownership at the close of the taxable year.

**PA S Corporation**

Enter the owner's weighted average percentage of ownership for the taxable year.

**NAME/ADDRESS**

Enter the complete name, address, city, state and ZIP code of the partner/member/shareholder involved with the entity within the tax year.



**NOTE:** To list additional owners make a copy of the Directory.