

# FALL TAX SEMINAR

# 2014



**pennsylvania**  
DEPARTMENT OF REVENUE





COMMONWEALTH OF PENNSYLVANIA

Fall 2014

Dear Seminar Participant:

Welcome to the Revenue Department's 32<sup>nd</sup> annual Fall Tax Seminar. Today you'll hear from experienced professionals about state tax laws, policies and procedures and the ways we're working to make the Department of Revenue more effective, accountable, and responsive to Pennsylvania's taxpayers. I hope you find this year's seminar to be informative and helpful as you assist the commonwealth's taxpayers.

My goals for improving the Department of Revenue focus on a number of core initiatives, including increasing efficiencies, improving customer service, enhancing revenue collections through equitable tax administration and following Governor Corbett's direction of doing all possible to foster a competitive business and job creation environment in the commonwealth.

The Department of Revenue's self-identified vision is to be a continually improving revenue agency valued for customer service and integrity, all while building public trust and becoming better stewards of taxpayers' money. I encourage you to stay informed of Revenue Department news and the progress we'll continue to make by visiting our website, [www.revenue.state.pa.us](http://www.revenue.state.pa.us), and signing up to receive our bimonthly e-newsletter, the *Pennsylvania Tax Update*. Instructions on how to subscribe are included in your seminar materials.

Thank you for attending today's seminar. We value your participation and your service to Pennsylvania taxpayers.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Meuser".

Dan Meuser  
Secretary of Revenue



# 2014 FALL TAX SEMINAR AGENDA

<u>TIME</u>	<u>TOPIC</u>	<u>PRESENTER</u>
8:00 AM - 9:30 AM	<b>INTRODUCTION AND PERSONAL INCOME TAX UPDATES</b> <ul style="list-style-type: none"> <li>• Tax Law Changes Effective in 2014</li> <li>• PA Forms Changes</li> <li>• Miscellaneous Issues</li> </ul>	<b>David A. Braden, CPA</b> <u>Bureau of Individual Taxes</u>
9:30 AM – 9:45 AM	<b>BREAK</b>	
9:45 AM – 11:00 AM	<b>PASS THROUGH BUSINESS UPDATES</b> <ul style="list-style-type: none"> <li>• Federal/Pennsylvania Differences</li> <li>• Common Errors</li> <li>• Legislation Updates</li> <li>• Court Cases – Update</li> </ul>	<b>Jane McCurdy, CPA or Linda Paterson, CPA</b> <u>Pass Through Business Office</u>
11:00 AM – 12:30 PM	<b>CORPORATION TAXES UPDATES</b> <ul style="list-style-type: none"> <li>• Prior Tax Changes Effective 2014</li> <li>• Report Review Timeframes</li> <li>• ITS &amp; Completing Reports</li> <li>• LLCs: Questions &amp; Answers</li> <li>• Termination/Dissolution of Business</li> <li>• Inactive Reports</li> </ul>	<b>Joseph Clover, Jeffrey A. Creveling, Greg Skotnicki, Valerie Greene or Glenwood Hoskin</b> <u>Bureau of Corporation Taxes</u>
12:30 PM - 1:30 PM	<b>LUNCH</b>	
1:30 PM – 2:15 PM	<b>REVENUE MODERNIZATION PROJECT INTEGRATED TAX SYSTEM CONVERSION UPDATE</b> <ul style="list-style-type: none"> <li>• ITS Background</li> <li>• Corporation Taxes – Implementation Review</li> <li>• Trust Fund Taxes - Implementation Status</li> <li>• Guidance for Practitioners</li> <li>• e-TIDES, TeleFile and Credit/Debit Card Program Updates</li> </ul>	<b>Donald Sheridan or Thomas L. Van Kirk</b> <u>Integrated Tax System Business Operations Office</u>
2:15 PM – 3:00 PM	<b>UNEMPLOYMENT COMPENSATION</b> <ul style="list-style-type: none"> <li>• Controlling UC Costs</li> <li>• Avoiding UC Delinquency Rates</li> <li>• Understanding UC Benefit Charge Notifications</li> <li>• Classifying Workers Properly</li> </ul>	<b>Anna Brennan, Patrick Bucci, or Gabriele Roman</b> <u>Department of Labor and Industry</u>
3:00 PM - 3:15 PM	<b>BREAK</b>	
3:15 PM - 4:15 PM	<b>BUSINESS USE TAX AND VOLUNTARY COMPLIANCE INITIATIVES</b> <ul style="list-style-type: none"> <li>• Voluntary Compliance Initiatives including Business Use Tax</li> <li>• Discovery Programs Update including Remote Seller</li> <li>• Other Compliance Programs and Enforcement Tools</li> </ul>	<b>James Foster, Kevin Milligan, or William Hartman, CPA,</b> <u>Enforcement Planning, Analysis, and Discovery</u>

In compliance with the Americans with Disabilities Act, the Department will make every effort to provide an alternative format to persons with disabilities about the content of the seminars.



***PERSONAL  
INCOME TAX  
UPDATES***



# Pennsylvania Personal Income Tax

David A. Braden, CPA



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## Synopsis

- Prior Year Legislation's impact on PA personal income tax (PIT)
- Forms and instructions changes
- Miscellaneous issues



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Section 303(a)(2) revised to allow direct expensing of start-up costs

- Follows IRC Section 195(b)(1)(A)
- Up to \$5,000 can be directly expensed
- Amounts over \$5,000 amortized over 180 months
- Reduction of expense begins at \$50,000
- Effective for tax years beginning after December 31, 2013



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Section 303(a.8) - added

A person who incurs intangible drilling and development costs shall capitalize the costs unless the taxpayer elects to currently expense the costs for Federal income tax purposes under section 263(c) of the Internal Revenue Code of 1986, as amended, and regulations thereunder, is required to capitalize the costs and recover them over a ten-year period in the taxable year the costs are incurred; or a person may elect to currently expense up to one-third of the costs in the taxable year in which the costs are incurred and recover the remaining costs over a ten-year period beginning in the taxable year the costs are incurred.



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## ▶ PA Legislation's Impact on PA PIT

### **Act 52 of 2013**

#### Section 303(a.8)

- Direct expense up to 1/3 IRC Section 59(e)(2) IDCs
- Amortization of remainder
- Effective for tax years beginning after December 31, 2013
- Oil, gas and geothermal wells covered by new law
- See Personal Income Tax Informational Notice 2013-04, Intangible Drilling & Development Costs



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## ▶ PA Legislation's Impact on PA PIT

### **Act 52 of 2013**

#### Additional issues:

- How the election is made
- The definition of a person in Section 301(o) includes a pass-through entity
  - “Person” means any individual, employer, association, fiduciary, partnership, corporation or other entity, estate, trust, resident or nonresident, and the plural as well as the singular number.
- PA-20S/PA-65 filing
- PA Schedules RK-1 or NRK-1 income
- Taxpayer receives federal K-1 only
- PA-20S/PA-65 Schedule M will include separate lines for the up to 1/3 expense and amortization amounts



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Additional issues:

- 2014 PA Schedule C includes separate lines for expense and amortization amounts
- Reporting dispositions of natural resource property
- Dry hole costs



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

#### Example 1

Jane Taxpayer – Directly incurs \$99,000 of IDCs and elects to expense them for federal purposes. Her PA options are as follows:

- Amortize over 10 years at \$9,900 per year
- Expense \$33,000 in year 1 and take \$6,600 per year for 10 years
- Expense less than \$33,000 in year 1 and amortize the remainder over 10 years



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

#### Example 2

XYZ Partnership – Directly incurs \$99,000 of IDCs and elects to expense them for federal purposes. XYZ Partnership is a PA partnership that files a PA-20S/PA-65. Its PA options are as follows:

- Same as Example 1 options
- The income reported on PA Schedules RK-1 and NRK-1 already reflects the election being made



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

#### Example 3

ABC Partnership – Directly incurs \$99,000 of IDCs and elects to expense them for federal purposes. ABC Partnership is a DE partnership. Its PA options are as follows:

- Same as Example 2 options if the PA-20S/PA-65 is filed
- If no PA-20S/PA-65 is filed, the partners must amortize their Section 59(e)(2) amounts over 10 years



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

#### Section 314(a) - revised

- Resident Credit for taxes paid to other states
- New definition for states added as follows:
  - “State” shall only include a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico and any territory or possession of the United States
- Eliminates the Resident Credit for taxes paid to foreign countries, effective for tax years beginning after Dec. 31, 2013



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

#### Section 315 - Contribution of Refunds

- Two new donation organizations were added effective with filing of 2014 tax year returns
  1. PA Children's Trust Fund
  2. American Red Cross



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Sections 324, 335 and 352 - PA-41 filing requirement changes

- Section 324(a) – revised:  
Estates or trusts with PA-source income required to make nonresident withholding payments on behalf of nonresident beneficiaries
- Section 335(c)(1) – revised:  
Estates or trusts with resident beneficiaries required to file a PA-41
- Section 335(c)(2) – added:  
Estates or trusts required to include copy of federal return with PA-41



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Sections 324, 335 and 352 - PA-41 filing requirement changes

- Section 335(c)(3) - added  
Estates or trusts required to provide beneficiary a PA Schedule RK-1 or NRK-1
- Section 335(g) – added  
Estates or trusts required to maintain accurate list of beneficiaries.  
  
Failure to keep an accurate list can result in tax, penalty and interest of estate or trust being the tax, penalty and interest of the trustee



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## PA Legislation's Impact on PA PIT

### Act 52 of 2013

Sections 324, 335 and 352 - PA-41 filing requirement changes

- Section 352(f)(3) - revised
  - Estates and trusts failing to file a return as required subject to \$250 penalty for each failure

All changes to fiduciary filing requirements effective for tax years beginning after Dec. 31, 2013



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## Forms and Instructions Changes

### PA-40 Form Changes

- Page 1 Change
  - Married, Filing Separate
    - Spouse's SSN now required
- Page 2 Changes
  - Donation lines (32 – 36) now require codes
    - Code A – PA Breast Cancer Coalition
    - Code B – Wild Resource Conservation Fund
    - Code C – Military Family Relief Assistance Program
    - Code D – Governor Casey Organ and Tissue Donation Awareness Trust Fund
    - Code E – Juvenile Diabetes Trust Fund
    - Code F – PA Children's Trust Fund
    - Code G – American Red Cross



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## Forms and Instructions Changes

### PA-40 Form Changes

DONATIONS	32. Refund donation line. Enter the organization code and donation amount. See the instructions. ....	32.
	33. Refund donation line. Enter the organization code and donation amount. See the instructions. ....	33.
	34. Refund donation line. Enter the organization code and donation amount. See the instructions. ....	34.
	35. Refund donation line. Enter the organization code and donation amount. See the instructions. ....	35.
	36. Refund donation line. Enter the organization code and donation amount. See the instructions. ....	36.



## Forms and Instructions Changes

### PA-40 Schedule A Changes

Schedule A now requires you to start with federal interest income amount

- Schedule A now required only if amounts on Lines 2 through 15 of the schedule regardless of amount of PA-taxable interest income
- If only entry is federal amount on Line 1, schedule is not required even if income amount is \$2,500 or more
- Line 2 requires tax-exempt interest income to be included



## Forms and Instructions Changes

### PA-40 Schedule A Changes

- Line 3 requires input of any add backs of expenses or other federal reductions taken, examples include:
  - Nominee interest;
  - Self-charged interest;
  - Amortization of bond premium; and
  - Expenses incurred to realize interest income.
- Description is required
- Statement may be required
- Line 4 is a subtotal line



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## Forms and Instructions Changes

### PA-40 Schedule A Changes

- Line 5 requires input of the interest reported from federal Schedule(s) K-1
- Line 6 requires input of interest income from PA state and local bonds
- Line 7 requires input of U.S. government interest
- Line 8 requires input of any other adjustments to reduce interest income, examples include:
  - Interest earned while a nonresident;
  - Forfeited interest penalty;



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## Forms and Instructions Changes

### PA-40 Schedule A Changes

- Line 8 examples (cont.):
  - Interest from installment sales included as gain for PA purposes;
  - Amortization of bond premium;
  - Description required; and
  - Statement may be required.
- Line 9 is a subtotal line
- Line 10 is for subtracting Line 9 from Line 4



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## Forms and Instructions Changes

### PA-40 Schedule A Changes

- Line 11 is for input of income from annuities reported on 1099-R with codes 1, 2, 3 or 7 and code D in Box 7
- Line 12 is for input of income from charitable gift annuities
- Line 13 is for input of IRC Section 529 plan distributions for non-educational purposes
- Line 14 is for input of taxable distributions for Health/Medical Savings accounts



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## Forms and Instructions Changes

### PA-40 Schedule A Changes

- Line 15 is for input of interest income from partnerships and S corporations
- Line 16 is the total of Lines 10 through 15 and should be PA-taxable interest
- Schedule is now a separate schedule
- Changes were made in preparation for conversion to the Integrated Tax System (ITS)
- See copy of PA-40 Schedule A



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## Forms and Instructions Changes

### PA-40 Schedule B Changes

Schedule B now requires you to start with federal dividend income amount

- Schedule B now required only if amounts on Lines 2 through 9 of the schedule regardless of amount of PA-taxable dividends and capital gains distributions income
- If only entry is federal amount on Line 1, schedule is not required even if income amount is \$2,500 or more
- Line 2 requires input of the dividends reported from federal Schedule(s) K-1



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## Forms and Instructions Changes

### PA-40 Schedule B Changes

- Line 3 requires the input of any tax-exempt dividends from PA or U.S. obligations
- Line 4 requires input of any other adjustments to reduce dividend income, examples include:
  - Dividends earned while a nonresident;
  - Capital gains distributions earned while a nonresident;
  - Description is required; and
  - Statement may be required.
- Line 5 is a subtotal line



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## Forms and Instructions Changes

### PA-40 Schedule B Changes

- Line 6 is for subtracting Line 5 from Line 1
- Line 7 requires input of any other adjustments to increase dividend income, examples include:
  - Excessive salary paid to a shareholder;
  - Distributions from non-PA S corporations;
  - Expenses incurred to realize dividend income;
  - Description is required; and
  - Statement may be required.
- Line 8 is for input of capital gains distributions



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## Forms and Instructions Changes

### PA-40 Schedule B Changes

- Line 9 is for input of dividend income from partnerships and S corporations
- Line 10 is the total of Lines 6, 7, 8 and 9 and should be PA-taxable dividends and capital gains distributions
- Schedule is now a separate schedule
- Changes were made in preparation for conversion to the ITS
- See copy of PA-40 Schedule B



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## Forms and Instructions Changes

### PA-40 Schedule J/T Changes

Schedules are now separate schedules

- Change was made in preparation for conversion to the ITS



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## Forms and Instructions Changes

### PA-40 Instructions Changes

General Instructions Changes Include:

- IDC information for 1/3 current expensing and amortization added;
- Direct expensing of \$5,000 of start-up expenses added;
- Lines 2 and 3 instructions changed for when to include Schedules A and B;
- Schedules C-EZ, G-R and G-S have been discontinued or eliminated;



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## Forms and Instructions Changes

### PA-40 Instructions Changes

General Instructions Changes Include (cont.):

- Line 17 will also show nonresident beneficiary withholding from estates and trusts;
- Use tax table has been revised for PA-taxable income levels above \$200,000;
- Line 32 -36 instructions revised for use of codes to identify donation organizations and additional information for the two new donation organizations;
- Same-sex married individuals may file joint returns; and



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## Forms and Instructions Changes

### PA-40 Instructions Changes

#### General Instructions Changes Include (cont.):

- Information on how/where to obtain copies of previously filed returns:
  - PA Department of Revenue  
Bureau of Administrative Services  
12<sup>th</sup> Floor Strawberry Square  
Harrisburg, PA 17128-1200
  - REV-677, Power of Attorney and Declaration of Representative, required if other than taxpayer making the request;
  - Additional evidence required for deceased taxpayer information.



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## Forms and Instructions Changes

### PA-40 Instructions Changes

#### Schedule W-2S Instructions Changes

- Instructions added for code 7D from annuities
  - Annuities with code D and codes 1, 2 and 3 also taxable as interest income

#### Schedule A Instructions Changes

- Instructions added for changes previously discussed

#### Schedule B Instructions Changes

- Instructions added for changes previously discussed



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## Forms and Instructions Changes

### PA-40 Instructions Changes

#### Schedule D Instructions Changes

- No longer requires the input for each gain or loss transaction
- Permits summary statements input from broker statements or other prepared statements if the property is listed on an exchange
- Changes were made in preparation for conversion to the ITS



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## Forms and Instructions Changes

### PA-40 Instructions Changes

#### Schedule SP Instructions Changes

- Additional instructions were added to include what types of nontaxable income is not included in eligibility income
- Examples include:
  - Social Security and Railroad Retirement benefits;
  - Pensions;
  - Sick pay and disability benefits;
  - Damage awards;
  - Personal use of employer property if not included in federal taxable income;
  - Civil service annuity payments.



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## Forms and Instructions Changes

### PA-41 Form Changes

- Two new lines added to the form:
  - Line 11, Tax Withheld for Nonresident Beneficiaries
  - Line 12, Total PA Tax Liability
- New PA Schedule N calculates PA-source income and tax withholding for nonresident beneficiaries for Line 11
- Withholding tax is not required to be included with estimated tax payments and not subject to EUP
- Withholding tax is paid with filing of return or with an extension of time to file
- Withholding tax is subject to late filing or late payment penalties plus interest



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## Forms and Instructions Changes

### PA-41 Schedules Changes

#### PA-41 Schedule A

- Changes are similar to PA-40 Schedule A changes
- Start with federal interest income amount
- Requirement for when to complete and submit same
- Differences are as follows:
  - No reduction for part-year residency period
  - No corresponding lines for annuity income, charitable gift annuities, Section 529 plan or Health/Medical Savings accounts
  - Separate lines for partnership and S corporation income reporting



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## Forms and Instructions Changes

### PA-41 Schedules Changes

#### PA-41 Schedule B

- Changes are similar to PA-40 Schedule B changes
- Start with federal dividend income amount
- Requirement for when to complete and submit same
- Differences are as follows:
  - No reduction for part-year residency period
  - Separate lines for partnership and S corporation income reporting
- Changes were made to Schedules A & B in preparation for conversion to the ITS



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## Forms and Instructions Changes

### PA-41 Schedules Changes

#### PA-41 Schedule N

- Schedule is required only if nonresident beneficiaries and PA-source income is distributed
- Part 1 calculates PA-source income
  - Lines for each class of income where PA-source income is possible
- Part 2 calculates nonresident beneficiary distributed/distributable income
  - PA-source income times nonresident beneficiary distributed/distributable income percentage

See copies of PA-41 Schedules A, B & N



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## Forms and Instructions Changes

### PA-41 Schedules Changes

#### PA-41 Schedule N (cont.)

- Part 3 calculates total nonresident withholding amount
  - Total PA-source income distributed/distributable to nonresident beneficiaries times 3.07 percent
- Part 4 calculates nonresident withholding for each nonresident beneficiary
  - PA nonresident withholding times each nonresident beneficiary's distributed/distributable income percentage



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## Forms and Instructions Changes

### PA-41 Schedules Changes

#### Schedule PA-41X

- Lines 11 and 12 were added to correspond with the changes to Form PA-41
  - Instructions were also added for the new lines



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## Forms and Instructions Changes

### PA-41 Instructions Changes

#### PA-41 Form

- Several new definitions have been added:
  - Resident Beneficiary
  - Nonresident Beneficiary
  - Person
  - Pennsylvania Source Income
  - Totten Trust
- New filing requirements added:
  - Nonresident estate or trust with PA resident beneficiary
  - Complete copy of federal 1041
  - Accurate list of beneficiaries



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## Forms and Instructions Changes

### PA-41 Instructions Changes

#### PA-41 Form

- New filing requirements added (cont.):
  - \$250 penalty for failure to file a return and failure to provide Schedules RK-1 or NRK-1
- Amended return instructions were revised for changing residency status for an existing trust
- Resident credit for taxes paid to other states were revised
- Lines 1 and 2 instructions for completing and submitting Schedules A and B were revised
- Nonresident beneficiary withholding instructions inserted



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## Forms and Instructions Changes

### PA-41 Instructions Changes

#### PA-41 Form

- Line 5 instructions revised
  - No longer permitted to report income using federal Schedule E
- Lines 11 and 12 instructions were added
- Lines 1 and 2 instructions for completing and submitting Schedules A and B were revised
- Nonresident beneficiary withholding instructions inserted



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## Forms and Instructions Changes

### PA-41 Schedule Instructions Changes

#### PA-41 Schedules A and B

- Instructions for when to complete and submit the schedules were revised as well as line instructions due to new method of reporting the income

#### PA-41 Schedule D

- Line 1 instructions were revised to allow for summary information to be reported using a brokerage or other summary statement
- Line 5 instructions were revised for when to include the PA Schedule D-1, (REV-1689)



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## Forms and Instructions Changes

### PA-41 Schedule Instructions Changes

#### PA-41 Schedule DD

- Instructions for using Schedule N to calculate PA-source income were added
- A tip for when corpus is distributed was added

#### PA-41 Schedule J

- Corrections were made for document references that were inaccurate

#### PA-41 Schedule NRK-1

- Purpose of the schedule paragraph was rewritten to correct errors



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## Forms and Instructions Changes

### PA-41 Schedule Instructions Changes

#### PA-41 Schedule NRK-1 (cont.)

- Revisions were made to several other paragraphs to correct errors and omissions
- Paragraph was added regarding residency status determination requirements for fiduciaries
- Paragraph was added for tax withholding requirements for nonresident beneficiaries
- Line 4 instructions were revised to incorporate reference to PA Schedule N
- Line 6 instructions were added for nonresident tax withheld and to incorporate reference to PA-41 Schedule N



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## Forms and Instructions Changes

### PA-41 Schedule Instructions Changes

#### PA-41 Schedule RK-1

- Purpose of the schedule paragraph was rewritten to correct errors
- Paragraph was added regarding residency status determination requirements for fiduciaries
- Line 6 instructions were revised for clarification of the instructions

#### PA-41 Schedule OI

- Purpose of Schedule paragraph revised to remove inaccurate information



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## Forms and Instructions Changes

### PA-1000 Form and Schedules Changes

#### PA-1000 Form

- Filing on Behalf of a Decedent oval added to Part B
- Line 11g now also includes annualized income amount for claims filed on behalf of decedents

#### PA-1000 Schedule A

- Now Schedule A only
- Now uses number-of-days method instead of number-of-months method for pro rata tax calculations
- Now also used for claims filed on behalf of decedents



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## Forms and Instructions Changes

### PA-1000 Form and Schedules Changes

#### PA-1000 Schedule B

- Now uses number-of-days method instead of number-of-months method for pro rata tax or rent calculations
- Schedule B moved and is now part of Schedule B/D/E

#### PA-1000 Schedule F

- Schedule F moved and is now part of Schedule F/G

#### PA-1000 Schedule G

- Calculates annualized income for decedent owners and renters to verify eligibility
- Uses number-of days-method



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## Forms and Instructions Changes

### PA-1000 Form and Schedules Changes

#### PA-1000 Schedule G (cont.)

- Alternative method permitted when claimant has significant income that is not earned in equal amounts during the year
- Worksheet using alternative method must be included
- Worksheet must clearly reflect how the alternative method of annualized income was determined
- Worksheet must provide explanation of reason for deviating from Schedule G



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## Forms and Instructions Changes

### PA-1000 Form and Schedules Changes

#### PA-1000 Schedule G (cont.)

- Examples for why to deviate include:
  - Large gain on sale of stock;
  - Lump sum IRA or annuity distribution(s);
  - Life insurance beneficiary payment is received; or
  - An inheritance is received.
- Proof of the deviation from the number-of-days method may be required by department
- Department will accept reasonable methods for calculating annualized income



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## Forms and Instructions Changes

### PA-1000 Instructions Changes

#### Deceased Claimant

- No longer required to have lived an entire year to file a claim
- Required to have lived at least one day and paid rent or taxes to have a claim filed on behalf of a deceased claimant
- A personal representative may also file a claim on behalf of a decedent in addition to having a check for a deceased claimant that filed for an entire year changed to be paid in the name of the personal representative



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## Forms and Instructions Changes

### PA-1000 Instructions Changes

#### Deceased Claimant

- Defined as:
  - “A claimant who died during the claim year who would otherwise be an eligible claimant [as a claimant age 65 or older; claimant under age 65, with a spouse age 65 or older who resided in the same household; widow or widower, age 50 to 64; or permanently disabled and age 18 to 64.]”
- Copy of death certificate is required to be included with claim form



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## Forms and Instructions Changes

### PA-1000 Instructions Changes

#### Deceased Claimant (cont.)

- Filing Tip:
  - Surviving spouses age 50 to 64 should file as a widow or widower if eligible
  - Surviving spouses age 65 and older should file as a claimant if eligible
  - Surviving spouses under age 50 may be able to file on behalf of a deceased claimant

#### Line 11g, Miscellaneous income and annualized income amount

- Instructions were added to include Schedule G for annualized income calculation



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## Miscellaneous Issues

### Department Adjustment Letters

#### Compensation Adjustments to Medicare Wages

- W-2 Reconciliation Worksheet not included with filing of return
  - Department is developing specifications so software vendors can make available with 2014 packages
  - Required if Medicare wages greater than PA wages and W-2 does not provide sufficient information
  - Last covered in 2011 Fall Tax Seminar presentation but also noted in booklet under When to Submit Form(s) W-2 item 5
  - If software not supporting, provide PDF copy or fax using DEX-93, Personal Income Tax Fax Cover Sheet



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## Miscellaneous Issues

### Department Adjustment Letters

#### Compensation Adjustments to Medicare Wages

- W-2 Reconciliation Worksheet not included with filing of return (cont.)
  - Department had errors with some rejections
  - Department refined criteria as tax season progressed
  - Further refinement continues for 2013 tax year returns and will also occur early next year when processing of 2014 returns begins
  - Process identified at least one PA employer not including proper amount of PA wages on W-2s
  - Avoid rejections by completing the W-2 RW, Reconciliation Worksheet



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- Adjustments based upon several factors:
  - Occupation of taxpayer
    - Need to provide actual occupation – other is not an occupation
    - Occupations were tied to employers and knowledge of those employers reimbursing expenses
  - Amounts of expenses
    - Department's normal procedure
  - Types of expenses
    - Commuting
    - Travel and meals and entertainment
    - Miscellaneous



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- Personal income tax does not follow federal rules
  - Unreimbursed business expenses must be:
    - Ordinary, customary and accepted in the industry or occupation in which you work;
    - Actually paid while performing the duties of your employment;
    - Reasonable in amount and not excessive;
    - Necessary to enable you to properly perform the duties of your employment; and
    - Directly related to performing the duties of your occupation or employment.



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- Personal income tax does not follow federal rules
  - Unreimbursed business expenses are not (cont.):
    - Dues and subscriptions to trade and professional publications;
    - Dues to fraternal organizations, professional societies, chambers of commerce or recreational club memberships;
    - Job hunting expenses;
    - Educational expenses unless questions answered in Part F of Schedule UE and required by employer to retain the position;



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- Personal income tax does not follow federal rules
  - Unreimbursed business expenses are not (cont.):
    - Expenses in excess of company fixed mileage allowances or per-diem allowances are not allowable unless allowances reimbursed by the company are included in compensation by the employer;
    - See the extensive list of other expenses that are not allowable in the PA-40 IN booklet.



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- What to do if your client receives(ed) a letter:
  - Evaluate the total cost in taxes for this year plus other tax years (future and previous);
  - Respond with copy of letter from employer regarding whether expenses are required to be incurred and if reimbursed for any expenses;
  - Provide copies of receipts, logs, mileage calculations etc. for any denied expenses and include summary information of the expenses;
  - Statements that the expenses have always been allowed in previous tax years are not acceptable proof



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## Miscellaneous Issues

### Department Adjustment Letters

#### Adjustments to Unreimbursed Business Expenses

- What to do if your client receives(ed) a letter (cont.):
  - Have the client pay the amount or accept the reduced refund if the client can't support the expenses claimed;
  - Notify clients that the department will continue to be looking at expenses in the coming years and *may* look back in some circumstances;
  - Review client expenses and/or summaries of expenses and make sure they have the documentation to support them;
  - PA refunds are not automatic.



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## Miscellaneous Issues

### Fraud Prevention

#### Identity Validation

- 1,050 identity validation letters sent
  - 547 valid responses received
  - 299 no responses
  - 61 invalid responses received
  - 143 outstanding letters at time of seminar preparation
- Savings of over \$112,000



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## Contact Information

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## Questions



## **INFORMATION NOTICE PERSONAL INCOME TAX 2013-04**

**Issued: December 02, 2013**

### **Intangible Drilling & Development Costs**

#### **Purpose**

This notice provides Personal Income Tax ("PIT") taxpayers with guidance on how to recover intangible drilling and development costs associated with oil, gas and geothermal wells.

The notice does not govern the treatment of intangible drilling costs ("IDCs") for Corporate Net Income Tax purposes regardless of whether such IDCs are incurred directly by a corporation or by a partnership with corporate partners.

#### **Effective Date**

The rule described in this Informational Notice is applicable to taxable years beginning after December 31, 2013.

#### **Background**

Act 52 of 2013 amended section 303 of the Tax Reform Code of 1971 (72 P.S. § 7303) by providing a rule for the capitalization of intangible drilling and development costs ("IDCs") and the amortization of such costs over a fixed period. It also provides for an election to currently expense a portion of IDCs.

Prior to Act 52, a person could not currently expense any IDCs for Pennsylvania Personal Income Tax purposes. Rather, a person was required to capitalize IDCs and recover them through amortization ratably over the life of the well.

#### **IDCs Defined**

For Pennsylvania Personal Income Tax purposes, IDCs are those costs properly reported as IDCs for Federal income tax purposes. See I.R.C. § 263(c), and the Treasury Regulations thereunder, for costs that qualify as IDCs.

#### **Capitalization and Recovery of IDCs**

Pursuant to Act 52, a person is generally precluded from expensing IDCs and instead must capitalize them and recover them through amortization ratably over a 10-year period beginning with the tax year in which they are incurred.

## **Election to Currently Expense a Portion of IDCs**

Act 52 provides for an election to currently expense a portion of IDCs. A person that incurs IDCs as defined under Section 263(c) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, may elect for Pennsylvania Personal Income Tax purposes to expense up to one-third of such costs in the tax year in which they are incurred and recover the remaining costs through amortization ratably over a 10-year period beginning in the tax year in which they are incurred. A person may expense IDCs for Pennsylvania Personal Income Tax purposes without regard to whether the person currently expenses IDCs for Federal Income Tax purposes under IRC § 263(c) or 59(e).

### **Who Makes the Election?**

The person directly incurring the IDCs is the only person eligible to make an election to currently expense up to one-third of the IDCs.

### **Method of Making Election**

The person directly incurring the IDCs shall make the election to expense up to one-third of the IDCs by taking a current expense deduction on his/her tax return. If an individual directly incurs the IDCs, the election is made on his/her PA-40 by simply showing the expense. If a partnership or S corporation directly incurs the IDCs, the election is made on its PA-20S/PA-65 by showing the expense. If the PA-20S/PA-65 is not filed, or no RK-1 is provided, then the IDCs must be amortized.

The election to currently expense a portion of a person's IDCs is not a one-time election. A person may elect each tax year to expense up to one-third of the IDCs that the person incurs during that tax year. A person may also choose not to currently expense any IDCs in a tax year even if the person elected to currently expense IDCs in a prior tax year.

### **Pass-Through Entity Issues**

If IDCs are directly incurred by a partnership or S corporation, such entity, as opposed to its partners or shareholders, is required to decide how to recover such IDCs. The method of recovering IDCs utilized by a partnership or S corporation is binding on and must be followed by such entity's partners or shareholders. If the partnership or S corporation does not make an election to expense the IDCs for Pennsylvania Personal Income Tax purposes, its partners or shareholders must capitalize and amortize their share of the IDCs ratably over a 10-year period beginning with the tax year in which they are incurred.

## **No Carry Forward of IDCs**

IDCs, whether recovered through current expensing or amortization, cannot be carried forward and deducted in a subsequent tax year regardless of whether the taxpayer derives a tax benefit from the IDCs.

## **When is an IDC Incurred?**

For Pennsylvania Personal Income Tax purposes, an IDC is “incurred” when the cost is required to be recorded on the person’s books according to the person’s method of accounting. A cash method taxpayer records an IDC when he/she/it pays such cost. An accrual method taxpayer records an IDC when the cost is fixed and determined, even if not yet paid.

## **Dry Hole IDCs**

Dry Hole IDCs (capitalized IDCs attributable to an unproductive exploratory well) are reported as a Pennsylvania Personal Income Tax Schedule D loss in the year in which the well is determined to be unproductive.

## **Disposition of Certain Oil and Gas Property**

Disposition of the oil and gas related property or entity on which the one-third expensing of IDCs was taken does not require the associated gain from such disposition to be treated as ordinary income for Pennsylvania Personal Income Tax purposes. All amortization and direct expensing of IDCs are adjustments to basis and will be reflected in the determination of the gain or loss on the sale, exchange or disposition of property.

## **Examples**

### **Example # 1**

Jane Taxpayer, an individual, directly incurs \$99,000 of intangible drilling and development costs in 2014. She elects to currently expense these costs for Federal income tax purposes. For Pennsylvania Personal Income Tax purposes, Jane Taxpayer has three options:

1. Capitalize the costs and recover \$9,900 per year in tax years 2014 through 2023;
2. Expense \$33,000 in 2014 and recover the remaining \$66,000 in \$6,600 per year increments in tax years 2014 through 2023; or
3. Expense less than \$33,000 in 2014 and recover the remainder ratably in tax years 2014 through 2023.

### **Example # 2**

Same as Example # 1, except that XYZ Partnership replaces Jane Taxpayer. For Pennsylvania Personal Income Tax purposes, XYZ Partnership has the same three choices as Jane Taxpayer in Example # 1. XYZ Partnership would make this choice by completing its PA-20S/PA-65 accordingly. XYZ Partnership's partners are bound by the decision XYZ Partnership makes and the income as reported on their respective RK-1s/NRK-1s will already reflect their share of IDC deductions.

### **Example # 3**

Same as Example # 2, except that ABC Partnership, a Delaware partnership with no PA-source income, replaces XYZ Partnership. For Pennsylvania Personal Income Tax purposes, ABC Partnership has the same three choices as XYZ Partnership in Example # 2. ABC Partnership would make this choice by completing a PA-20S/PA-65. If ABC Partnership chooses not to file a PA-20S/PA-65, ABC Partnership's partners are required to recover their share of ABC Partnership's IDCs ratably in tax years 2014 through 2023.



**PA SCHEDULE A**

Interest Income

PA-40 Schedule A  
(07-14)

**2014**

OFFICIAL USE ONLY

Name shown first on the PA-40 (if filing jointly)

Social Security Number (shown first)

- -

**CAUTION:** Federal and PA rules for taxable interest income are different. **Read the instructions.**

If your total PA-taxable interest income (taxpayer, spouse and/or joint) is equal to the amount reported on your federal return and you have no amounts for Lines 2 through 15 of PA Schedule A, you must report your income on Line 2 of the PA-40, but you do not have to submit PA Schedule A. If there are any amounts (taxpayer, spouse and/or joint) for any of the Lines 2 through 15 of the schedule, you must complete and submit PA Schedule A with your PA-40. A taxpayer and spouse must complete separate schedules to report their income if any amounts are reported on Lines 2 through 15 of Schedule A. However, if all the income is earned on a joint basis, one schedule may be completed. Complete the oval to indicate whether the income included on the schedule is from the taxpayer, spouse or joint. If a separate PA Schedule A is prepared for a taxpayer and spouse, include only the taxpayer or spouse share of the income for each line.

**PA SCHEDULE A - PA-Taxable Interest Income** (See the instructions.)

PA-40 A (07-14)

Taxpayer  Spouse  Joint

1. Interest income reported on your federal return.	1.	\$
2. Tax-exempt interest income reported on Line 8a of your federal return.	2.	\$
3. Other addition adjustments. <b>See instructions.</b> Description: _____	3.	\$
4. Add Lines 1, 2 and 3.	4.	\$
5. Interest income from federal Schedule(s) K-1. <b>See instructions.</b>	5.	\$
6. Interest income from direct obligations of the Commonwealth of Pennsylvania and/or its municipalities.	6.	\$
7. Interest income from direct obligations of the U.S. government.	7.	\$
8. Other reduction adjustments. <b>See instructions.</b> Description: _____	8.	\$
9. Add Lines 5, 6, 7 and 8.	9.	\$
10. Subtract Line 9 from Line 4.	10.	\$
11. Distributions from Life Insurance, Annuity or Endowment Contracts included in federal taxable income.	11.	\$
12. Distributions from Charitable Gift Annuities included in federal taxable income.	12.	\$
13. Distributions from IRC Section 529 Qualified Tuition Programs for non-educational purposes.	13.	\$
14. Distributions from Health/Medical Savings Accounts included in federal taxable income.	14.	\$
15. Interest income from PA S corporations and partnership(s), from your PA Schedule(s) RK-1 or federal Schedule(s) K-1.	15.	\$
16. <b>Total PA-Taxable Interest Income.</b> Add Lines 10 through 15. Enter on Line 2 of your PA-40.	16.	\$





**PA SCHEDULE B**

Dividend Income

PA-40 Schedule B  
(07-14)

**2014**

OFFICIAL USE ONLY

Name shown first on the PA-40 (if filing jointly)

Social Security Number (shown first)

- -

**CAUTION:** Federal and PA rules for dividend income are different. **Read the instructions.**

If your total PA-taxable dividend and capital gains distributions income (taxpayer, spouse and/or joint) is equal to the amount reported on your federal return and does not include any amounts for Lines 2 through 9 of PA Schedule B, you must report your income on Line 3 of the PA-40, but you do not have to submit PA Schedule B. If there are any amounts (taxpayer, spouse and/or joint) for any of the Lines 2 through 9, you must complete and submit PA Schedule B with your PA-40. A taxpayer and spouse must complete separate schedules to report their income if any amounts are reported on Lines 2 through 9 of Schedule B. However, if all the income is earned on a joint basis, one schedule may be completed. Complete the oval to indicate whether the income included on the schedule is from the taxpayer, spouse or joint. If a separate PA Schedule B is prepared for a taxpayer and spouse, include only the taxpayer or spouse share of the income for each line.

**PA SCHEDULE B - PA-Taxable Dividend and Capital Gains Distributions Income** (See the instructions.)

PA-40 B (07-14)

Taxpayer  Spouse  Joint

1. Dividend income from Line 9a of your federal return.	1.	\$
2. Dividend income from federal Schedule K-1(s). <b>See instructions.</b>	2.	\$
3. Tax-exempt dividend income. <b>See instructions.</b>	3.	\$
4. Other reduction adjustments. <b>See instructions.</b> Description: _____	4.	\$
5. Add the amounts on Lines 2, 3 and 4.	5.	\$
6. Subtract Line 5 from Line 1.	6.	\$
7. Other addition adjustments. <b>See instructions.</b> Description: _____	7.	\$
8. Capital Gains Distributions - <b>See instructions.</b>	8.	\$
10. Dividend income from PA S corporation(s) and partnerships, from your PA Schedule(s) RK-1 or federal Schedule(s) K-1.	10.	\$
11. <b>Total PA-Taxable Dividend Income.</b> Add Lines 6, 7, 8 and 9. Enter on Line 3 of your PA-40.	11.	\$





PA-41 - 2014 (03-14)
PA Fiduciary Income Tax Return
PLEASE PRINT IN BLACK INK

OFFICIAL USE ONLY

Form fields for Federal Employer Identification Number, Decedent's Social Security Number, and Fiduciary's Daytime Telephone Number.

Form fields for Name of Estate or Trust, Name and Title of Fiduciary, Address of Fiduciary, City or Post Office, State, and ZIP Code.

Form fields for Extension Requested, Amended PA-41, Fiscal-Year Filer, Residency Status, and Final Return.

Submit all required Pennsylvania supporting schedules. If Line 3, 4 or 5 is a LOSS, fill in the oval next to the amount.

- 1. INTEREST INCOME and GAMBLING and LOTTERY WINNINGS.
2. DIVIDEND AND CAPITAL GAINS DISTRIBUTIONS INCOME.
3. NET INCOME or LOSS from the Operation of a Business, Profession or Farm.
4. NET GAIN or LOSS from the Sale, Exchange or Disposition of Property.
5. NET INCOME or LOSS from Rents, Royalties, Patents or Copyrights.
6. ESTATE or TRUST INCOME.
7. TOTAL INCOME. Add only the positive income amounts from Lines 1, 2, 3, 4, 5 and 6. Do not add losses.
8. DEDUCTIONS from PA SCHEDULE DD.
9. NET PA-TAXABLE INCOME. Subtract Line 8 from Line 7.
10. PA TAX LIABILITY. Multiply Line 9 by the tax rate 3.07 percent (0.0307).
11. TAX WITHHELD FOR NONRESIDENT BENEFICIARIES. See the instructions.
12. TOTAL PA TAX LIABILITY. Add Lines 10 and 11.
13. 2014 ESTIMATED PAYMENTS and CREDITS.
14. NONRESIDENT TAX WITHHELD from PA SCHEDULE(S) NRK-1.
15. TOTAL CREDIT for TAXES PAID by PA RESIDENT ESTATES or TRUSTS to OTHER STATES
16. TOTAL OTHER CREDITS from PA SCHEDULE OC.
17. PA INCOME TAX WITHHELD.
18. TOTAL PAYMENTS and CREDITS. Add Lines 13, 14, 15, 16 and 17.
19. USE TAX. See the instructions.

Table with columns for Dollars and Cents, and rows corresponding to lines 1 through 19.



Form fields for EC and FC.



**PA-41 SCHEDULE A**  
Interest Income and Gambling  
and Lottery Winnings  
PA-41A (03-14) **2014**

OFFICIAL USE ONLY

Name as shown on the PA-41

Federal EIN or Decedent's SSN

**Caution:** If the estate or trust's total PA-taxable interest income is equal to the amount reported on the estate or trust's federal Form 1041 and there are no amounts for Lines 2 through 13 of Schedule A, the estate or trust must report the interest income on Line 1 of the PA-41, Fiduciary Income Tax Return, but the estate or trust does not have to submit Schedule A. If there are any amounts for any of the Lines 2 through 13 of Schedule A, the estate or trust must complete and submit Schedule A with the estate or trust's PA-41, Fiduciary Income Tax Return.

1. Interest income reported on federal Form 1041 Line 1.	1.	\$
2. Total tax-exempt interest income.	2.	\$
3. Other addition adjustments. <b>See instructions.</b> Description: _____	3.	\$
4. Add Lines 1, 2 and 3.	4.	\$
5. Interest income from federal Schedule(s) K-1. <b>See instructions.</b>	5.	\$
6. Interest income from direct obligations of the Commonwealth of Pennsylvania and/or its municipalities.	6.	\$
7. Interest income from direct obligations of the U.S. government.	7.	\$
8. Other reduction adjustments. <b>See instructions.</b> Description: _____	8.	\$
9. Add Lines 5, 6, 7 and 8.	9.	\$
10. Subtract Line 9 from Line 4.	10.	\$
11. Interest income from partnership(s), from PA Schedule(s) RK-1 or federal Schedule(s) K-1.	11.	\$
12. Interest income from PA S corporation(s), from PA Schedule(s) RK-1 or federal Schedule(s) K-1.	12.	\$
13. Gambling and lottery winnings. <b>See instructions.</b>	13.	\$
<b>14. Total interest income and gambling and lottery winnings</b> Add Lines 10, 11, 12, and 13. Enter on Line 1 of the PA-41.	14.	\$





**PA-41 SCHEDULE B**  
Dividend and Capital Gains  
Distributions Income  
PA-41B (03-14) **2014**

OFFICIAL USE ONLY

Name as shown on the PA-41

Federal EIN or Decedent's SSN

**Caution:** If the estate or trust's total PA-taxable dividend income is equal to the amount reported on the estate or trust's federal Form 1041 and there are no amounts for Lines 2 through 10 of Schedule B, the estate or trust must report the interest income on Line 2 of the PA-41, Fiduciary Income Tax Return, but the estate or trust does not have to submit Schedule B. If there are any amounts for any of the Lines 2 through 10 of Schedule B, the estate or trust must complete and submit Schedule B with the estate or trust's PA-41, Fiduciary Income Tax Return.

1. Dividend income reported on federal Form 1041 Line 2.	1.	\$
2. Dividend income from federal Schedule K-1(s). <b>See instructions.</b>	2.	\$
3. Tax-exempt dividend income. <b>See instructions.</b>	3.	\$
4. Other reduction adjustments. <b>See instructions.</b> Description: _____	4.	\$
5. Add the amounts on Lines 2, 3 and 4.	5.	\$
6. Subtract Line 5 from Line 1.	6.	\$
7. Other reduction adjustments. <b>See instructions.</b> Description: _____	7.	\$
8. Capital gains distributions.	8.	\$
9. Dividend income from partnership(s), from PA Schedule(s) RK-1 or federal Schedule(s) K-1.	9.	\$
10. Dividend income from PA S corporation(s), from PA Schedule(s) RK-1 or federal Schedule(s) K-1.	10.	\$
11. <b>Total interest income and gambling and lottery winnings</b> Add Lines 6, 7, 8, 9 and 10. Enter on Line 1 of the PA-41.	11.	\$





**PA-41 SCHEDULE N**  
**PA-Source Income and Nonresident**  
**Tax Withheld (04-14) 2014**

OFFICIAL USE ONLY

Name as shown on PA-41

Federal EIN or Decedent's SSN

Include the amount of PA-source income or loss reported: on PA-20s/PA-65 Schedules NRK-1 from all partnerships, PA S corporations, or entities formed as limited liability companies classified as a partnership or PA S corporation for federal income tax purposes; on PA-41 Schedules NRK-1 from estates and trusts; from sales of property located in PA; as rents and royalties income from property located in PA and/or income from patents and copyrights utilized in PA; as gambling and lottery winnings from wagers placed in PA (except the PA Lottery); and/or from businesses or farms operated in PA.

**Part 1: Calculation of Distributed/Distributable PA-Source Income**

1. Net gambling and lottery winnings from PA sources. ....		1.
2a. Net income or (loss) from the operation of a business or farm with PA activity as reported on PA Schedule C or PA Schedule F. ....	2a.	
2b. Apportionment percentage as calculated by PA Schedule NRH. ....	2b.	
2c. PA-source business or farm income or (loss). Multiply Line 2a times Line 2b and enter here. Include a separate schedule or worksheet if more than one Schedule C or Schedule F, or if Schedules C and F are both present for the estate or trust. ....	2c.	
2d. PA-source business income or (loss) from partnerships, PA S corporations, or entities formed as limited liability companies. Include a statement if more than one entity. ....	2d.	
2e. Total PA-source income from business or farm. Add Lines 2c and 2d and enter here. Do not enter an amount less than zero. ....		2e.
3a. Net gain or (loss) from the sale, exchange or disposition of property located in PA. ....	3a.	
3b. PA-source net gain or (loss) from the sale, exchange or disposition of property from partnerships, PA S corporations or entities formed as limited liability companies. Include a statement if more than one entity. ....	3b.	
3c. Total PA-source gain from the sale, exchange or disposition of property. Add Lines 3a and 3b and enter here. Do not enter an amount less than zero. ....		3c.
4a. Net income or (loss) from rents and royalties from property located in PA and net income or (loss) from patents and copyrights utilized in PA as reported on PA Schedule E. ....	4a.	
4b. PA-source net income or (loss) from rents, royalties, patents and copyrights from partnerships, PA S corporations or entities formed as limited liability companies. Include a statement if more than one entity. ....	4b.	
4c. Total PA-source income from rents, royalties, patents and copyrights. Add Lines 4a and 4b and enter here. Do not enter an amount less than zero. ....		4c.
5. Estate or trust income from PA sources. Include a schedule if from more than one estate or trust. ....		5.
6. Total PA-source income. Add the amounts from Lines 1, 2e, 3c, 4c and 5 and enter here. ....		6.
7. Enter the lesser of Line 3b or 14b from PA-41 Schedule DD. ....		7.
8. Total distributed/distributable PA-source income. Enter the lesser of Line 6 or Line 7 here. ....		8.





**PA-41 SCHEDULE N**  
**PA-Source Income and Nonresident**  
**Tax Withheld (04-14) 2014**

OFFICIAL USE ONLY

Name as shown on PA-41

Federal EIN or Decedent's SSN

**Part 2: Calculation of Nonresident Beneficiary Distributed/Distributable Income**

		A	B	C
Enter name of nonresident beneficiary		Distributed/ Distributable Income %	Total Distributed/ Distributable PA-Source Income (Part 1, Line 8)	Distributed/Distrib- utable Income per Beneficiary (Col A x Col B)
1.		1A.	1B.	1C.
2.		2A.	2B.	2C.
3.		3A.	3B.	3C.
4.		4A.	4B.	4C.
5.		5A.	5B.	5C.
6.		6A.	6B.	6C.
7.		7A.	7B.	7C.
8.		8A.	8B.	8C.
9.	Nonresident beneficiary distributable income percentage totals from other sheets. Include additional sheets/statements if necessary. ....	9A.		
10.	Total nonresident beneficiaries' distributable income percentage. Add Lines 1A through 9A and enter the amount here. ....	10A.		

**Part 3: Nonresident Withholding Calculation**

- 1. Total distributed/distributable PA-source income from Part 1, Line 8. .... 1.
- 2. Total nonresident beneficiaries' distributed/distributable income percentage from Part 2, Line 10A. .... 2.
- 3. Total nonresident share of distributed/distributable income. Multiply Line 1 times Line 2. .... 3.
- 4. PA nonresident tax withheld. Multiply Line 3 times 3.07 percent (0.0307). .... 4.

**Part 4: Allocation of Nonresident Withholding Tax**

		A	B	C	D
Enter name of nonresident beneficiary		Nonresident Beneficiary Distributed/ Distributable Income Percentage (from Part 2)	Total Nonresident Beneficiaries Distributed/ Distributable Income % (Part 2, Line 10A)	Total Nonresident Withholding Tax (Part 3, Line 4)	Nonresident Withholding Tax Amount per Beneficiary (Col A/Col B x Col C)
1.		1A.	1B.	1C.	1D.
2.		2A.	2B.	2C.	2D.
3.		3A.	3B.	3C.	3D.
4.		4A.	4B.	4C.	4D.
5.		5A.	5B.	5C.	5D.
6.		6A.	6B.	6C.	6D.
7.		7A.	7B.	7C.	7D.
8.		8A.	8B.	8C.	8D.
9.	Nonresident beneficiary distributable income percentage totals from other sheets. Include additional sheets/statements if necessary. ....	9A.	9B.	9C.	9D.



**PA PERSONAL INCOME TAX QUICK REFERENCE GUIDE**

**TAX RATE:** 2014 -- 3.07 percent (0.0307)

**IMPORTANT DUE DATES:**

Jan 20	First day to file 2014 PA Income Tax Returns using <b>MeF Federal/State e-file</b> program
Jan 15	Final 2014 Estimated Personal Income Tax Declaration and Payment for Individuals, Estates and Trusts
Apr 15	1st 2015 Estimated Personal Income Tax Declaration and Payment for Individuals, Estates, and Trusts
Apr 15	2014 Annual Personal Income Tax Returns - Residents, Nonresidents, Part-Year Residents, and Consolidated Nonresident Returns Annual 2014 Personal Income Tax Returns
June 15	2nd 2015 Estimated Personal Income Tax Declaration and Payment for Individuals, Estates, and Trusts
Sept 15	3rd 2015 Estimated Personal Income Tax Declaration and Payment for Individuals, Estates, and Trusts
Oct 15	2014 Annual Personal Income Tax Return with 6 month extension.

**RETURN MAILING ADDRESSES:**

Refund	PA DEPT OF REVENUE REFUND/CREDIT REQUESTED 3 REVENUE PLACE HARRISBURG, PA 17129-0003
Balance due	PA DEPT OF REVENUE PAYMENT ENCLOSED 1 REVENUE PLACE HARRISBURG, PA 17129-0001
Make checks payable to Pennsylvania Department of Revenue	
No tax due	PA DEPT OF REVENUE NO PAYMENT/NO REFUND 2 REVENUE PLACE HARRISBURG, PA 17129-0002

**IMPORTANT:** Do not use these addresses to send other correspondence to the department.

**EXTENSION OF TIME TO FILE:**

The department will grant up to a six month extension of time for filing a PA income tax return. An extension of time for filing will not extend the time for paying the tax. Follow these procedures when applying for an extension of time to file:

1. If you owe income tax on your PA tax return, you must:
  - Pay by check with a timely Application for Extension of Time to File (Form REV-276), or
  - Pay by Electronic Funds Transfer to have your extension payment deducted from your bank account. Go to the Revenue e-Services Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) to arrange an EFT payment. You do not need to mail a Form REV-276, or
  - Pay by credit card. Visit the Revenue e-Services Center to pay by credit card over the Internet. You may also pay by credit card using the telephone by calling 1-800-2PAYTAX (272-9829). You do not need to mail a Form REV-276.
2. If you have an approved extension for filing your federal income tax return, and you do not owe PA income tax on your 2014 tax return, the department will grant you the same extension for filing your PA tax return. You do not have to submit a PA Form REV-276 or Federal Form 4868 before the due date.
3. If you do not have an extension for filing your federal income tax return, request an extension on Form REV-276, and file it in sufficient time for the department to consider and act upon it prior to the return due date.

Mail your Form REV-276, with or without a payment, to:

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

**When filing your PA tax return:**

- Fill in the extension request oval at the top of your PA-40.
- If you did not file a PA Form REV-276, submit a copy of the Federal Form 4868 with your PA tax return.
- If you electronically filed your federal extension, submit a statement with an explanation and the confirmation number you received.
- If you submitted Form REV-276, or electronically filed your PA extension and payment, you do not have to submit the extension paperwork with your PA tax return.

**Important:** The department will impose an underpayment penalty if you do not pay at least 90 percent of your 2014 tax due by April 15, 2015; and the remaining balance with your PA return by the extended due date; and interest on the amount you do not pay by April 15, 2015.



## PA PERSONAL INCOME TAX QUICK REFERENCE GUIDE

### ONLINE SERVICES:

#### e-Services Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us)

This is the location for all the department's electronic filing services. Through this website you can:

- file returns using PA Free File;
- request an extension of time to file;
- make payments including, estimated payments;
- check the status of your return and refund;
- update your address;
- calculate penalty and interest;
- pay tax due by Electronic Funds Withdrawal for PA PIT; and
- find a link to pay by credit/debit card.

### TAXPAYER ASSISTANCE:

- **Taxpayer Service and Information Center**  
Call 717-787-8201 for PA Personal Income Tax help during normal business hours, 7:30 a.m. to 5 p.m.

- **1-888-PATAxes**

Touch-tone telephone service is required for this automated 24-hour toll-free line. Call to order forms or check the status of a personal income tax account, corporation tax account or property tax/rent rebate.

Harrisburg area residents may call 717-425-2533.

- **Online @ [www.revenue.state.pa.us](http://www.revenue.state.pa.us)**  
If you have Internet access, you can find answers to commonly asked questions by using the department's Online Customer Service Center. Use the *Find an Answer* feature to search the database of commonly asked questions. If you do not find your answer in this area, you can submit your question to a customer service representative.

- **PA Personal Income Tax Guide (PA PIT Guide)**  
The department's PA PIT Guide has information that explains Pennsylvania's income tax and its differences from federal rules. You can only access the PA PIT Guide at the department's website.

- **Language Services**  
Non-English-speaking taxpayers can receive assistance from the department through an interpretation service.

El Departamento de Impuestos puede ayudar los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos.

### TAXPAYERS' RIGHTS ADVOCATE:

The Taxpayers' Rights Advocate assists taxpayers with PA Personal Income Tax and PA Inheritance Tax problems and concerns that have not been resolved through normal administrative procedures. It is the Advocate's responsibility to ensure that the department provides equitable treatment with dignity and respect. To contact the Taxpayers' Rights Advocate:

- Send e-mail to: [pataxadvocate@pa.gov](mailto:pataxadvocate@pa.gov)
- Call: 717-772-9347
- Write: PA DEPARTMENT OF REVENUE  
TAXPAYERS' RIGHTS ADVOCATE  
LOBBY, STRAWBERRY SQUARE  
PO BOX 280101  
HARRISBURG, PA 17128-0101

### VOLUNTARY DISCLOSURE PROGRAM

The Voluntary Disclosure Program provides an opportunity for businesses and individuals who have recently become aware of their Pennsylvania tax obligations to voluntarily come forward. In return for coming forward voluntarily, filing their tax returns, and clearing their tax debts, taxpayers are only responsible for the payment of tax and interest. All of the penalties for all taxes administered by the PA Department of Revenue will be waived when the requirements of the Voluntary Disclosure Agreement have been completed.

The program is only available to those taxpayers who are not registered with the department, and for which no investigations or collection actions have begun.

### FORMS ORDERING:

- **[www.revenue.state.pa.us](http://www.revenue.state.pa.us)**  
Pennsylvania income tax forms, schedules, brochures, electronic filing options, and other information are available on the department's website.
- **E-mail Requests for Forms: [ra-forms@pa.gov](mailto:ra-forms@pa.gov)**
- **1-888-PATAxes (728-2937)**  
In the Harrisburg area, call 717-425-2533.
- **Automated 24-hour Forms Ordering Message Service:**  
1-800-362-2050. This line serves taxpayers without touch-tone telephone service.
- **Written Requests:**  
PA DEPARTMENT OF REVENUE  
TAX FORMS SERVICE UNIT  
711 GIBSON BLVD.  
HARRISBURG, PA 17104-3218



***PASS THROUGH  
BUSINESS UPDATES***



## ▶ 2014 FALL TAX SEMINAR

# PASS-THROUGH BUSINESS UPDATES

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Revenue Fiscal Analyst Supervisor

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Revenue Fiscal Analyst II



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## ▶ Agenda of Topics

- Basics of Pass-Through Entities
- Federal/Pennsylvania Difference
- Oops, I Didn't Know That
- Legislation
- Court Cases - Updates
- Form Changes
- Resources



2

## ▶ Basics of Pass-Through Entities

What is a Pass-Through Entity (PTE)?

- Partnership
- PA S corporation
  - 72 P.S. §7301(n.1)
  - 72 P.S. §7301(s.2)
- Limited liability company (LLC) filing as a partnership or PA S corporation for federal income tax purposes



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## ▶ Basics of Pass-Through Entities

What is NOT a PTE?

- QSSS: Qualified subchapter S subsidiary
- SMLLC: Single-member LLC owned by an individual (or owned jointly by husband and wife that elect to be treated as a disregarded entity with the IRS); or owned by an entity



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## ▶ Basics of Pass-Through Entities

### Possible Forms that Should be Filed

- PA-20S/PA-65 and all applicable schedules
- RCT-101
- PA-40 and applicable schedules (C, E, or F)
- Complete copy of federal 1120-S, K-1s and schedules
- Complete copy of federal 1065, K-1s and schedules



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## ▶ Basics of Pass-Through Entities

### When Must a PTE File with PA?

- If, during the taxable year, the PTE (or QSSS or SMLLC owned by the PTE) had gross taxable income allocable or apportionable to PA (“PA-source income”)
  - Regardless of the amount of the income
  - Regardless of whether the income was distributed or not

AND/OR



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## ▶ Basics of Pass-Through Entities

### When Must a PTE File with PA? (cont' d)

- If, during the taxable year, the PA S corporation had at least one shareholder that was a PA resident individual, estate, trust, or SMLLC

AND/OR

- If, at the end of the tax year, the partnership had at least one partner that was a PA resident individual, estate or trust
  - What about a partnership with a PTE partner?



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## ▶ Federal/Pennsylvania Differences

### PA PIT Not Based on Federal IRC

- PA legislature never adopted Internal Revenue Code (*Amidon* case)
- Some IRC sections specifically not allowed/ followed by PA PIT
- Some circumstances where PA PIT will accept the use of federal tax accounting rules (if consistently used and applied and clearly reflect income)
- Appendix A and Appendix B



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## ▶ Federal/Pennsylvania Differences

### PA PIT Not Based on Federal IRC (cont' d)

- PA PIT is built upon eight classes of income
- No provisions for “standard” or “itemized” deductions or personal exemptions
- Losses in one class may not offset income in another class
- Losses of one spouse may not offset income of another spouse, even if within the same class of income
- Losses may not be carried backward or forward from year-to-year



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## ▶ Federal/Pennsylvania Differences

### PA PIT Does Not Follow Federal

- Pennsylvania recognizes the IRC §179 depreciation deduction in effect on Jan. 1, 1986, with a current limitation of \$25,000 (and asset addition limitation of \$200,000)
- IRC §168(k) “bonus” depreciation is not allowed
- Depreciation may be calculated using any method that is generally accepted and consistently used
- PA recognizes a tax benefit rule, but allowable straight-line depreciation must reduce basis, even if no benefit was received



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## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation

- If property is expensed under IRC §179 for federal purposes, it must be expensed for PA PIT (and vice versa)
- If a taxpayer expenses assets under IRC §179 for federal purposes, the taxpayer must expense the cost of the same assets for PA PIT purposes in the same proportion as expensed for federal purposes



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## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

- If the total amount expensed under IRC §179 for federal purposes is greater than \$25,000, the amount expensed for each asset for PA PIT purposes shall be calculated proportionally:

$$\$25,000 \times \frac{\text{cost expensed for each asset}}{\text{cost of all assets expensed for federal}}$$

- When the federal IRC §179 election amount exceeds the PA PIT election amount, the taxpayer is required to use straight-line depreciation for IRC §179 property



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## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

- A trust or estate may not deduct IRC §179 expense for PA PIT purposes, even if income is flowing from a PTE (the PA §179 amount needs added back to the (N)RK-1 number)
- The \$25,000 PA §179 limitation is applied first at the PTE level and **again** at the owner level
  - Owners of multiple PTEs may be required to add back reported PA §179 deductions if, in the aggregate, the owner's PA §179 deduction exceeds \$25,000



## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

- The \$25,000 PA §179 limitation is applied on a joint basis for spouses, regardless of whether the spouses file separately or jointly for PA PIT purposes
  - If federal separately filing spouses elected to allocate the federal §179 deduction between them for federal purposes, the spouses must allocate the deduction for PA PIT using the same percentages as applied for federal purposes
  - If no election is made for federal purposes, or if the percentages do not total 100%, the default allocation for PA PIT is 50/50
  - For federal jointly filing spouses, the \$25,000 limitation is allocated proportionately looking at the ratio of each spouse's elected federal §179 expense to the combined elected federal §179 expense



## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

#### •Example:

Taxpayer elects to expense \$50,000 of the cost of two assets for federal purposes, each asset having a cost basis of \$100,000. For federal purposes, the taxpayer has elected to expense \$25,000 of each asset, reducing the basis of each asset to \$75,000. For PA PIT purposes, the taxpayer's §179 election is limited to \$25,000. The \$25,000 is applied 50/50 to each asset, in proportion to the percentage of the \$50,000 expense applied to each asset for federal purposes. This means that \$12,500 of the PA PIT expense is applied to each asset, reducing the PA PIT basis of each asset to \$87,500.



## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

#### •Example:

Spouse H is an investor in Partnership H, and is allocated \$20,000 of §179 expense in Tax Year 1. Spouse W is an investor in Partnership W, and is allocated \$10,000 of §179 expense in Tax Year 1. H and W file separate federal and PA returns and do not make an election affecting the 50/50 default allocation.

For PA PIT purposes, H may deduct \$12,500 of §179 expense in Tax Year 1 and carry forward the remaining \$7,500. W may deduct \$10,000 of §179 expense in Tax Year 1.



## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

- Example:

Partnership H allocates Spouse H \$20,000 of §179 expense in Tax Year 1. Partnership W allocates Spouse W \$20,000 of §179 expense in Tax Year 1.

H and W file separate federal and PA returns and for federal purposes, they make an election to allocate the §179 expense 80% to H and 20% to W.

For PA PIT purposes, H may deduct \$20,000 of §179 expense in Tax Year 1. W may deduct \$5,000 of §179 expense in Tax Year 1 and carry forward the remaining \$15,000.



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## ▶ Federal/Pennsylvania Differences

### Common Errors With Depreciation (cont' d)

- Example:

Partnership H allocates Spouse H \$10,000 of §179 expense in Tax Year 1. Partnership W allocates Spouse W \$40,000 of §179 expense in Tax Year 1.

H and W file a joint federal return and deduct \$50,000 of §179 expense.

For PA PIT purposes, H may deduct \$5,000 of §179 expense in Tax Year 1 ( $10/50 \times \$25,000$ ) and carry forward the remaining \$5,000. W may deduct \$20,000 of §179 expense in Tax Year 1 ( $40/50 \times \$25,000$ ) and carry forward the remaining \$20,000.



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## ▶ Federal/Pennsylvania Differences

### What if I Only Get a Federal K-1?

- PA law requires PTEs with PA resident owners to file, but PTEs may not always comply
- Complexities abound in converting federal K-1 data to PA data when entity does not provide PA (N)RK-1
- See Appendix C for “cheat sheet” to be used as guidance for converting federal K-1 data to PA data



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## ▶ Federal/Pennsylvania Differences

### IRC provisions PA PIT Doesn't Permit

- Installment Sales - §453
  - Exception: cash basis taxpayer selling intangible property may use cost recovery
  - Exception: cash basis taxpayer selling tangible property may use installment sale
- Like-Kind Exchanges - §1031
  - Different depreciable basis for PA PIT vs federal
  - Requires straight-line depreciation
- Involuntary Conversions - §1033
- Election to Treat a Stock Sale as an Asset Sale - §338(h)(10)



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## ▶ Federal/Pennsylvania Differences

### Gain/Loss for PA PIT Purposes

- Federal capital gain/(loss) may be classified as business for PA PIT purposes **ONLY IF** the proceeds from the sale of tangible property used in a business are reinvested in like-kind property in the same business
- Remember taxable amount of distributions can differ for federal and PA due to differences in calculation of basis in the PTE and calculation of Accumulated Adjustments Account (AAA) for PA S corporations. Distributions from a PTE in excess of basis in the PTE are taxed as gain.



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## ▶ Federal/Pennsylvania Differences

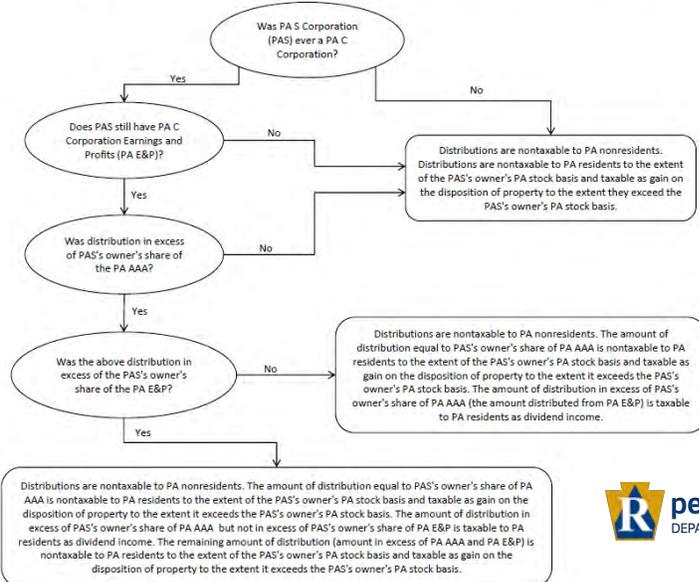
### PA S Corporation Distributions

- Background
  - PA follows the federal “ordering rules” in determining taxability of distributions
  - Methodical determination of how to characterize the distribution requires consideration/calculation of PA S corporation basis, determination of whether entity was ever a C corporation, whether the entity has PA Earnings & Profits, and calculation of PA AAA
  - See Appendix D for decision flow chart



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## Federal/Pennsylvania Differences



## Federal/Pennsylvania Differences

### PA S Corporation Distributions

- **Taxability**
  - Can be significantly different for PA PIT vs federal due to differing rules on calculation of basis in stock and in calculation of the AAA
  - PA AAA generally follows the federal calculation of AAA, **EXCEPT** PA AAA
    - Only reflects items from the start of PA S corporation status
    - Is calculated using PA PIT rules (PA PIT taxable income, (loss), or distributions)
    - Is not adjusted for any income/(loss) not enumerated in PA PIT law or any nondeductible expenses
      - Example: tax-exempt income is not added to PA AAA



## Oops, I Didn't Know That

### Trusts

- Revocable trusts not required to file PA-41
- Irrevocable trusts are required to file PA-41, even if they are grantor trusts
- Follow PA PIT rules: Loss in one class of income may not offset income in another class
- May only distribute trust **net income**
- Distributed income is reported as “Net gains or income derived through estate or trusts” class



## Oops, I Didn't Know That

### PA-65 Corp

- Dual purpose form:
  - Acts as transmittal of corporate net income withholding
  - Acts as a tax return filing if partnership is 100% owned by C corporation partners (no separate PA-20S/PA-65 required for PTE)
- Should always be filed separately
- Should always remit withholding with PA-65 Corp (not PA-20S/PA-65)



## ➤ Oops, I Didn't Know That

### PA-65 Corp: Additional Forms

- Schedule CP must be included for any non-filing/noncompliant C corporation partner and a copy provided to such partner
- If partnership has PA source income, it must also complete and include Schedule H-Corp to provide apportionment information
  - This schedule is for information purposes only and has no impact on the apportionment of the PTE



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## ➤ Oops, I Didn't Know That

### Schedule H vs. Schedule H-Corp

- Schedule H used to calculate the apportionment for the PTE
  - Must be attached to PA-20S/PA-65
  - Not required to be provided to owners
- Schedule H-Corp used to provide apportionment information to PTE owners
  - Must be attached to PA-20/PA-65 and/or PA-65 Corp
  - Required to be provided to entity owners



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## ➤ Oops, I Didn't Know That

### Non-Resident Withholding

- PTEs are required to withhold personal income tax on behalf of non-resident individual owners and non-resident estate or trust owners
- PTEs are *NOT PERMITTED* to withhold on behalf of other PTE owners or PA resident owners



## ➤ Oops, I Didn't Know That

### PA-40 NRC Filing

- Estimated payments may be made (and sometimes are required) during the year on behalf of non-resident owners
- A final, “catch-up” payment may need to be made at the time of filing the PA-20S/PA-65 if estimated payments made during the year are not sufficient to meet the liability



## ➤ Oops, I Didn't Know That

### PA-40 NRC Filing (cont' d)

- If a PA-40 NRC return IS NOT being filed,
  - All estimated payments are claimed and any “catch-up” payment is calculated in Part V of the PA-20S/PA-65
  - Any final, “catch-up” payment is made with the filing of the PA-20S/PA65



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## ➤ Oops, I Didn't Know That

### PA-40 NRC Filing (cont' d)

- If a PA-40 NRC return IS being filed,
  - All estimated payments and any “catch-up” payment may need to be bifurcated:
    - Estimated payments made on behalf of **participating** owners and the portion of the “catch-up” payment related to **participating** owners are claimed on the PA-40 NRC and the portion of the “catch-up” payment related to the **participating** owners is submitted with the filing of the PA-40 NRC
    - **DO NOT** submit the portion of the “catch-up” payment related to the **participating** owners with the PA-20S/PA-65



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## Oops, I Didn't Know That

### PA-40 NRC Filing (cont' d)

- If a PA-40 NRC return IS being filed,
  - All estimated payments and any “catch-up” payment may need to be bifurcated: (cont' d)
    - Estimated payments made on behalf of **non-participating** owners and the portion of the “catch-up” payment related to **non-participating** owners are claimed on the PA-20S/PA-65 and the portion of the “catch-up” payment related to the **non-participating** owners is submitted with the filing of the PA-20S/PA-65
    - **DO NOT** submit the portion of the “catch-up” payment related to the **non-participating** owners with the PA-40 NRC



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## Oops, I Didn't Know That

### PA (N)RK-1 Reporting

- “Nontaxable income (loss) or nondeductible expenses required to calculate owner’s basis/ economic investment”: RK-1 Line 16/NRK-1 Line 14
  - Should only include **PERMANENT** nontaxable income or nondeductible expenses
  - Sum of these lines generally **DOES NOT** equal PA-20S/PA-65, Part IV, Line 12 (“Total Nontaxable/ Nonreportable Income (Loss)”)
  - Depreciation differences **SHOULD NOT** be included
  - Examples: tax-exempt interest, partner’s retirement contributions



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## Oops, I Didn't Know That

### PA (N)RK-1 Reporting (cont' d)

- “Owner’s Share of IRC Section 179 allowed according to PA rules”: RK-1 Line 17/NRK-1 Line 15
  - Number is for informational purposes only
    - To be used by owner to apply \$25,000 limitation at individual level
  - Should not be subtracted from any income class reported above
    - Is not like federal K-1 reporting
    - Depreciation has already reduced PA income



## Oops, I Didn't Know That

### Other Form Reporting Issues

- Problems with correct percentages of ownership displaying on Partner/Member/Shareholder Directory

**PARTNER / MEMBER / SHAREHOLDER DIRECTORY**  
PA-20S/PA-65 Directory (05-13) (FT) **2013**

OFFICIAL USE ONLY

START → Name as shown on the PA-20S/PA-65 Information Return FEIN 9 DIGIT - NO DASH

The entity must list its partners/members/shareholders on this schedule. Enter the following for all partners/members/shareholders: SSN/FEIN; REVENUE ID; OWNERSHIP % (enter each owner's percentage); and NAME AND ADDRESS. Copy Directory to list additional owners.

CODE - Enter the type of owner by code.

See instructions:	DE = Disregarded Entity	RI = Resident Individual	C = C Corporation
B = Bank/Financial Institution	I = Insurance Company	L = LLC taxed as a Partnership	NR = Nonresident Individual
PI = Part-year Resident Individual (S Corp Only)	P = Partnership	LC = LLC taxed as a C Corporation	E = Estate
T = Trust	S = S Corporation	LS = LLC taxed as an S Corporation	X = Exempt

1	Code	SSN/FEIN 9 DIGIT - NO DASH	Revenue ID	Ownership %
				←
Name:		Address:		



## Oops, I Didn't Know That

### Other Form Reporting Issues (cont' d)

- Problems with correct percentages of ownership displaying on RK-1s and NRK-1s

Shareholder's stock ownership: _____ %	Valid values are: "00000" to "10000", where 10000 = 100% Decimal point is implied after 3rd character from the left e.g. to indicate 33.33%, the value should be "03333" e.g. to indicate 25%, the values should be "02500"
Beneficiary's year-end distribution: _____ %	
Partner's percentage of:	
Profit sharing: _____ %	
Loss sharing: _____ %	
Ownership of capital: _____ %	



## Oops, I Didn't Know That

### Other Form Reporting Issues (cont' d)

- Problems with incorrect, incomplete or invalid TINs on Partner/Member/Shareholder Directory

**PARTNER/MEMBER/SHAREHOLDER DIRECTORY**  
PA-20S/PA-65  
Directory (05-13) (FT) **2013**

START → Name as shown on the PA-20S/PA-65 Information Return

OFFICIAL USE ONLY  
FEIN **9 DIGIT - NO DASH** →  C

The entity must list its partners/members/shareholders on this schedule. Enter the following for all partners/members/shareholders:  
**SSN/FEIN; REVENUE ID; OWNERSHIP %** (enter each owner's percentage), and **NAME AND ADDRESS**. Copy Directory to list additional owners.  
**CODE** - Enter the type of owner by code.  
 See instructions.

B = Bank/Financial Institution	DE = Disregarded Entity	RI = Resident Individual	C = C Corporation
PI = Part-year Resident Individual (S Corp Only)	I = Insurance Company	L = LLC taxed as a Partnership	NR = Nonresident Individual
T = Trust	P = Partnership	LC = LLC taxed as a C Corporation	E = Estate
	S = S Corporation	LS = LLC taxed as an S Corporation	X = Exempt

1	Code	SSN/FEIN <b>9 DIGIT - NO DASH</b> →	Revenue ID	Ownership %
		<input type="text"/>	<input type="text"/>	<input type="text"/>
		Name: <input type="text"/>	Address: <input type="text"/>	



## ➤ Oops, I Didn't Know That

### Why Am I Getting This Notice?

- Claiming income is not taxable due to reciprocity
  - PA has reciprocal agreement with: IN, MD, NJ, OH, VA, WV
  - Reciprocity = one state will not tax the others' residents on employee compensation subject to employer withholding
  - Agreements apply to **COMPENSATION** only and not to such things as Schedule C income or income from pass-through entities



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## ➤ Oops, I Didn't Know That

### Why Am I Getting This Notice? (cont' d)

- Claiming excess resident credit
  - Cannot take credit on more income in any class of income than was taxed by PA
  - Cannot take credit on more income for an entity than was reported to the taxpayer by the entity and taxed on the PA-40
  - Provide detail of income subject to tax in other state/ (country prior to 2014) by source and by class
  - Provide copies of returns filed in other state/(country prior to 2014)



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## ➤ Oops, I Didn't Know That

### Why Am I Getting This Notice? (cont' d)

- Claiming federal charitable contribution as additional PA business deduction
  - PA PIT rules allow a deduction for expenses that are ordinary, necessary and reasonable and to the extent the payments are directly related to and necessary for the production and marketing of the taxpayer's products, goods and services
  - Federal charitable contributions cannot meet this definition



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## ➤ Oops, I Didn't Know That

### Why Am I Getting This Notice? (cont' d)

- Claiming tax credits not showing as available
  - Often a timing issue of when the credits get populated into DOR database
    - Often the PTE return is filed at the same time as the individual owners' PA-40 returns
    - Many times the PA-40 returns get processed before PTE returns
    - Credits will not show as available in database until PTE return has processed
    - Result: credits get disallowed on PA-40 returns



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## ➤ Oops, I Didn't Know That

### Why Am I Getting This Notice? (cont' d)

- Claiming tax credits not showing as available (cont' d)
  - Other issues:
    - Certain credits have a requirement to separately request pass through of the credit: this may not have been done
    - Credits cannot be passed through twice: taxpayer may be trying to claim multiple levels of pass through
    - Certain credits have a requirement to be applied at the entity level first: PTE owners may be attempting to claim a credit not available due to PTE level application



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## ➤ Legislation

### June 2014 Legislative Budget Session

- There was no tax code legislation as part of the budget process
- However, many changes to PA PIT and PTE rules taking effect in 2014 from the 2013 budget legislation (Act 52 of 2013)



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## ▶ Legislation

### Act 52 of 2013

- For tax years beginning after Dec. 31, 2013:
  - PA PIT will require the capitalization of intangible drilling costs (IDCs) and recovery of the costs over a 10-year period beginning in the taxable year the costs are incurred
    - Election available to currently expense up to one-third of IDCs in the taxable year incurred and recovery remaining IDCs over a 10-year period beginning in the taxable year the costs are incurred



## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - PA DOR may assess at the PTE level for adjustments greater than \$1 million
    - Who qualifies?
      - Partnerships or PA S corporations with 11 or more individual owners
      - Partnerships with at least one partner that is a corporation, LLC, partnership or trust
      - Partnerships or PA S corporations that elect to be subject to the provisions



## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - PA DOR may assess at the PTE level for adjustments greater than \$1 million (cont' d)
    - What happens?
      - PTE is assessed and becomes liable for the tax at the tax rate applicable to the tax year without regard to the tax liability of the owner(s)
      - Once assessment is final, within 90 days, PTE is required to issue an amended statement to each owner reporting owner's pro rata share of the adjustment



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## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - PA DOR may assess at the PTE level for adjustments greater than \$1 million (cont' d)
    - Appeals involving these assessments may only be pursued by the PTE
    - The final decision of the appeal process is binding on the owners
      - Limited appeal rights for individual owner exist if adjustment would not have had an effect on owner's tax liability due to other losses, etc.



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## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - Credit for taxes paid to foreign countries is eliminated
  - Estates and trusts must withhold tax on behalf of nonresident beneficiaries
  - Estates and trusts with a resident beneficiary or PA source income must file a return



## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - PTEs must provide every owner a (N)RK-1
  - Estates and trusts must provide each beneficiary a (N)RK-1
  - Partnerships must provide a partner classified as a corporation, partnership, or disregarded entity a copy of the PA Schedule H-Corp



## ▶ Legislation

### Act 52 of 2013 (cont' d)

- For tax years beginning after Dec. 31, 2013: (cont' d)
  - Every PTE and estate or trust must maintain an accurate list of owners/beneficiaries
    - Failure to do so makes the PTE, estate/trust, general partner, tax matters partner, corporate officer or trustee liable for the tax
  - Penalty for failure to file an information return is \$250 per each failure
    - An (N)RK-1 is considered an information return for purposes of this penalty



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## ▶ Court Cases - Updates

### Cases Decided in Earlier Years

- Robert L. McNeil Jr. v. Commonwealth
  - Commonwealth Court cases: 651 F.R. 2010 and 173 F.R. 2011
  - Issue: Ability to tax trust as resident taxpayer
- Hvizdak v. Commonwealth
  - Commonwealth Court case appealed up to PA Supreme Court: 833 F.R. 2008; 50 A3d 788
  - Issue: Residency



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## ▶ Court Cases - Updates

### Recent Case Decided

- Robert J. Marshall, Jr. v. Commonwealth
  - Commonwealth Court case appealed up to PA Supreme Court: 933 F.R. 2008; 41 A3d 67
  - On June 17, 2014, PA Supreme Court affirmed the order of the Commonwealth Court
  - Taxpayer's last option is to file a petition in the U. S. Supreme Court based on U.S. constitutional law issues
  - Issue: Gain on foreclosure of property and ability of nonresident partners to offset with loss on disposition of partnership interest



## ▶ Form Changes

### New Schedule

- Schedule I, *Amortization of Intangible Drilling Costs*
  - Addresses differing methods of recovering the cost of IDCs depending upon when the well is placed in service
  - Provides method of making election to expense up to one-third of IDCs for wells placed in service after Dec. 31, 2013



## Form Changes

### PA-20S/PA-65

#### •Addition of “E-File Opt Out” oval

##### Part X. Signature and Verification

Under penalties of perjury, I declare I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of paid preparer is based on all information of which preparer has any knowledge.

Print/Type name of general partner, principal officer or authorized individual	Signature of general partner, principal officer or authorized individual	Date	Daytime phone no.
<b>Paid Preparer's Use Only</b>			
Print/Type preparer's name	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>
Firm's name (or yours if self-employed)			Daytime phone no.
Firm's address			

E-File Opt Out

Page 3 of 3



## Form Changes

### Schedule M

#### •Addition of line on Page 2 for “Immediate one-third Expensing of IDCs”

Section F. Itemize those expenses that PA law allows that the entity could not deduct on its federal form. These adjustments decrease PA reportable income (increase the loss).

a	50 percent of business meals, entertainment, and club dues that the entity could not deduct	1	2
b	Sales tax on depreciable assets	3	4
c	Differences in depreciation/amortization taken for PA and federal purposes	5	6
d	IRC Section 179 expenses (the maximum for PA purposes is \$25,000)	7	8
e	Expenses for employees, including PA S corporation shareholders-employees	9	10
f	Life insurance premiums (PA S corporation or partnership as beneficiary)	11	12
g	Expense adjustments to qualify for federal credits	13	14
h	Immediate one-third Expensing of IDCs	15	16
i	Other expenses PA allows that the entity did not deduct on the federal return. Submit statement	17	18
F	Total	19	20



**Form Changes**

**PA-65 Corp**

- Addition of ovals for “100% Corp. Owned” and “Payment enclosed”

Partnership FEIN	Partnership Business Name	
<input type="text"/>	<input type="text"/>	
First Line of Address	<input type="text"/>	<input type="checkbox"/> 100% Corp. Owned
Second Line of Address	<input type="text"/>	<input type="checkbox"/> Payment enclosed
City or Post Office	State	ZIP Code
<input type="text"/>	<input type="text"/>	<input type="text"/>



**Form Changes**

**Schedule NW**

- Addition of line to report “Payment remitted with the PA-40NRC” to assist with reconciling payments for nonresident owners

Total Nonresident Withholding Payments and Extension Payment. Enter here and on the PA-20S/PA-65 Information Return, Part V, Line 14a. ....	B	<input type="text"/>
C <b>1</b> Payment remitted with the PA-40NRC, Nonresident Consolidated Tax Return, if all nonresident individual owners elect to participate in a group return. ....	C	<input type="text"/>
D Reconciliation Payment. Subtract B and C from A, and enter here and on the PA-20S/PA-65 Information Return Part V, Line 14b. ....	D	<input type="text"/>
Pay any balance due with the PA-20S/PA-65 Information Return.		



## Resources

### Where to Find Answers?

- The Department's website has many resources to research questions and get answers:

[www.revenue.state.pa.us](http://www.revenue.state.pa.us)

- Appendix E attached provides many sources along with "How-To" directions



## Pass-Through Business Updates

### Follow-up Questions or Comments

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## APPENDIX A

**TABLE 16-1 SCHEDULE OF DIFFERENCES BETWEEN FEDERAL TAX LAW AND PENNSYLVANIA PERSONAL INCOME TAX LAW FOR PARTNERSHIPS**

IRC Code Section	Description of Federal Tax Treatment	Pennsylvania Tax Treatment
<b>§ 108</b>	Exclusion of cancellation of indebtedness (COD) income	Pennsylvania does not follow federal treatment.  Refer to Chapter 24: Cancellation of Debt for Pennsylvania Personal Income Tax Purposes
<b>§ 179</b>	Federal law extends and expands the IRC § 179 enhanced expensing provisions beginning in 2002 through year 2011. It provides an increase in the expensing limit from \$125,000 to \$500,000 with phase-out beginning at \$2,000,000 for 2010 and 2011.	Pennsylvania follows federal treatment.  However, any changes made to IRC § 179 after Jan. 1, 1997 are not applicable to Pennsylvania. The Pennsylvania § 179 expense is limited to \$25,000 and will be phased out for purchases in excess of \$200,000. Pennsylvania allows a carry-over of the excess.  Refer to PA PIT Tax Bulletin 2009-08.
<b>§ 469</b>	Passive or portfolio income	Pennsylvania does not follow federal treatment.
<b>§ 704(b)</b>	Special allocations with substantial economic effect	Pennsylvania follows federal treatment.
<b>§ 704(c)</b>	Allocations with respect to pre-contribution gain inherent in contributed assets	Pennsylvania follows federal treatment.
<b>§ 704(d)</b>	Limitation of losses to the extent of adjusted basis	Pennsylvania follows federal treatment; however, there is no provision for carryover of losses. For Pennsylvania personal income tax, a partner must reduce their basis in their partnership interest by losses, but only to the extent that the losses reduce either the income subject to Pennsylvania tax or the income tax of another state or country. If losses are not used, the basis must be reduced by the partner's share of straight-line depreciation
<b>§ 705(a)</b>	Determination of basis of partner's interest (general rule)	Pennsylvania follows federal treatment.
<b>§ 706(c)</b>	Federal closing of the books	Pennsylvania follows federal treatment.
<b>§ 707(a)</b>	Federal disguised sale rules	Pennsylvania follows federal treatment.
<b>§ 707(c)</b>	Guaranteed payments for the use of capital – unreasonable guaranteed payments	Pennsylvania follows federal treatment.
<b>§ 707(c)</b>	Guaranteed payments for the use of capital or other services	Pennsylvania does not follow federal treatment for guaranteed payments for services. Under Pennsylvania tax law, to the extent paid for other services or for the use of capital, a guaranteed payment is: <ul style="list-style-type: none"> <li>a. A withdrawal proportionately from the capital of all partners;</li> <li>b. 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</li> <li>c. A return of capital by the recipient to the extent derived from his/her own capital.</li> </ul> Pennsylvania allows the deduction

**APPENDIX A (CONT'D)**

**TABLE 16-1 SCHEDULE OF DIFFERENCES BETWEEN FEDERAL TAX LAW AND PENNSYLVANIA PERSONAL INCOME TAX LAW FOR PARTNERSHIPS (CONT'D)**

<b>IRC Code Section</b>	<b>Description of Federal Tax Treatment</b>	<b>Pennsylvania Tax Treatment</b>
<b>§ 708</b>	Technical termination of a partnership (involves greater than 50% change in ownership)	Pennsylvania follows federal treatment.
<b>§ 709(a)</b>	Treatment of organization and syndication fees (general rule)	Pennsylvania follows federal treatment.
<b>§ 722</b>	Basis of Contributing Partner's Interest	Pennsylvania follows federal treatment.
<p data-bbox="123 632 204 663"><b>§ 721</b></p> <p data-bbox="123 1066 204 1098"><b>§ 731</b></p> <p data-bbox="123 1192 204 1224"><b>§ 733</b></p>	<p data-bbox="261 632 659 695">Contribution of property to a partnership on a tax-free basis</p>	<p data-bbox="693 632 1321 663">Pennsylvania generally follows federal treatment.</p> <p data-bbox="693 680 1500 772">Neither the partnership nor the partners, recognize gain or loss in the case of a contribution of property in exchange for an interest in the partnership.</p> <p data-bbox="693 789 1341 852">The partners recognize gain or loss in the following circumstances:</p> <ul data-bbox="748 869 1500 1035" style="list-style-type: none"> <li data-bbox="748 869 1468 932">• The purpose of the contribution was to affect an exchange of property between two or more partners; or</li> <li data-bbox="748 949 1500 1035">• The contributing partner receives, in exchange for his or her contribution, an interest in the partnership plus other property or cash.</li> </ul> <p data-bbox="693 1052 1484 1173">Pennsylvania has not adopted the following concepts: 731(c)(3)(C)(iv) – Look-Thru of Partnership Tiers, 731(c)(5) – Subsection Disregarded in Determining Basis of Partner's Interest in Partnership and of Basis of Partnership Property.</p> <p data-bbox="693 1190 1500 1312">Pennsylvania has not adopted the following concepts: 732(d) – Special Partnership Basis to Transferee, 732(f) – Corresponding Adjustment to Basis of Assets of a Distributed Corporation Controlled by a Corporate Partner.</p>
<b>§ 752</b>	Increases or decreases in liabilities create deemed cash contribution or distributions to partner	Pennsylvania follows federal treatment.
<p data-bbox="99 1472 228 1503"><b>§ 732(d)</b></p> <p data-bbox="99 1514 228 1545"><b>§ 734(b)</b></p> <p data-bbox="99 1556 228 1587"><b>§ 743(b)</b></p> <p data-bbox="99 1598 228 1629"><b>§ 754</b></p>	Election to step-up or down basis upon certain events	Pennsylvania does not follow federal treatment.
<b>§ 1031</b>	No gain (loss) recognized on any like-kind exchange transactions.	Pennsylvania does not follow federal treatment.
<b>NA</b>	Tax benefit rule (requirement to adjust basis)	For Pennsylvania personal income tax, a partner must reduce their basis in their partnership interest by losses, but only to the extent that the losses reduce either the income subject to PA tax or the income tax of another state or country. If losses are not used, the basis must be reduced, but not below zero, by the partner's share of straight-line depreciation.

## APPENDIX B

**TABLE 16-3 SCHEDULE OF DIFFERENCES BETWEEN FEDERAL TAX LAW AND PENNSYLVANIA PERSONAL INCOME TAX LAW FOR PA S CORPORATIONS**

### Reconciliation of Federal-Taxable Income to Pennsylvania-Taxable Income

The PA S corporation should use the PA-20S/PA-65 Schedule M, Reconciliation of Federal-Taxable Income to Pennsylvania-taxable Income to reconcile from federal ordinary income (loss) to Pennsylvania-taxable income (loss) from business, profession, or farm operations, and from rental or royalty income (loss).

In many instances, Pennsylvania personal income tax law and regulations do not provide specific treatment similar to 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).

IRC Code Section	Description of Federal Tax Treatment	Pennsylvania Tax Treatment
<b>§ 108</b>	Exclusion of cancellation of indebtedness (COD) income	Pennsylvania does not follow federal treatment.  See new Chapter 24: Cancellation of Debt for Pennsylvania Personal Income Tax Purposes
<b>§ 179</b>	Federal law extends and expands the IRC § 179 enhanced expensing provisions beginning in 2002 through year 2011. It provides an increase in the expensing limit from \$125,000 to \$500,000 with phase-out beginning at \$2,000,000 for 2010 and 2011.	Pennsylvania follows federal treatment. However, any changes made to IRC § 179 after Jan. 1, 1997 are not applicable to Pennsylvania, including the PA § 179 expense is \$25,000 and will be phased out for purchases in excess of \$200,000.
<b>§ 338(h)(10)</b>	Election to treat a stock as an asset sale	Pennsylvania does not follow federal treatment.
<b>§ 351</b>	Contribution of property to a corporation on a tax-free basis	Pennsylvania follows federal treatment.
<b>§ 465</b>	Federal loss not allowed due to federal at risk limitations  Federal loss for year higher than Pennsylvania loss as a result of federal at risk carryover	Pennsylvania personal income tax loss allowed to extent of Pennsylvania personal income tax basis and income in class. There is no carryover of a loss. Basis is reduced by amount of loss offset by income. Percentage of unused loss is multiplied by shareholder's share of straight-line depreciation. Basis is reduced by the result.  There is no carryover of a loss for Pennsylvania personal income tax purposes. Loss was incurred in prior year. Any unused Pennsylvania personal income tax loss in prior year is forgone.
<b>§ 469</b>	Federal loss not allowed due to federal passive loss limitations  Federal loss for year higher than Pennsylvania loss as a result of federal passive loss carryover	Pennsylvania personal income tax loss allowed to extent of Pennsylvania personal income tax basis and income in class. There is no carryover of a loss. Basis is reduced by amount of loss offset by income. Percentage of unused loss is multiplied by shareholder's share of straight-line depreciation. Basis is reduced by the result.  There is no carryover of a loss for Pennsylvania personal income tax purposes. Loss was incurred in prior year. Any unused Pennsylvania personal income tax loss in prior year is forgone.

**APPENDIX B (CONT'D)**

**TABLE 16-3 SCHEDULE OF DIFFERENCES BETWEEN FEDERAL TAX LAW AND PENNSYLVANIA PERSONAL INCOME TAX LAW FOR PA S CORPORATIONS (CONT'D)**

IRC Code Section	Description of Federal Tax Treatment	Pennsylvania Tax Treatment
<b>§ 1031</b>	No gain (loss) recognized on any like-kind exchange transactions.	Pennsylvania does not follow federal treatment.
<b>§ 1361</b>	One class of stock requirement  Qualified Subchapter S Subsidiaries (QSSS)	Pennsylvania follows federal treatment.  Pennsylvania permits qualified subchapter S subsidiaries; however, each qualified subchapter S subsidiaries is considered a separate corporation for purposes of the capital stock / foreign franchise tax. See Act 2006-67.
<b>§ 1362</b>	Election of S corporation	Pennsylvania follows federal treatment for tax years beginning Jan. 1, 2006.
<b>§ 1362(d)</b>	Passive income test	Pennsylvania does not follow federal treatment.
<b>§ 1368</b>	Accumulated Adjustments Account (AAA)	<p>Calculation required for years when PA S status is in place.</p> <p>Federal subchapter S corporations that have been Pennsylvania S corporations throughout their corporate existence always should have tracked their Pennsylvania adjustments account and Pennsylvania accumulated earnings and profits, if applicable, to provide the information required for resident shareholders to correctly report distributions.</p> <p>Federal subchapter S corporations that have become Pennsylvania S corporations by the operation of Act 67 of 2006 similarly should track Pennsylvania accumulated adjustments account and Pennsylvania accumulated earnings and profits. However, it may be extremely difficult to obtain the necessary information to calculate the initial Pennsylvania accumulated earnings and profits.</p> <p>The Pennsylvania Department of Revenue will allow a transitional election by federal subchapter S corporations that have become Pennsylvania S corporations by the operation of Act 67 of 2006. The department may allow such a "new" Pennsylvania S corporation taxpayer to elect to use its federal accumulated adjustments account as the functional equivalent of its Pennsylvania accumulated earnings and profits.</p>
<b>§ 1374</b>	Built-in-gains tax	Pennsylvania generally follows federal treatment. Pennsylvania does not follow federal for 25 percent passive income test. If any built-in-gains tax is imposed on a PA S corporation (or any qualified subchapter S subsidiary owned by such PA S corporation), the amount of tax so imposed shall be treated as a loss sustained by such PA S corporation during such years. The character of such loss shall be determined by allocating the loss proportionately among the recognized built-in gains giving rise to such tax.
<b>§ 1377</b>	Election to terminate year	Pennsylvania follows federal treatment.
<b>NA</b>	Tax Benefit Rule	For Pennsylvania purposes, a shareholder must reduce basis in the S corporation by losses but only to the extent that the losses reduce either the income subject to Pennsylvania tax or the income tax of another state or country. If losses are not utilized, the basis must be reduced by the shareholder's share of straight-line depreciation.

**APPENDIX C**  
**CLASSIFICATION OF FEDERAL K-1 INCOME FOR PA PIT PURPOSES**

Federal K-1			
Box #			PA Return
1065	1120S	Description or Breakdown:	Line
1	1	Business	4 or breakdown
2	2	Rental	6
3	3	Other rental	6
4		Guaranteed payments	4 or 6
5	4	Interest	2
5	4	Addtl stmt - us gov't interest	PA exempt
6a	5a	Dividends	3
6b	5b	Qualified dividends	N/A
7	6	Royalties	6
8	7	Short term capital gain (loss)	5
9a	8a	Long term capital gain (loss)	5
9b	8b	Collectibles (28%) gain (loss)	N/A
9c	8c	Unrecaptured section 1250 gain	N/A
10	9	Section 1231 gain (loss)	5
		other income:	
11A	10A	Section 988 gain (loss)	5
11A	10A	Section 987 gain (loss)	5
11A	10A	Other portfolio income (loss)	5
11B	10B	Involuntary conversions	Footnote D
11C	10C	Section 1256 gain (loss)	5
11D	10D	Mining exploration costs recapture	N/A
11E	10E	Cancellation of debt	Footnote B
11F	10F	QEF ordinary income	3
11F	10F	QEF capital gains	3
11F	10F	QEF income exclusion	3
11F	10F	Ordinary income from REMICS	3
11F	10F	REIMIC excess exclusion	3
11F	10F	Interest	2
11F	10F	US gov't interest	PA exempt
11F	10F	Dividends	3
11F	10F	Subpart F dividend	3 no losses allowed
11F	10F	Section 475 (F) income (loss)	5
11F	10F	Swap income	5
11F	10F	Short term capital gain (loss)	5
11F	10F	Long term capital gain (loss)	5
11F	10F	Other income (loss)	4
11F	10F	Ordinary income	4
11F	10F	Other business expenses	Footnote A
		other information:	
12	11	Section 179	4
13A	12A	Contributions	Footnote A
13H	12H	Investment interest expense	Footnote A
13J	12J	Section 59(e)(2) expenses	Footnote A
13K&L	12K&L	Portfolio	Footnote A
16D	14D	Foreign income	Footnote C
16L	14L	Foreign taxes paid	Footnote C
18A	16A	Tax exempt interest	2 unless break-down provided
20O&P	17M&N	Section 453 items	Footnote A
20Y	17U	If 50% M&E non-deductible	4

Footnote A - not allowable for PA purposes.

Footnote B - not reportable unless the amount is related to an item of expense

Footnote C - Material amounts require breakdown of income and taxes paid on a country-by-country basis (**NOTE:** not applicable for 2014 and after)

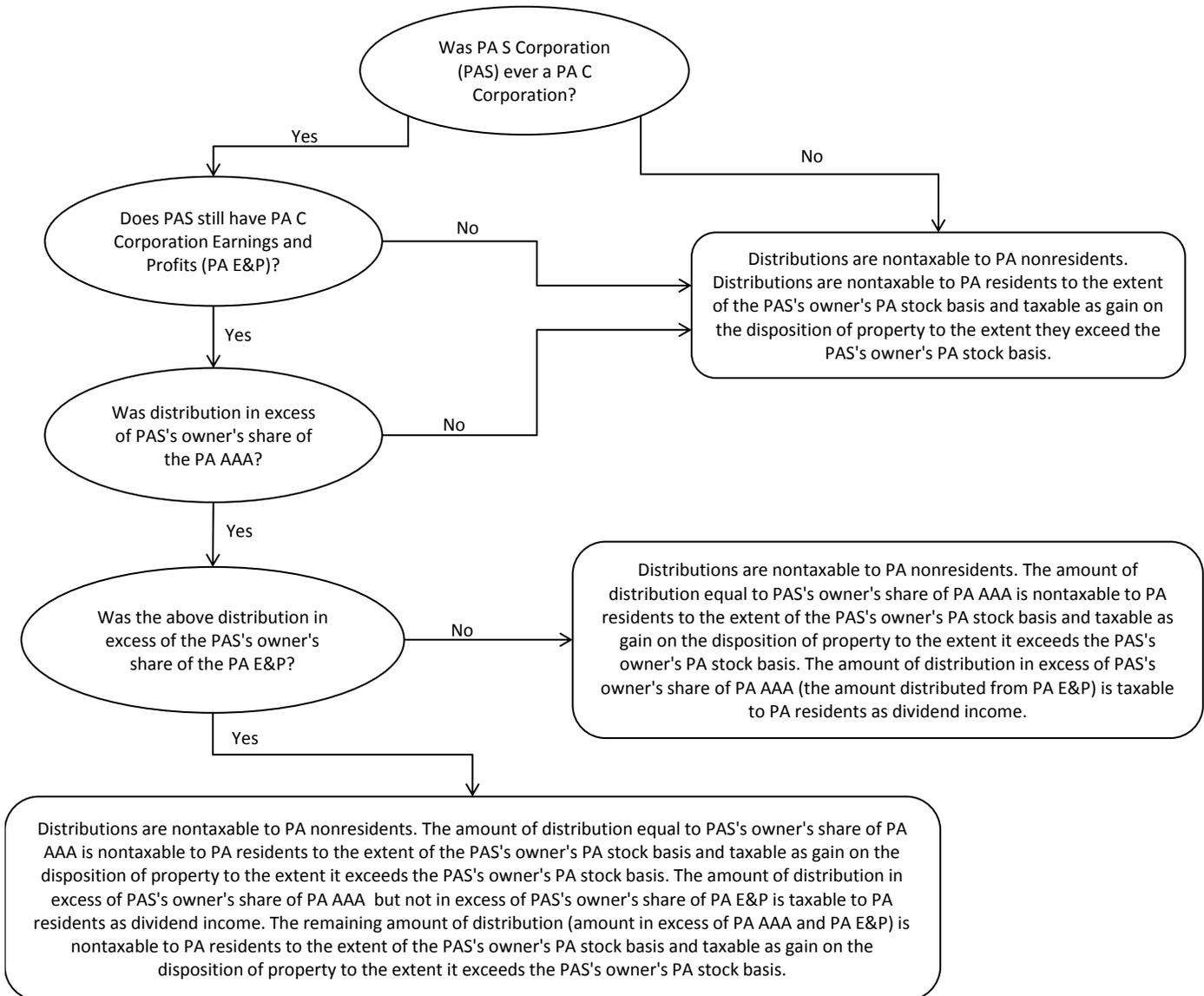
Footnote D - generally reported on line 5 of PA-40 except Ponzi scheme losses not allowable

**DISCLAIMERS:**

These are the general or practical classification rules used by the Department. They are subject to change.



## APPENDIX D DETERMINING TAXABILITY OF PA S CORPORATION DISTRIBUTIONS





## APPENDIX E REFERENCES

- **PA DOR Bulletins relevant to Pass Through Entities:**
  - **Personal Income Tax Bulletin 2009-04:** *Cancellation of Business Indebtedness*
  - **Personal Income Tax Bulletin 2009-06:** *Cancellation of Rents, Royalties, Patents and Copyrights Indebtedness*
  - **Personal Income Tax Bulletin 2010-03:** *Abandonment, Dissociation or Withdrawal Related to Partnership or LLC Interest*
  - **Personal Income Tax Bulletin 2005-02:** *Gain or Loss Derived from the Disposition of a Going Concern*
  - **Corporation Tax Bulletin 2011-03:** *Corporation Tax Information Bulletin Regarding the Application of Restricted Credits that can be sold and the Requirements for Sellers of Tax Credits to be Satisfied Prior to Approval of Sale*
  - **Corporation Tax Bulletin 2008-01:** *Due Date for the Election not to be Taxed as a PA S Corporation*
  - **Corporation Tax Bulletin 2007-01:** *Subjectivity of a Single Member Limited Liability Company (LLC) or Business Trust to the Capital Stock/Foreign Franchise Tax*
  - **Miscellaneous Tax Bulletin 2011-02:** *Compromises at the Board of Appeals*
  
- **PA DOR Informational Notices relevant to Pass Through Entities:**
  - **Personal Income Tax Notice 2013-04:** *Intangible Drilling & Development Costs*
  - **Personal Income Tax Notice 2013-02:** *Electronic Submission of Pennsylvania Form PA-20S/PA-65 PA S Corporation/Partnership Information Return with 100 or more Pennsylvania Schedules RK-1s and/or NRK-1s*
  - **Personal Income Tax Notice 2012-04:** *Division and Transfer of Interests Related to Oil and Natural Gas*
  - **Personal Income Tax Notice 2012-05:** *Internal Revenue Code Section 179 Expense Deductions*
  - **Personal Income Tax Notice 2012-02:** *Submission of Federal Form 1099-MISC for Payments of Income from Sources within this Commonwealth of Nonemployee Compensation or Under an Oil and Gas Lease*
  
- **General Notices relevant to Pass Through Entities:**
  - **Notice dated Saturday, September 28, 2013 – 43 Pa.B. 5772:** *Method of Filing; PA S Corporation/Partnership Information Return, PA-20S/PA-65 Change to Threshold for Third Party Preparers*

# • WHERE TO FIND BULLETINS, NOTICES, ETC.

- Website: <http://www.revenue.state.pa.us>

The Department of Revenue homepage has links to multiple sources of information, including bulletins, notices, etc.

- To access these publications, from DOR's homepage, click on **Laws, Policies, Tax Bulletins & Notices**

The screenshot shows the Pennsylvania Department of Revenue homepage. The navigation menu on the left includes the following items: Individuals, Businesses, Tax Professionals, Forms & Publications, News & Reports, **Laws, Policies, Tax Bulletins & Notices** (highlighted with a red arrow), and Incentives, Credits and Programs. The main content area features a welcome message, a mission statement, and a section for 'Email us your tax question'. There is also a section for 'How are we doing?' with a link to 'Revenue Web'.

- Next, choose the type of publication (bulletin, ruling, or notice)

The screenshot shows the 'Laws, Policies, Tax Bulletins & Notices' page. The left sidebar lists the following categories: Voluntary Disclosure Program, Regulation-Pronouncement Status Report, **Tax Bulletins**, **Letter Rulings**, **Informational Notices**, and **State Tax Summaries**. A red arrow points to the 'Letter Rulings' category. The main content area lists the following publications: Realty Transfer Tax Amendments, Regulations Governing the Collection of a School District Personal Income Tax, Bulk Sales Notice, Construction Contractors' Guide for Building Machinery and Equipment, PA Personal Income Tax Guide, 2010 Tax Amnesty Program Guidelines, Notice - Method of Filing; PA S Corporation/Partnership; Information Return Threshold for Third Party Preparers, Notice- Method of Filing: Pennsylvania Sales, Use and Hotel Occupancy Tax, Notice - Method of Filing: Employer Quarterly Return of Income Tax Withheld, Notice - Method of Filing: Pennsylvania Corporate Tax Report, RCT-101, Notice - Method of Filing: Pennsylvania Liquid Fuels and Fuels Tax Report (R), and Notice - Method of Filing: Pennsylvania Personal Income Tax Return, PA-40.

# • WHERE TO FIND PA STATUTE

- Website: <https://govt.westlaw.com/pac/Index>

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A document is a section of the statutes or section of an article of the Pennsylvania Constitution. A current-through line, appearing at the end of a document, tells you how current the document is.

Pennsylvania legislation has been partially "consolidated" (reorganized and recodified) as part of the program initiated by Act 1970, Nov. 25, P.L. 707, No. 230, as amended. Consequently, statutory sections are organized within either the original Purdon's unconsolidated codification, abbreviated P.S., under numbers assigned by Thomson Reuters, or within the consolidated codification, abbreviated Pa.C.S.A., under number assigned legislatively.

The chronological history of each statutory section is "credited" following the text of each section. The abbreviation "P.L." stands for "Pamphlet Laws"; a term of art for the Commonwealth's annual official compendium of Acts of the General Assembly, published as "Laws of Pennsylvania".

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[Title 71 P.S. State Government](#)

[Title 71 PA.C.S.A. State Government](#)

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[Title 72 PA.C.S.A. Taxation and Fiscal Affairs](#)



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- [Chapter 1A. Provisions Related to the Fiscal Code](#)
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- Then, select **Article III Personal Income Tax**

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## Chapter 5. Tax Reform Code of 1971

- [72 P.S. PA ST Ch. 5, Refs & Annos](#)
- [Article I. Short Title](#)
- [Article II. Tax for Education](#)
- [Article II-A. Local Sales Tax Situs](#)
- [Article II-B. Special Taxing Authority](#)
- [Article III. Personal Income Tax](#)
- [Article IV. Corporate Net Income Tax](#)

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## Article III. Personal Income Tax

[72 P.S. PA ST Ch. 5, Art. III, Refs & Annos](#)

- [Part I. Definitions](#)
- [Part II. Imposition of Tax](#)
- [Part III. Estates and Trusts](#)
- [Part IV. Partnerships](#)
- [Part IV-A. Pennsylvania S Corporations](#)
- [Part IV-B. Other Entities](#)
- [Part V. Nonresident Individuals](#)
- [Part VI. Credits Against Tax](#)
- [Part VI-A. Contributions of Refunds by Checkoff](#)
- [Part VII. Withholding of Tax](#)
- [Part VII-A. Withholding Tax on Shares on Income from Sources Within this Commonwealth](#)
- [Part VIII. Estimated Tax](#)
- [Part IX. Returns and Payment of Tax](#)
- [Part X. Procedure and Administration](#)
- [Part XI. Miscellaneous Provisions](#)

## • WHERE TO FIND PA REGULATIONS:

- Website: <http://www.pacode.com/>

The *Pennsylvania Code* is an official publication of the Commonwealth of Pennsylvania. You may search for topics or browse by contents.

**The Pennsylvania CODE**

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**No statutes or acts will be found at this website.**

The Pennsylvania Code website reflects the Pennsylvania Code changes effective through 44 Pa.B.2738 (May 3, 2014).

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Example: 1 Pa. Code § 17.51.

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<b>The Pennsylvania CODE</b>	<ul style="list-style-type: none"><li>49 PROFESSIONAL AND VOCATIONAL STANDARDS</li><li>51 PUBLIC OFFICERS</li><li>52 PUBLIC UTILITIES</li><li>55 PUBLIC WELFARE</li><li>58 RECREATION</li><li><b>61 REVENUE</b></li><li>64 SECURITIES</li><li>67 TRANSPORTATION</li><li>70 WEIGHTS, MEASURES AND STANDARDS</li><li>101 GENERAL ASSEMBLY</li><li>104 SENATE OF PENNSYLVANIA</li><li>107 HOUSE OF REPRESENTATIVES OF PENNSYLVANIA</li><li>201 RULES OF JUDICIAL ADMINISTRATION</li><li>204 JUDICIAL SYSTEM GENERAL PROVISIONS</li><li>207 JUDICIAL CONDUCT</li></ul>
----------------------------------	--

The Pennsylvania  
**CODE**

About  
•  
Search  
•  
Browse

HOME

- Scroll to **Article V** and select your desired **Chapter**

Article V. [Personal Income Tax](#) ←

Chapter 101. [General Provisions](#) ([View pdf](#))

Chapter 103. [Imposition and Determination of Tax](#) ([View pdf](#))

Chapter 105. [Estates and Trusts](#) ([View pdf](#))

Chapter 107. [Partnerships and Associations](#) ([View pdf](#))

Chapter 108. [Distributions](#) ([View pdf](#))

Chapter 109. [Nonresident Individuals](#) ([View pdf](#))

Chapter 111. [Credits Against Tax](#) ([View pdf](#))

Chapter 113. [Withholding of Tax](#) ([View pdf](#))

Chapter 115. [Estimated Tax](#) ([View pdf](#))

Chapter 117. [Return and Payment of Tax](#) ([View pdf](#))

Chapter 119. [Liabilities and Assessment—Procedure and Administration](#) ([View pdf](#))

Chapter 121. [Final Returns](#) ([View pdf](#))

Chapter 123. [Poverty Income](#) ([View pdf](#))

Chapter 125. [Personal Income Tax Pronouncements—Statements of Policy](#) ([View pdf](#))

# • WHERE TO FIND PA FORM INSTRUCTIONS:

- Website: <http://www.revenue.state.pa.us>
- Click on the **Forms & Publications** tab in the middle and select the appropriate type of tax form

The screenshot shows the Pennsylvania Department of Revenue website. The header includes the state logo and the text 'pennsylvania DEPARTMENT OF REVENUE'. A navigation bar at the top right contains 'PA STATE AGENCIES' and 'ONLI'. A left sidebar lists various categories: Individuals, Businesses, Tax Professionals, Forms & Publications (highlighted), News & Reports, Laws, Policies, Tax Bulletins & Notices, Incentives, Credits and Programs, Revenue Home, Due Dates and Event Calendar, Customer Service Feedback, Revenue Website Feedback, Employment, About Us, and Contact Us. The main content area features a welcome message and a list of links for downloading forms and instructions, including Personal Income Tax, Business Taxes, Corporation Taxes, Partnerships/S Corporations/Limited Liability Companies, Inheritance Tax, Motor and Alternative Fuel Taxes, Property Tax/Rent Rebate Program, Realty Transfer Tax, Federal/State e-file, and Other Forms and Publications. A red arrow points to the 'Forms & Publications' tab in the navigation bar.

**Individuals**

**Businesses**

**Tax Professionals**

**Forms & Publications**

**News & Reports**

**Laws, Policies, Tax Bulletins & Notices**

**Incentives, Credits and Programs**

**Revenue Home**

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Customer Service Feedback

Revenue Website Feedback

**Employment**

**About Us**

**Contact Us**

**Welcome to the Pennsylvania Department of Revenue!**

The department's mission is to fairly, efficiently and accurately administer the programs of the commonwealth to fund necessary government services.

Whether you are an individual, business owner or tax professional, our Web site makes filing and paying state taxes as easy as possible. And if you still have a question, we have a link to get the answer. We look forward to helping you.

[Email us your tax question](#)

**How are we doing? Please take a moment to complete our [Revenue Web Survey](#)**

[Online Services](#) [Forms & Publications](#) [Tax Types](#) [Hot Topics](#) [News Releases](#)

Most state tax forms and instructions are available online.

Download forms, instructions or publications for:

- [Personal Income Tax](#)
- [Business Taxes](#)
- [Corporation Taxes](#)
- [Partnerships/S Corporations/Limited Liability Companies](#)
- [Inheritance Tax](#)
- [Motor and Alternative Fuel Taxes](#)
- [Property Tax/Rent Rebate Program](#)
- [Realty Transfer Tax](#)
- [Federal/State e-file](#)
- [Other Forms and Publications](#)

- Forms will then be displayed along with options for choosing another tax year as well as other form types

**pennsylvania**  
DEPARTMENT OF REVENUE

pennsylvania PA PA STATE AGENCIES

**Individuals**

**Businesses**

**Tax Professionals**

**Forms & Publications**

**Forms for Individuals**

**Forms for Businesses**

**Business Registration Forms**

**Corporation Tax**

**Partnerships/S Corporations/LLCs**

2014

2013

2012

2011

2010

2009

2008

2007

2006

2005

[Forms & Publications](#) > [Forms for Businesses](#)

**2014 Partnerships/ Corporation/LLCs Forms**

Name	Description
<a href="#">2014 rev-413ps.pdf</a>	2014 Instructions For Withholding PA Personal Income T and PA S Corporations (REV-413 P/S)
<a href="#">2014 rev-414ps.pdf</a>	2014 Partnerships and PA S Corporations Nonresident W
<a href="#">pa-40esr_fc.pdf (5)</a>	Declaration of Estimated Tax or Estimated Withholding T F/C)

**2013 Partnerships/ Corporation/LLCs Forms**

Name	Description
<a href="#">2013 pa-20s-pa-65 inst.pdf</a>	2013 Instructions for Form PA-20S/PA-65 - PA S
<a href="#">2013 pa-20s-pa-65.pdf</a>	2013 PA-20S/PA-65 PA S Corporation/Partnership
<a href="#">2013 pa-20s-pa-65a inst.pdf</a>	2013 Instructions for PA-20S/PA-65 Schedule A -
<a href="#">2013 pa-20s-pa-65a.pdf</a>	2013 PA Schedule A - Interest Income (PA-20S/P
<a href="#">2013 pa-20s-pa-65b inst.pdf</a>	2013 Instructions for PA-20S/PA-65 Schedule B -
<a href="#">2013 pa-20s-pa-65b.pdf</a>	2013 PA Schedule B - Dividend and Capital Gains
<a href="#">2013 pa-20s-pa-65corp.pdf</a>	2013 PA-65 Corp - Directory of Corporate Partner
<a href="#">2013 pa-20s-pa-65cp inst.pdf</a>	2013 Instructions for PA-20S/PA 65 Schedule CP
<a href="#">2013 pa-20s-pa-65cp.pdf</a>	2013 PA Schedule CP - Corporate Partner Withho
<a href="#">2013 pa-20s-pa-65d inst.pdf</a>	2013 Instructions for PA-20S/PA 65 Schedule D -
<a href="#">2013 pa-20s-pa-65d.pdf</a>	2013 PA Schedule D - Sale, Exchange or Disposit
<a href="#">2013 pa-20s-pa-65dir inst.pdf</a>	2013 Instructions for PA-20S/PA-65 Directory - Pa
<a href="#">2013 pa-20s-pa-65dir.pdf</a>	2012 PA-20S/PA-65 Directory - Partner/Member/S
<a href="#">2013 pa-20s-pa-65e inst.pdf</a>	2013 Instructions for PA-20S/PA 65 Schedule E -

## • WHERE TO FIND THE PIT GUIDE:

- Website: <http://www.revenue.state.pa.us>
- Click on the **Forms & Publications** tab in the middle and select **Personal Income Tax**

The screenshot shows the Pennsylvania Department of Revenue website. The header features the state logo and the text 'pennsylvania DEPARTMENT OF REVENUE'. Below the header is a navigation bar with 'pennsylvania PA' and 'PA STATE AG'. The main content area is divided into a left sidebar and a main right section. The sidebar contains links for 'Individuals', 'Businesses', 'Tax Professionals', 'Forms & Publications', 'News & Reports', 'Laws, Policies, Tax Bulletins & Notices', 'Incentives, Credits and Programs', 'Revenue Home', 'Due Dates and Event Calendar', 'Customer Service Feedback', 'Revenue Website Feedback', 'Employment', 'About Us', and 'Contact Us'. The main section has a yellow header 'Welcome to the Pennsylvania Department of Revenue' and a mission statement. Below this is a navigation bar with tabs for 'Online Services', 'Forms & Publications', 'Tax Types', and 'Hot Topics'. A red arrow points to the 'Forms & Publications' tab. Underneath, there is a list of links for downloading forms, with a red arrow pointing to 'Personal Income Tax'.

**Individuals**

**Businesses**

**Tax Professionals**

**Forms & Publications**

**News & Reports**

**Laws, Policies, Tax Bulletins & Notices**

**Incentives, Credits and Programs**

**Revenue Home**

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**Welcome to the Pennsylvania Department of Revenue**

The department's mission is to fairly, efficiently and accurately administer the programs of the commonwealth to fund necessary government services.

Whether you are an individual, business owner or tax professional, we want to make filing and paying state taxes as easy as possible. And we want to get the answer. We look forward to helping you.

[Email us your tax questions](#)

**How are we doing? Please take a moment to complete our survey.**

[Online Services](#) [Forms & Publications](#) [Tax Types](#) [Hot Topics](#)

Most state tax forms and instructions are available online.

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- [Corporation Taxes](#)
- [Partnerships/S Corporations/Limited Liability Companies](#)
- [Inheritance Tax](#)
- [Motor and Alternative Fuel Taxes](#)
- [Property Tax/Rent Rebate Program](#)
- [Realty Transfer Tax](#)
- [Federal/State e-file](#)
- [Other Forms and Publications](#)

- Next, on the left panel, scroll down to the **PA Personal Income Tax Guide**

**Forms & Publications**

**Forms for Individuals**

**Personal Income Tax**

2014

2013

2012

2011

2010

2009

2008

2007

2006

2005

2004

2003

2002

2001

2000

1999

1998

1997

1996

1995

**PA Personal Income Tax Guide**

2014 Personal Income Tax Forms

Name	Description
<a href="#">2014_rev-413f.pdf</a>	2014 Instructions For Estimating
<a href="#">2014_rev-413i.pdf</a>	2014 Instructions For Estimating
<a href="#">2014_rev-414f.pdf</a>	2014 Estates and Trusts Worksh
<a href="#">2014_rev-414i.pdf</a>	2014 Individuals Worksheet for
<a href="#">pa-40esr_fc.pdf (4)</a>	Declaration of Estimated Tax or F/C)
<a href="#">pa-40esr_i.pdf (3)</a>	Declaration of Estimated Tax (PA

2013 Personal Income Tax Forms

Name	Description
<a href="#">2013_dad-69.pdf</a>	2013 VITA/TCE Order Form (
<a href="#">2013_pa-40_pa-v.pdf</a>	2013 PA-40 Payment Vouche
<a href="#">2013_pa-40.pdf</a>	2013 Pennsylvania Income T
<a href="#">2013_pa-40a-b.pdf</a>	2013 PA Schedule A/B - Inte
<a href="#">2013_pa-40d.pdf</a>	2013 PA Schedule D - Sale,
<a href="#">2013_pa-40e.pdf</a>	2013 PA Schedule E - Rents
<a href="#">2013_pa-40in.pdf</a>	2013 Pennsylvania Personal
<a href="#">2013_pa-40j-t.pdf</a>	2013 PA Schedule J/T - Inco
<a href="#">2013_pa-40o.pdf</a>	2013 PA Schedule O - Other
<a href="#">2013_pa-40oc.pdf</a>	2013 PA Schedule OC - Othe
<a href="#">2013_pa-40sp.pdf</a>	2013 PA Schedule SP - Spec
<a href="#">2013_pa-40ue.pdf</a>	2013 PA Schedule UE - Allow
<a href="#">2013_pa-40w2s.pdf</a>	2013 PA Schedule W-2S - W
<a href="#">2013_pa-40x.pdf</a>	2013 Amended PA Personal
<a href="#">2013_pa-41_inst.pdf</a>	2013 Instructions for Form P
<a href="#">2013_pa-41_pa-v.pdf</a>	2013 PA-41 Payment Vouche
<a href="#">2013_pa-41.pdf</a>	2013 PA Fiduciary Income Ta
<a href="#">2013_pa-41a_inst.pdf</a>	2013 Instructions for the PA-
<a href="#">2013_pa-41a.pdf</a>	2013 PA-41 Schedule A - Int
<a href="#">2013_pa-41b_inst.pdf</a>	2013 Instructions for the PA-
<a href="#">2013_pa-41b.pdf</a>	2013 PA-41 Schedule B - Div
<a href="#">2013_pa-41d_inst.pdf</a>	2013 Instructions for the PA-
<a href="#">2013_pa-41d.pdf</a>	2013 PA-41 Schedule D - Sa
<a href="#">2013_pa-41dd_inst.pdf</a>	2013 Instructions for the PA-
<a href="#">2013_pa-41dd.pdf</a>	2013 PA-41 Schedule DD - D
<a href="#">2013_pa-41j_inst.pdf</a>	2013 Instructions for the PA-

- The PIT Guide will display; select your desired **Chapter**

[Forms & Publications](#) > [Forms for Individuals](#) > [Personal Income Tax](#)

## PA Personal Income Tax Guide

The Department is continually revising the information in the **Pennsylvania Personal Income Tax (PIT) Guide** to reflect updated guidance for each tax year.

The Department plans to update this Internet publication with new and expanded information.

A few tips may be helpful for navigating and use of the **PA PIT Guide**.

- You will need to have Adobe reader installed on your personal computer – all the files are in PDF format.
- The full version of the **PA PIT Guide** is temporarily unavailable, pending updates.
- Chapters 2 and 3 have been merged into Chapter 1.
- Chapters 10, 18 and 22 have been temporarily removed.
- To sort the listed Chapters, select "Name" in the list below.

Click on a link from the list below to review a specific chapter from the **PA PIT Guide**.

The latest version of [Adobe Acrobat Reader®](#) is recommended to view or print the forms, instructions, and publications in PDF format. [Adobe Acrobat Reader®](#) is available free of charge for DOS, Windows, Macintosh, and Sun SPARC workstations at Adobe's website at <http://www.adobe.com/acrobat/readstep.html>.

### Personal Income Tax Guide

Name	Description
<a href="#">pitguide chapter 01.pdf</a>	PA PIT Guide - Chapters 1-3 (combined): Customer Service and Taxpayer Assistance
<a href="#">pitguide chapter 02.pdf</a>	PA PIT Guide Chapter 2 - Personal Income Tax Information Security
<a href="#">pitguide chapter 04.pdf</a>	PA PIT Guide - Chapter 4: Filing Requirements for PA Personal Income Tax
<a href="#">pitguide chapter 05.pdf</a>	PA PIT Guide - Chapter 5: When to File
<a href="#">pitguide chapter 06.pdf</a>	PA PIT Guide - Chapter 6: Brief Overview of PA Personal Income Tax
<a href="#">pitguide chapter 07.pdf</a>	PA PIT Guide - Chapter 7: Gross Compensation
<a href="#">pitguide chapter 08.pdf</a>	PA PIT Guide - Chapter 8: Interest
<a href="#">pitguide chapter 09.pdf</a>	PA PIT Guide - Chapter 9: Dividends
<a href="#">pitguide chapter 11.pdf</a>	PA PIT Guide - Chapter 11: Net Income or Loss from the Operation of a Business, Profession, or Farm
<a href="#">pitguide chapter 12.pdf</a>	PA PIT Guide - Chapter 12: Net Gains or Losses From the Sale, Exchange, or Disposition of Property
<a href="#">pitguide chapter 13.pdf</a>	PA PIT Guide - Chapter 13: Net Income (Loss) From Rents, Royalties, Copyrights and Patents
<a href="#">pitguide chapter 14.pdf</a>	PA PIT Guide - Chapter 14 - Estates, Trusts and Decedents
<a href="#">pitguide chapter 15.pdf</a>	PA PIT Guide - Chapter 15 - Gambling and Lottery Winnings
<a href="#">pitguide chapter 16.pdf</a>	PA PIT Guide - Chapter 16 - Pass Through Entities
<a href="#">pitguide chapter 17.pdf</a>	PA PIT Guide Chapter 17 - Credits
<a href="#">pitguide chapter 19.pdf</a>	PIT Guide -- Chapter 19: Tax Withholding & Estimated Payments
<a href="#">pitguide chapter 20.pdf</a>	PA PIT Guide - Chapter 20: Tax Forgiveness
<a href="#">pitguide chapter 21.pdf</a>	PA PIT Guide - Chapter 21: Amended Returns
<a href="#">pitguide chapter 23.pdf</a>	PA PIT Guide - Chapter 23: Natural Resources
<a href="#">pitguide chapter 24.pdf</a>	PA PIT Guide - Chapter 24: Cancellation of Debt For PA PIT Purposes

- **WHERE TO FIND THE FREQUENTLY ASKED QUESTIONS (ONLINE CUSTOMER SERVICE CENTER):**

- Website: <http://www.revenue.state.pa.us>
- Click on the **Online Services** tab in the middle and select **Online Customer Service Center**

The screenshot shows the Pennsylvania Department of Revenue website. The header includes the state logo and the text "pennsylvania DEPARTMENT OF REVENUE". A navigation bar contains "pennsylvania PA" and "PA STATE AGENCIES". A left sidebar lists various categories: Individuals, Businesses, Tax Professionals, Forms & Publications, News & Reports, Laws, Policies, Tax Bulletins & Notices, Incentives, Credits and Programs, and Revenue Home. The main content area features a welcome message and a navigation menu with tabs for Online Services, Forms & Publications, Tax Types, Hot Topics, and News R. Below the navigation menu, several links are listed, including "Where's My Refund?", "Where's My Rebate?", "1099-G Information and Access", "Online Customer Service Center", "Revenue e-Services Center", and "Customer Service Feedback". Two red arrows point to the "Online Services" tab and the "Online Customer Service Center" link.

**Individuals**

**Businesses**

**Tax Professionals**

**Forms & Publications**

**News & Reports**

**Laws, Policies, Tax Bulletins & Notices**

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[Email us your tax question](#)

How are we doing? Please take a moment to complete our [Revenue Survey](#)

[Online Services](#) [Forms & Publications](#) [Tax Types](#) [Hot Topics](#) [News R](#)

[Where's My Refund?](#) - find the status of your Personal Income Tax Refund

[Where's My Rebate?](#) - find the status of your Property Tax/Rent Rebate C

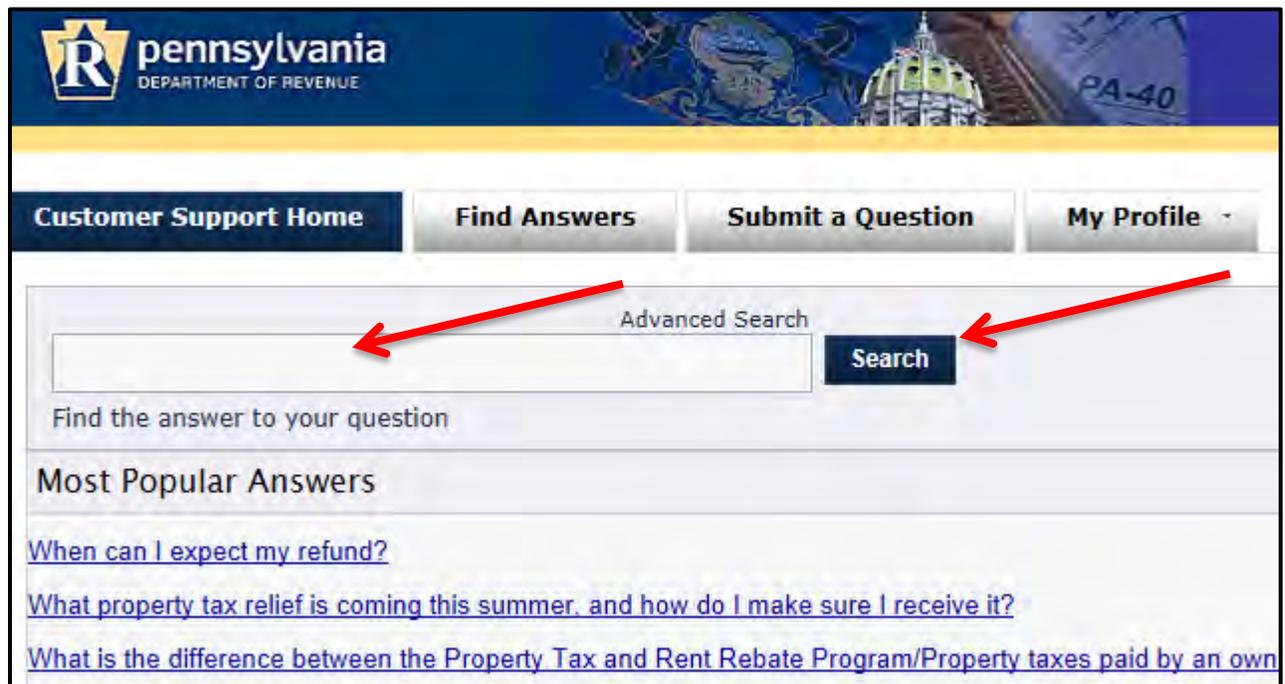
[1099-G Information and Access](#)

[Online Customer Service Center](#) - search for frequently asked questions or

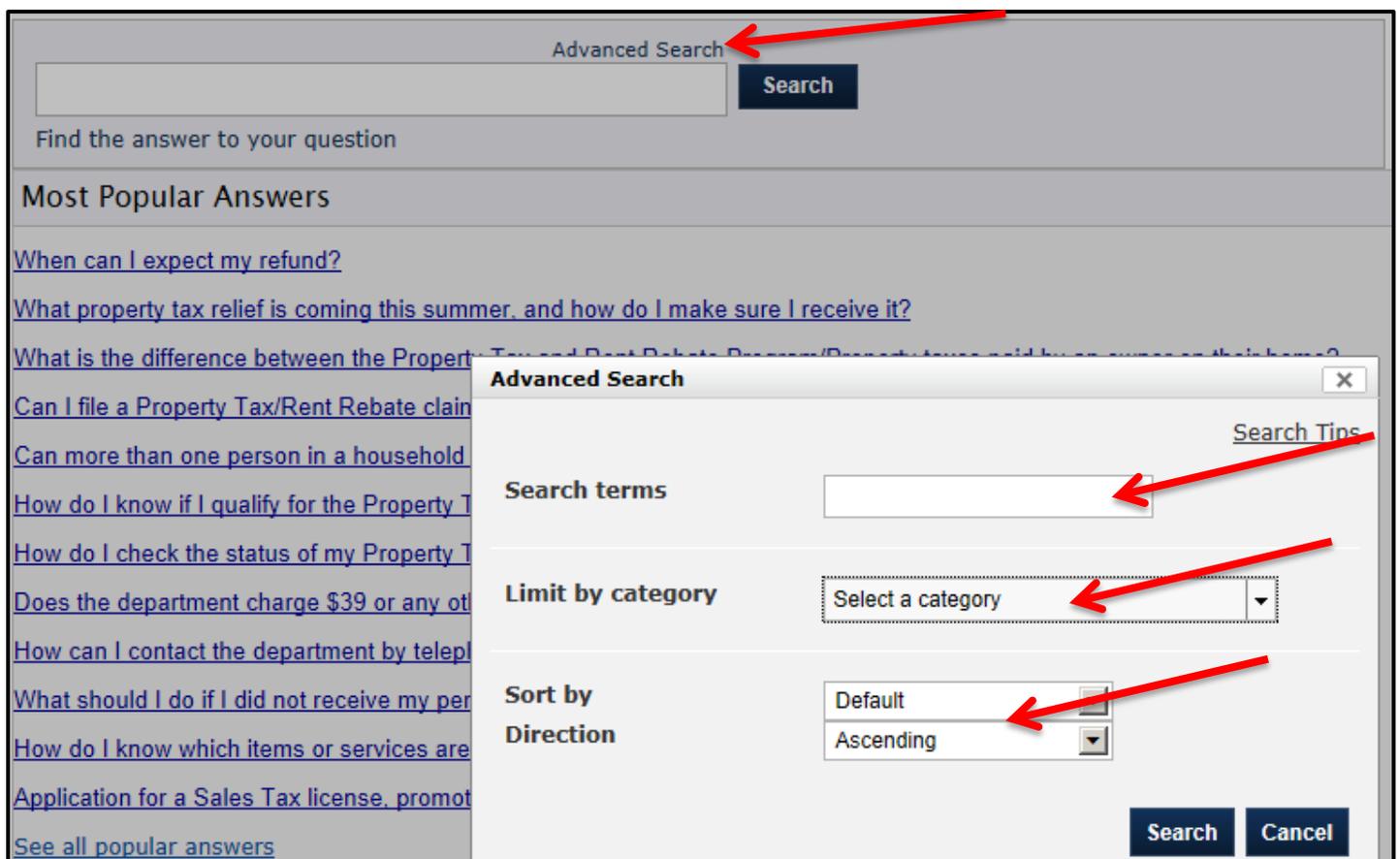
[Revenue e-Services Center](#) - access all of the department's electronic fili

[Customer Service Feedback](#) - take a moment to provide us feedback so

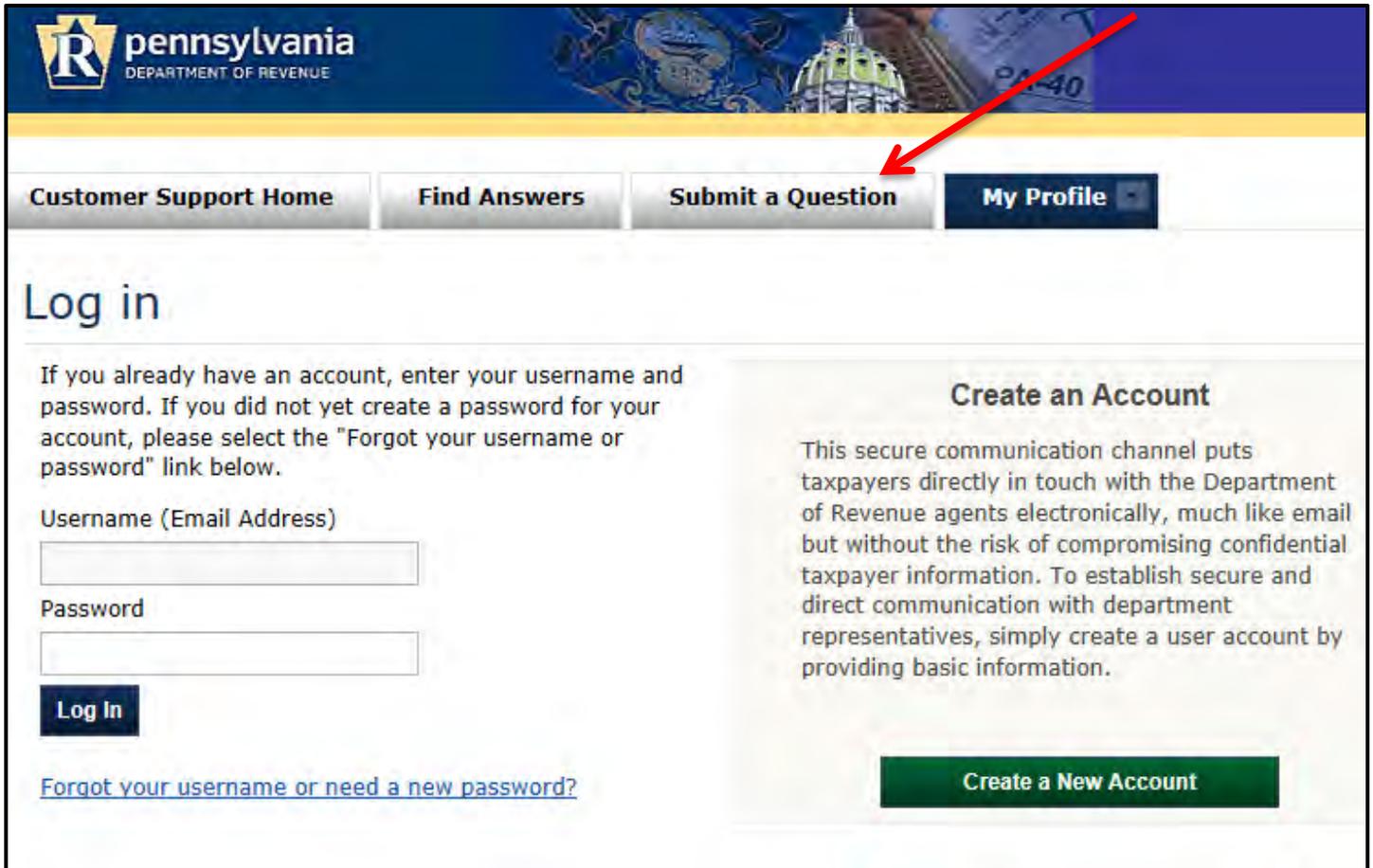
- Enter your question or search terms and select **Search**; your results will be displayed



- You may also narrow your search by clicking on **Advanced Search** and limiting your options by category, date, summary, and/or description



- o Another alternative is to click on **Submit a Question** and you may ask your own question through a registered account



The screenshot shows the top navigation bar of the Pennsylvania Department of Revenue website. The navigation bar includes the following links: **Customer Support Home**, **Find Answers**, **Submit a Question** (highlighted with a red arrow), and **My Profile**. Below the navigation bar is a **Log in** section with the following text: "If you already have an account, enter your username and password. If you did not yet create a password for your account, please select the 'Forgot your username or password' link below." The login form includes fields for **Username (Email Address)** and **Password**, a **Log In** button, and a link for [Forgot your username or need a new password?](#) To the right of the login section is a **Create an Account** section with the following text: "This secure communication channel puts taxpayers directly in touch with the Department of Revenue agents electronically, much like email but without the risk of compromising confidential taxpayer information. To establish secure and direct communication with department representatives, simply create a user account by providing basic information." Below this text is a **Create a New Account** button.

***CORPORATION  
TAXES  
UPDATES***




# 2014 Fall Tax Seminar

## Bureau of Corporation Taxes


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# 2014 Fall Tax Seminar

# Corporation Taxes

Jeff Creveling, CPA – Chief of the Taxing Division [jcreveling@pa.gov](mailto:jcreveling@pa.gov)

Greg Skotnicki – Assistant to the Director  
[gskotnicki@pa.gov](mailto:gskotnicki@pa.gov)

Joe Clover – Corporation Tax Manager  
[jclover@pa.gov](mailto:jclover@pa.gov)

Valerie Greene – Corporation Tax Manager  
[vgreene@pa.gov](mailto:vgreene@pa.gov)

Glenwood Hoskin, Jr. – Corporation Tax Supervisor  
[ghoskin@pa.gov](mailto:ghoskin@pa.gov)



2

## ▶ Topics

- **Prior Legislative Changes**
- **ITS & Completing Reports**
- **Report Review Timeframes**
- **LLCs: Questions & Answers**
- **Termination/Dissolution of Business**
- **Inactive Reports**



7/26/2014

3

## Prior Tax Changes Under Act 52 & 71 of 2013



7/26/2014

4



# Changes Effective 2013



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## ▶ Extension on Corporate Tax Report

- **The federal extension, if granted, will be acceptable in lieu of the Pennsylvania Extension**
- **Extension for Pennsylvania is 30 days beyond the Federal extension date**
- **Not applicable to specialty taxes**



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**RCT-101 (1) (06-12) PAGE 1 OF 6**  
**PA CORPORATE TAX REPORT 20\_\_**

DEPARTMENT USE ONLY

A = 1120 B = 1120S C = 1120C D = 1120F E = 1120H F = 1065 G = 1040 H = Other

**STEP A**

Tax Year Beginning XX  Tax Year Ending XX

**STEP B**

<input checked="" type="checkbox"/> Amended Report	XX	<input type="checkbox"/>	52-53 Week Filer	XX	<input type="checkbox"/>	First Report	XX	<input type="checkbox"/>
<input checked="" type="checkbox"/> Federal Extension Granted	XX	<input type="checkbox"/>	Address Change	XX	<input type="checkbox"/>	KOZ/EIP/SDA Credit	XX	<input type="checkbox"/>
<input checked="" type="checkbox"/> Regulated Inv. Co.	XX	<input type="checkbox"/>	Change Fed Group	XX	<input type="checkbox"/>	File Period Change	XX	<input type="checkbox"/>

**STEP C**

Revenue ID	XX	<input type="text"/>	Parent Corporation EIN	<input type="text"/>
Federal EIN	XX	<input type="text"/>		
Business Activity Code	XX	<input type="text"/>		
Corporation Name	XX	<input type="text"/>		
Address Line 1	XX	<input type="text"/>		
Address Line 2	XX	<input type="text"/>		
City	XX	<input type="text"/>		
State	XX	<input type="text"/>		
ZIP	XX	<input type="text"/>		

USE WHOLE DOLLARS ONLY

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## ▶ Capital Stock/Foreign Franchise Tax

- **For Tax years commencing 2013: .89 Mills**
- **For Tax years commencing 2014: .67 Mills**
- **For Tax years commencing 2015: .45 Mills**
- **Expires for taxable years beginning after Dec. 31, 2015**



**pennsylvania**  
DEPARTMENT OF REVENUE

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## CNI Tax- Net Operating Loss

For Tax Periods Commencing:	The Greater of:
2010-2012	20% or \$3 million
2014	25% or \$4 million
2015 and forward	30% or \$5 million

## Changes Effective 2014



## ▶ Late Filing Penalty

- **If a report for tax years commencing in 2014 forward is filed late the penalty is \$500, plus an additional 1% for every dollar of tax due over \$25,000**



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## ▶ Late Filing Penalty

- **Penalty is imposed on each of the following taxes when report is filed late:**

- Capital Stock/Franchise Tax
- Corporate Net Income Tax
- Each Tax Reported on RCT-101-I
- All Gross Receipt Taxes
- All Gross Premiums Taxes
- All Banks Shares/Loans Taxes
- Marine Underwriting Tax
- Mutual Thrift Tax



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## ▶ Loans Tax Repealed

- **As outlined in Act 71**
- **Loans tax is repealed for tax years commencing after Dec. 31, 2013**



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## ▶ e-file Mandate and EFT Payments

- **Third-party preparers who prepare more than 10 reports fall under the mandate; See Attachment A**
- **EFT payments are required for tax payments of \$1,000 or more**



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## ITS and Completing the RCT-101



7/26/2014

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### The ITS and Forms

- **For efficient processing of reports in the Integrated Tax System (ITS) the forms must follow these guidelines:**
  - **Use Correct Forms (Non-year-specific)**
  - **Completed entirely-no blanks!**
  - **Complete using correct/compatible software**
- **Failure to follow these rules will result in your clients receiving notices and possible tax assessments**
- **So HOW can you avoid this?** 

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## ▶ Correct Forms

- **YOU MUST USE THE NON-YEAR-SPECIFIC RCT-101 AND RCT-128 (See Attachments B & C)**
- **Use the most up-to-date non year specific specialty tax forms and instructions when filing those reports**
- **Year-Specific forms are NOT compatible with the ITS, resulting in delays in report processing. Use of outdated year-specific software will also cause delays**



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## ▶ Correct Forms

- **When a report is rejected, late penalties will be assessed when a report is finally accepted**
- **Amended reports MUST be filed on the current non year specific RCT-101 with the "Amended Report" block checked**
- **DO NOT file or electronically submit multiple copies for same report period- these may be treated as amended and "merge" with prior reports filed, possibly resulting in late penalties**



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**RCT-101** (1) (06-12) **PAGE 1 OF 6**  
**PA CORPORATE TAX REPORT 20\_\_**

DEPARTMENT USE ONLY

A = 1120 B = 1120S C = 1120C D = 1120F E = 1120H F = 1065 G = 1040 H = Other

**STEP A**

Tax Year Beginning XX  Tax Year Ending XX

**STEP B**

Amended Report	XX	<input type="checkbox"/>	52-53 Week Filer	XX	<input type="checkbox"/>	First Report	XX	<input type="checkbox"/>
Federal Extension Granted	XX	<input type="checkbox"/>	Address Change	XX	<input type="checkbox"/>	KOZ/EIP/SDA Credit	XX	<input type="checkbox"/>
Regulated Inv. Co.	XX	<input type="checkbox"/>	Change Fed Group	XX	<input type="checkbox"/>	File Period Change	XX	<input type="checkbox"/>

**STEP C**

Revenue ID	XX	<input type="text"/>	Parent Corporation EIN	<input type="text"/>
Federal EIN	XX	<input type="text"/>		
Business Activity Code	XX	<input type="text"/>		
Corporation Name	XX	<input type="text"/>		
Address Line 1	XX	<input type="text"/>		
Address Line 2	XX	<input type="text"/>		
City	XX	<input type="text"/>		
State	XX	<input type="text"/>		
ZIP	XX	<input type="text"/>		

USE WHOLE DOLLARS ONLY

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▶ Complete Report, NO BLANKS

- **The ITS WILL NOT accept blanks; you must enter numerical values in numerical fields.**
  
- **DO NOT override your software to put alpha characters in numeric fields**



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## History of Earnings

- When completing the History of Earnings, ALWAYS start from the TOP with the earliest year, and complete each subsequent line, the CURRENT book income should be on the Current Book Income line



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## WRONG History of Earnings

SECTION A: CS/FF

OLDEST PERIOD FIRST	TAX PERIOD BEGINNING	TAX PERIOD ENDING	BOOK INCOME	
YEAR 1				Investment Holding Cor Family Firm
YEAR 2	01012009	12312009	10000	
YEAR 3				
YEAR 4	01012010	12312010	10000	
YEAR 5	01012011	12312011	10000	
YEAR 6	01012012	12312012	10000	
YEAR 7				
CUR YR	01012013	12312013	10000	



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## Correct History of Earnings

SECTION A: CS/FF

OLDEST PERIOD FIRST	TAX PERIOD BEGINNING	TAX PERIOD ENDING	BOOK INCOME	
YEAR 1	01012009	12312009	10000	Investment in Holding Com Family Firm
YEAR 2	01012010	12312010	10000	
YEAR 3	01012011	12312011	10000	
YEAR 4	01012012	12312012	10000	
YEAR 5				
YEAR 6				
YEAR 7				
CUR YR	01012013	12312013	10000	



## Schedule B/Bonus Depreciation

- **Page 3 of RCT-101 Schedule B contains the bonus depreciation input items needed to correctly calculate bonus depreciation expense recovery**
- **Be certain to complete Schedules C-3, C-4, and the "100% Bonus Depreciation" cell on the REV-799 form**



## Bonus Depreciation Deduction Info

### RCT-101 (F1) PAGE 3 OF 6 PA CORPORATE TAX REPORT

#### SECTION B: Bonus Depreciation

1. Current year fed. deprec. of 168k prop.
2. Current year adj. for disp. of 168k prop.
3. Other adjustments  
(Attach schedule C-3 if claiming bonus depreciation.)

1		0
2		0
3		0

Business  
Solicitati  
Single-M  
Multi-Me  
PA-S Co  
Taxable

**WRONG!**

### RCT-101 (F1) PAGE 3 OF 6 PA CORPORATE TAX REPORT

#### SECTION B: Bonus Depreciation

1. Current year fed. deprec. of 168k prop.
2. Current year adj. for disp. of 168k prop.
3. Other adjustments  
(Attach schedule C-3 if claiming bonus depreciation.)

1		1,2000
2		100
3		1000

Busines  
Solicitat  
Single-M  
Multi-Me  
PA-S Co  
Taxable

**RIGHT!**



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## CS/FF Tax Checkboxes

- Only check **ONE** check box if used
- **ONLY** use these boxes if you qualify
- Provide all required documentation to support your checkbox claim



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## CS/FF Checkboxes

Investment in LLC	XX	<input type="checkbox"/>
Holding Company	XX	<input type="checkbox"/>
Family Farm	XX	<input type="checkbox"/>



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## "Investment in LLC" Checkbox

- **Not Subject to CS/FF Tax**
- **Do NOT complete the CS/FF Tax calculation**
- **Provide a List of LLCs in which you invest (Name, EIN, Revenue ID, K-1)**
- **Corporation does not qualify if they also invest in Non-LLC partnerships active in Pennsylvania**



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## ▶ “Holding Company” Checkbox

- **Subject to CS/FF Tax (with 10% Apportionment)**
- **Complete the CS/FF Tax calculation**
- **Provide support you pass the Income and Asset Tests**
- **“Holding Company” in name does not automatically qualify an entity**



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## ▶ “Family Farm” Checkbox

- **Not Subject to CS/FF Tax**
- **Do **NOT** complete the CS/FF Tax calculation**
- **Provide details on how you pass the Stockholders test and Asset test**
- **Provide a description of the qualified farming activity**



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## CNI Check Boxes and Taxable Income

- Taxable income calculation should **NOT** be completed if CNI Checkbox is selected (except for “Taxable Built In Gains”)
- If a checkbox is selected and taxable income is entered, the system will calculate tax based on taxable income items entered



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## CNI Checkboxes

• Business Trust	XX	<input type="checkbox"/>
Solicitation Only	XX	<input type="checkbox"/>
Single-Member LLC	XX	<input type="checkbox"/>
Multi-Member LLC	XX	<input type="checkbox"/>
PA-S Corporation	XX	<input type="checkbox"/>
Taxable Built-in Gains	XX	<input type="checkbox"/>



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## ▶ Using the CNI Checkboxes

- **DO check only ONE box if you qualify for Solicitation, LLC, or Business Trust exemption from CNI tax, or you are a PA S Corp (with or without Taxable Built in Gains)**
- **DO NOT check either LLC box if you are an LLC that elects to be treated as a C-Corp or S-Corp Federally**



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## ▶ Apportionment Schedules

- **Page 4 of RCT-101 Schedule A-1 and C-1**
- **Above schedules must reflect figures as reported on RCT-106, RCT-105, or RCT-102 if completed**



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## ▶ Apportionment Schedules

- **When an entity files all 3 factors as 0/0 or leaves them blank, the ITS will interpret this as 100% in Pennsylvania**
- **When the CNI sales factor for tax year commencing after 12/31/2012 is 0/0 or left blank, it is read as 100% in Pennsylvania**



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## ▶ Apportionment Schedules

- **IF YOU ENTER ALL FACTORS AS 0/0, "NONE" OR LEAVE THEM BLANK, YOU WILL BE CONSIDERED 100% TAXABLE IN PENNSYLVANIA**



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## Factors will be interpreted as 100%

### SCHEDULE A-1: Apportionment Schedule For Capital Stock/Foreign Franchise Tax

#### Three Factor

Property - PA	1A	NONE	■	1C	<input type="text"/>
Property - Total	1B	NONE	■		
Payroll - PA	2A	NONE	■	2C	<input type="text"/>
Payroll - Total	2B	NONE	■		
Sales - PA	3A	NONE	■	3C	<input type="text"/>
Sales - Total	3B	NONE	■		



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## Completing Factors Properly

- Enter numbers in the denominator to the extent that they exist
- Enter numbers in the numerator even if the numerator is zero in PA
- All amounts on apportionment schedules differing from information on the FF1120/1120S/1065 must be reconciled



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## Correctly Completed Factors

### SCHEDULE A-1: Apportionment Schedule For Capital Stock/Foreign Franchise Tax (In

Three Factor					Si	
Property-PA	1A		0	1C	0.000000	Ni
Property -Total	1B		110000			Di
Payroll-PA	2A		0	2C		
Payroll-Total	2B		0			
Sales-PA	3A		10000	3C	0.100000	Aj
Sales-Total	3B		100000			Pr



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## Special Situations

- **If you are a foreign corporation with no actual property, payroll or sales of any kind, you should file factors of 0/1**
- **If the three factors and the single factor are both completed, the larger apportionment will be used**



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## Special Situations

- **If the "Holding Co" box is checked, be certain to also enter "1/10" for the single factor**
- **If other factors are provided and the Holding Company Box is checked, Holding Company Apportionment (10%) will be used if it's larger than the factors as completed**



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## Special Situations

- **Corporations with investments in partnerships are also required to include in their reported apportionment the partnership apportionment proportional to their ownership of the partnership. This is required even when the partnership has no Pennsylvania activity**



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## **RCT-128 Report Form Items**

- **The final audit/federal amended date MUST be provided on page 1**
- **If not, the due date of the original RCT-101 will be used to calculate interest. Also the \$5 a day late penalty will be charged when tax increases are reported on the RCT-128**



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## **RCT-128 Report Form Items**

- **The Bonus Depreciation Schedule B and the Apportionment Schedule C-1 on the RCT-128 MUST be completed as previously filed on the RCT-101, unless affected by the federal changes**
- **If the schedules are not completed, apportionment will be treated as 100% PA and bonus depreciation deduction may be denied**



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## ▶ "Misfit" Reports

- **Reports (paper or e-filed) that cannot be processed in the ITS include:**
  - **Reports for tax years Commencing prior to 2001**
  - **Regulated Investment Company**
  - **Section 381/382 Net Operating Loss usage**
  - **Report Claiming Extra Statutory Treatment**
  - **Corporation claiming 2 distinct activities**



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## ▶ "Misfit" Reports

- **To ensure proper receipt, posting of tax, and processing send PAPER copies of these reports with a short explanation of what is being done to:**

Department of Revenue  
 Bureau of Corporation Taxes  
 P.O. Box 280704  
 Harrisburg, PA 17128-0704



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## ▶ What Happens When It's Wrong?

- **The ITS will correct math and other errors**
- **A Notice of Adjustment, with worksheets showing the changes is created, as well as a Billing Notice and Statement of Account**
- **If there is an unpaid tax increase, a subsequent Notice of Assessment will be issued within 45 days**



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## ▶ Notice of Adjustment - Normally

- **The Notice of Adjustment details the available petition rights**
  - **File a Petition for Reassessment WHEN YOU RECEIVE THE NOTICE OF ASSESSMENT**
  - **File a Petition for Refund (if the tax was paid by available credit)**
  - **File a Petition for Review (no tax change issues)**



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## ▶ Notice of Adjustment-Dep't Error

- **If the Department erred, we will attempt to correct our mistakes**
- **Send a copy of the notice by fax to 717-783-5432 and indicate the error made**

**OR**

**E-mail same to:**

**[RA-RVNOTICEOFADJUSTM@pa.gov](mailto:RA-RVNOTICEOFADJUSTM@pa.gov)**



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## ▶ Notice of Adjustment-Dep't Error

- **Do not send duplicate requests**
- **Do not contact multiple tax personnel regarding the issue**
- **Do not continue to contact the department for status of your submission**



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## ▶ Notice of Adjustment-Filing Error

- **If the preparer made a mistake in completion of the report, the department will NOT make the corrections for you**
- **An amended report should be filed to correct any of the items discussed in previous slides in this section**



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## ▶ Department Action on Submitted Info

- **The department will review submissions, and revised notices will be created if correction is warranted, or a letter sent detailing the reason for rejection**
- **Billings and statements will NOT be suspended until the issue is resolved**



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## ▶ Department Action on Submitted Info

- **Sending additional information or filing an amended report will not affect your appeal rights, as outlined in 61 Pa Code § 151.14(d)(2)**
- **Wait for receipt of Notice of Assessment if filing a petition**



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## Corporation Tax Report Timeframes



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## ▶ When is the RCT-101 Report Due?

- **72 PS §7403(a) calendar year filer reports are due April 15<sup>th</sup> of the subsequent filing period**
- **72 PS §7403(e) fiscal year filer reports are due one month after the federal filing**
- **Tax Bulletin #118 (June 2006) PA Corp Tax reports are due to the Department 1 month after federal filing due date**



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## ▶ Extension Filed?

- **For tax years commencing in 2013, if the federal extension is granted, PA accepts that extension**
- **No separate PA extensions required**



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## ▶ Extension Filed?

- **72 PS §7405 - PA extended due date is 30 days after federal extended due date**
- **A 60-day Pennsylvania extension can be filed if federal not filed (REV-853)**



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## ▶ Received Dates of Reports

- **72 PS §7403.1 - U.S.P.S. postmarked date of report is considered the received date of report**
- **If not U.S.P.S. postmarked, the received date is the date the department receives the report**



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## Standard Assessment Period

- **Once a report is received, the department has three years in which to assess additional tax**
- **72 PS §7407.3(f)- for assessment purposes, reports filed early are deemed to have been filed on the due date**



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## Standard Assessment Period

- **The three-year period starts as of the later of**
  - **Received Date of Report**
  - **Due Date/Extended Due Date of Report**



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## ▶ Amended Report Affect

- **PA Code 61 § 151.14(b)(1)- the amended report must be filed within 3 years of the filing of original report**
- **Amended reports must have a consent to extend, which is in the signature section**



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## ▶ Amended Report Affect

- **PA Code 61 § 151.14(c) - The timeframe to process a report when an amended has been filed is the greater of:**
  - **Three years from later of original received date or due date/extended due date of report**
  - **One year from the received date of the amended report**



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## ▶ Report of Change Affect

- **72 PS §7406(a)- Reports of change are due to the Department as follows:**
  - Tax periods prior to 2013- within 30 days of final audit acceptance/federal amended filed
  - Federal changes on tax periods commencing 2013 forward - 6 months



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## ▶ Report of Change Affect

- **The Report of Change is considered the same as filing a corporate tax report**
- **The same three-year rules apply to RCT-128, any CNI tax items may be changed**



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## ▶ Report of Change Affect

- **Addition Assessment of tax on RCT-128 must be made within *its* three-year filing timeframe**
- **72 PS §7407(b)- The department has unlimited time to review federal amended/audit changes filed on original reports processed under settlement**



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**See Attachment D regarding report forms, due date, and extension-related information**



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## LLCs: Questions and Answers



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### ▶ What is an LLC ?

- **LLC is a business structure allowed by state statutes, popular since owners have the limited personal liability for corporate debt, with the partnership flexibility of management and pass through taxation**
- **LLC is not a recognized federal classification, they must file as a corporation, partnership or sole proprietor**
- **Banks and insurance companies cannot be LLCs, most other type companies may form as an LLC**



8/7/2012

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## ▶ What is an LLC ?

- **IN PA there are some limitations on LLCs:**
  - Name must contain “LLC/Limited Liability Company”, “Limited/Ltd.” or “Company/Co.”
  - Disregarded LLCs cannot register as “Non Profit/Non Stock” with Department of State
  - LLCs are “formed”, not incorporated



8/7/2012

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## ▶ How is Book Income Calculated for a LLC

- The taxpayer **MAY** take distributions as a deduction from Book Income if distributions are to materially participating members
- A REV-961 Schedule A-3 with both Section A and B completed is required to report the Distributions-See Attachment E
- There is no partnership payroll to the actual partners, they take distributions, which are deductible from book income if they are materially participating members



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## ▶ Who Qualifies for “Material Participation”

### Defined under IRC §469

- **Natural Persons (and persons in partnerships)**
- **Closely Held C Corps (65% of shares held by five or fewer shareholders)**
- **Estates**
- **Trusts**
- **Personal Service Corporations**



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## ▶ What is “Material Participation”

**If the “Material Participant” Performs ANY of the following, this qualifies as Material Participation**

- **Worked more than 500 hours in the activity during the year**
- **Performed substantially all the work in the activity**
- **Worked more than 100 hours in the activity and more than anyone else (including non owners)**
- **Worked more than 100 hours but fewer than 500 hours in 2 or more businesses, and the total of all hours is over 500 hours.**



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## ▶ What is "Material Participation"

- **Materially participated in the activity for any five of the last 10 years**
- **If a Personal Service Activity, materially participated in any three prior years**
- **Under all the facts and circumstances, did the material participator work on a regular, continuous and substantial basis in the activity- Not applicable if anyone was paid compensation in connection with management of the activity**



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## ▶ Are LLCs Exempt from Corporate Tax Filings?

- **Since LLCs are defined as corporations under Pennsylvania statute and regulation; they ARE subject to capital stock/foreign franchise tax**
- **LLCs are defined as a corporations by electing to be treated as a C-Corp federally, or as an S-Corp federally (to the extent of Built-In Gains); they ARE subject to Pennsylvania corporate net income tax**



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## ▶ Which Entity is required to File?

- **This may happen when dealing with multi-tiered entities**
- **Make sure the correct entity is filing with the department**
- **Investment in an underlying LLC whose only connection to Pennsylvania is that the underlying LLC had a Pennsylvania resident investor would not subject the investing corporation to Pennsylvania corporation taxes**



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## ▶ Which Entity is required to File?

- **If a Foreign LLC**
  - **is not a registered foreign corp through the Pennsylvania Department of State**
  - **is not treated Federally as C Corp or S Corp**
  - **it only invests in an underlying LLC active in Pennsylvania**

**Then.....**



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## ▶ Which Entity is required to File?

- **The foreign LLC would NOT have a filing requirement because**
  - **The underlying LLC pays the CS/FF tax**
  - **Foreign LLC is not subject to the CNI Tax**
  - **Income from the underlying LLC would flow upward to the corporate members of the foreign LLC**



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## ▶ My LLC invests in Partnerships, is it subject?

- **Yes, unless it is an unregistered foreign LLC whose only activity is investment in underlying partnership that is a**
  - **PA LLC that elected to be treated as a C Corp or S Corp**
  - **GP/LP/LLP, etc. electing to be treated as a corporation**
- **This is because the underlying entities are corporations subject to CS/FF and CNI Tax**



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### ▶ Can an S Corp LLC be treated as a C Corp?

- They CAN elect to be treated as PA C Corp
- However, if the S Corp LLC is a subsidiary, then the parent corporation must file the election to be treated as PA C Corp
- A SMLLC-Business Entity disregarded from an S Corp is still an LLC and cannot elect to be treated as a PA C Corp
- PA C Corp election lasts for at least five years, even if filed in error



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### ▶ SMLLC owned by a person; balance sheet?

- Yes, a SMLLC owned by natural persons are required to file a balance sheet, book to tax income reconciliation, and a reconciliation of members capital account
- Completed REV-860 can be submitted in lieu of the above; See Attachment F
- In addition, an income statement or federal Schedule C, E, or F must be provided



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## ▶ LLCs and Corporate Officers filings

- **LLCs are required to provide a list of members in comparable officer positions**
- **This can be provided by completing the “Corporate Officers” section of the report being filed (usually last page of report), or by completing REV-1605**



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## ▶ What Reports should a SMLLC use?

- **ALL reports filed with the department (paper or electronically filed) must be filed on the current NON-YEAR-SPECIFIC forms, regardless of the tax year end**
- **Do NOT use old software that creates year specific forms when preparing past due reports**



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## SMLLCs and Late Filing Penalties

- **ALL reports that are filed late are subject to penalties (based on statutes), provided the entity is subject to filing a corporation tax**
- **12/31/2013 Late SMLLC Report- CS/FF Tax is \$0, not subject to CNI Tax- No penalty charged, only CS/FF is considered late**
- **12/31/2014 Late SMLLC Report- CS/FF tax is \$0, Late Penalty \$500, not subject to CNI/ NO penalty, only CS/FF is considered late**



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## Termination/Dissolution of Business



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## ▶ Closing out a Corporate Tax Account

- **Certain documentation is required to be filed with the department to close the corporate tax filing requirement**
- **Foreign Corporation - Withdraws from PA**
- **Domestic Corporation - Goes Out of Existence**



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## ▶ Closing out a Corporate Tax Account

- **Corporation may cease the corporation tax filing requirement but retain their Articles of Incorporation/Certificate of Authority to do business in PA**
- **Corporation may cease the corporation tax filing requirement as well as surrendering their Articles of Incorporation/Certificate of Authority to do business in PA**



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## Corporate Status Changes

- **Section E (RCT-101) or Section J (RCT-101-I) can be completed to indicate final report**
- **If accepted as final, you cease your filing requirement but retain the Articles of Incorporation/Certificate of Authority do business**
- **No other special document is needed to authorize the report to be final**



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## Corporate Status Changes

- **PA Schedule DA must be completed to provide distribution of all (PA) Assets**
- **DON'T file an Amended report to ONLY complete the "Corp Status Changes" section, the amended WILL be rejected**



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## ▶ REV-238 OE/Withdrawal Affidavit

- **Use if a report has been filed and subsequently you intended it to be final**
- **If accepted as final, it ceases your filing requirement but allows you to retain Articles of Incorporation/ Certificate of Authority to do Business in PA**
- **Schedule DA must also be completed and submitted**



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## ▶ REV-181 Tax Clearance Certificate

- **REV-181 performs a similar function as the REV-238: can be used to close out and/or get clearance for a variety of PA taxes (sales tax, corporation tax, cigarette tax, etc)**
- **If accepted as final, entity ceases its corporate tax filing requirement as well as surrendering the Articles of Incorporation/Certificate of Authority to do Business in PA**



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## **DSCB: 15-134B Docketing Statement**

- **This form is filed with the Department of State to report changes**
- **If accepted as final, entity ceases its corporate tax filing requirement as well as surrendering the Articles of Incorporation/Certificate of Authority to do Business in PA**



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## **DSCB: 15-134B Docketing Statement**

- **The Docketing Statement can be used to perform a variety of final filings with the department such as**
  - **Mergers**
  - **Dissolution by Shareholders**
  - **Conversion (Profit to Non-Profit)**
  - **Statement of Termination**



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### Remember when filing final report...

- **Be sure to provide details showing distribution of all assets, including the name, EIN, and Revenue ID of the PA Corporate buyers**
- **All Pennsylvania assets must be distributed prior to tax year end (or report is "NOT FINAL")**
- **Support is REQUIRED for sale of property/land (HUD documents, etc.) and Liquor License**



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### Remember when filing final report...

- **FF4797/Schedule D should be provided when filed reflecting all asset sold (provide details)**
- **If a merger occurs, the entity must provide a balance sheet prior to merger, regardless of federal requirements - zero balance sheets are NOT acceptable**



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## Remember when filing final report...

- **If merger occurs provide a copy of the articles of merger**
- **If a merger occurs and the survivor files in Pennsylvania, the survivor IS entitled to the tax attributes of the merging entity but does NOT include the History of Earning of the merging entity with the survivor**



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## Inactive Report RCT-101-I



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## ▶ What is it and when can it be filed?

- **The RCT-101-I is a report with minimal information provided to the department; See Attachment G**
- **It should be filed ONLY if the entity has**
  - **NO ASSETS ANYWHERE AT ANY TIME**
  - **NO LIABILITIES ANYWHERE AT ANY TIME**
  - **NO OWNER EQUITY AT ANY TIME**
  - **NO INCOME AT ANY TIME**
  - **NO EXPENSE AT ANY TIME**



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## ▶ What is it and when can it be filed?

- **If the entity has even one of the five items mentioned in the prior slide, the RCT-101-I CANNOT BE FILED**
- **The RCT-101-I CAN be filed as a final report by completing Section J**
- **Foreign corporations should NOT use the RCT-101-I if they have 0% in Pennsylvania AND they conduct activity outside PA**



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## ▶ RCT-101-I and Late Penalties

- **If the RCT-101-I is filed late for tax years commencing 2014 forward, the \$500 late penalty WILL still apply to EACH tax reported on that form (CS/FF and CNIT)**
- **This is because the RCT-101-I is a report just like the RCT-101 and follows the same statutes and regulations**



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## ▶ RCT-101-I and Minimum Tax Years

- **If the RCT-101-I is filed for tax years commencing prior to 2000, the corporation is STILL subject to the Minimum Tax that year on the CS/FF tax**
- **This is because the RCT-101-I is a report just like the RCT-101 and follows the same statutes and regulations**



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**Exception to the Rule: Reinstatements**

- If an entity goes out-of-existence or withdraws from PA, then decides to begin activity in PA again, reports must be filed for the interim "inactive" periods
- When filing these interim reports, mark the Reinstatement Box on RCT-101-I
- These reports will not be considered late (no penalty) and no minimum tax will be due (for tax years commencing prior to 2000)



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REVENUE ID [ ] TAX YEAR END [ ] NAME [ ]  
 RCT-101-I (0) PAGE 3 OF 3 INACTIVE PA CORPORATE TAX REPORT 20\_\_

STEP J: CORPORATE STATUS CHANGES

Final Report XX

PA Corporations:

Did you ever transact business anywhere? XX  If yes, enter date all business activity ceased XX [ ]

Did you hold assets anywhere? XX  If yes, enter date of final disposition of assets XX [ ]

Foreign Corporations:

Did you ever transact business in PA? XX  If yes, enter date PA business activity ceased XX [ ]

Did you hold assets in PA? XX  If yes, enter date of final disposition of PA assets XX [ ]

Reinstatement XX  Effective Date of Reinstatement XX [ ]

101010101



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## **RCT-101-I and Tail Earnings**

- **If a domestic corporation ceases all activity and distributes all assets but does NOT file the REV-238 or mark the report final it may be affected by tail earnings**
- **The report for the “inactive” periods can be filed using the RCT-101-I and checking the Reinstatement checkbox**



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## **RCT-101-I and Tail Earnings**

- **The first ACTIVE period should use the RCT-101 AND would be required to use the five-year History of Book Income**
- **This is due to the fact they never went out of existence, so the History exists**
- **Outlined under 61 PA Code §155.26(i-j)**



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**Contact Information  
See Attachment H**



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# NOTICES

# ATTACHMENT A

## Method of Filing; Pennsylvania Corporate Tax Report, RCT-101

[43 Pa.B. 5773]

[Saturday, September 28, 2013]

The Secretary of the Department of Revenue (Department) issues this notice under the provisions of section 10 of The Fiscal Code (72 P. S. § 10). This notice is effective immediately and applies to reports filed for tax years beginning on or after January 1, 2013, during calendar years beginning on or after January 1, 2014.

### *Filing Mandate—Pennsylvania Corporate Tax Report, RCT-101*

For all calendar years following a calendar year in which a third party preparer prepares 11 or more Pennsylvania Corporate Tax Reports, the third party preparer is required to electronically file (e-file) in the manner prescribed by Departmental instructions all such Pennsylvania Corporate Tax Reports. Once a third party preparer is subject to this filing mandate, the third party preparer shall continue to be subject to the mandate regardless of how many Pennsylvania Corporate Tax Reports he or she prepares during a calendar year.

A third party preparer who is subject to this filing mandate must have tax software that is compatible with Department e-filing requirements.

### *Rules applicable to the Filing Mandate*

(a) *Third Party Preparer.* For purposes of this notice, the phrase "third party preparer" means any natural person, fiduciary, corporation or other entity who or that prepares for remuneration, or who employs one or more persons to prepare for remuneration, any return for a tax administered by the Department or is assigned a Preparer Tax Identification Number (PTIN) by the Internal Revenue Service. None of the following, however, are considered third party preparers for remuneration: (1) Tax return preparers who voluntarily prepare the returns of others for no pecuniary benefit. (2) Persons who merely provide mechanical assistance such as typing. (3) Regular employees of an employer who prepare returns for other regular employees of the employer or the employer's officers and regular employees. (4) Fiduciaries who prepare returns for the trusts or estates that they serve.

(b) *11 Report Threshold.* A third party preparer must include all Pennsylvania Corporate Tax Reports that the third party preparer, or his or her members, or employees prepare and submit to the Department. This amount includes all original and amended, resident or non-resident, full-year or part-year reports to the extent that such report can be e-filed with the Department. If a third party preparer has multiple business locations, the combined total of all the reports for all locations are included.

### *Penalty*

A third party preparer who fails to file Pennsylvania Corporate Tax Reports by the method required under this notice shall be subject to a penalty of one percent of the tax due on the improperly filed report up to a maximum of five hundred dollars (\$500), but not less than ten dollars (\$10).

### *Penalty Waiver*

(a) The Department will waive the penalty applicable to a report that is not filed pursuant to this filing mandate in the following situations:

(1) The taxpayer has specifically directed the third party preparer to file the report pursuant to a different filing method than mandated in this notice. This directive must be in a written form, signed by an officer of the corporation, and provided to the Department upon request.

(2) The preparer's tax software does not support e-filing of a required attachment to the report.

(b) The Department, at its discretion, may waive the penalties applicable to reports that are not filed as prescribed in this notice if the Department determines the filing mandate of this notice constitutes undue hardship on the third party preparer. The third party preparer must submit a written request for the waiver for every calendar year. The request must clearly explain why the filing method causes an undue hardship. A request for a waiver shall be mailed to the Pennsylvania Department of Revenue at the following address by November 1st of the preceding calendar year for which the waiver is requested:  
Pennsylvania Department of Revenue, Bureau of Corporation Taxes, Director's Office, P. O. Box 280700, Harrisburg, PA 17128-0700.

DANIEL MEUSER,  
Secretary

[Pa.B. Doc. No. 13-1814. Filed for public inspection September 27, 2013, 9:00 a.m.]

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# ATTACHMENT B

1010013101



RCT-101 (I) (07-13) PAGE 1 OF 6  
PA CORPORATE TAX REPORT 20\_\_

DEPARTMENT USE ONLY

A = 1120 B = 1120S C = 1120C D = 1120F E = 1120H F = 1065 G = 1040 H = Other

### STEP A

Tax Year Beginning XX  Tax Year Ending XX

### STEP B

Amended Report	XX	<input type="checkbox"/>	52-53 Week Filer	XX	<input type="checkbox"/>	First Report	XX	<input type="checkbox"/>
Federal Extension Granted	XX	<input type="checkbox"/>	Address Change	XX	<input type="checkbox"/>	KOZ/EIP/SDA Credit	XX	<input type="checkbox"/>
Regulated Inv. Co.	XX	<input type="checkbox"/>	Change Fed Group	XX	<input type="checkbox"/>	File Period Change	XX	<input type="checkbox"/>



### STEP C

Revenue ID	XX	<input type="text"/>	Parent Corporation EIN	<input type="text"/>
Federal EIN	XX	<input type="text"/>		
Business Activity Code	XX	<input type="text"/>		
Corporation Name	XX	<input type="text"/>		
Address Line 1	XX	<input type="text"/>		
Address Line 2	XX	<input type="text"/>		
City	XX	<input type="text"/>		
State	XX	<input type="text"/>		
ZIP	XX	<input type="text"/>		

USE WHOLE DOLLARS ONLY

### STEP D

**A. Tax Liability from Tax Report**  
(can not be less than zero)

**B. Estimated Payments & Credits on Deposit**

**C. Restricted Credits**

**STEP E: Payment Due/Overpayment**  
Calculation: A minus B minus C  
See Instructions

CS/FF	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
LOANS	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
CNI	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
TOTAL	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

### STEP F: Transfer/Refund Method (See instructions.)

E-File Opt Out (See instructions.)

**Transfer:** Amount to be credited to the next tax year after offsetting all unpaid liabilities

**Refund:** Amount to be refunded after offsetting all unpaid liabilities

### STEP G: Corporate Officer (Sign affirmation below)

NAME

PHONE

EMAIL

FORM

BARCODE

I affirm under penalties prescribed by law, this report, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct and complete report. If this report is an amended report, the taxpayer hereby consents to the extension of the assessment period for this tax year to one year from the date of filing of this amended report or three years from the filing of the original report, whichever period last expires, and agrees to retain all required records pertaining to that tax and tax period until the end of the extended assessment period, regardless of any statutory provision providing for a shorter period of retention. For purposes of this extension, an original report filed before the due date is deemed filed on the due date. I am authorized to execute this consent to the extension of the assessment period.

Corporate Officer Signature	Date
-----------------------------	------

REVENUE ID  
TAX YEAR END  
RCT-101 (1) PAGE 2 OF 6

NAME  
PA CORPORATE TAX REPORT 20\_\_

SECTION A: CS/FF

OLDEST PERIOD FIRST	TAX PERIOD BEGINNING	TAX PERIOD ENDING	BOOK INCOME
YEAR 1			
YEAR 2			
YEAR 3			
YEAR 4			
YEAR 5			
YEAR 6			
YEAR 7			
CUR YR			

Investment in LLC

Holding Company

Family Farm



USE WHOLE DOLLARS ONLY

- 2. **TOTAL BOOK INCOME** (sum of income for all tax periods up to, but not over 5 years total) 2
- 3. **DIVISOR** (in years and in part years rounded to three decimal places) See instructions. 3
- 4. Divide Line 2 by Line 3. 4
- 5. **AVERAGE BOOK INCOME** - Enter Line 4, or if Line 4 is less than zero enter "0". 5
  
- 6. Divide Line 5 by 0.095. 6
- 7. Shareholders' equity at the **END** of the current period 7
- 8. Shareholders' equity at the **BEGINNING** of the current period 8
- 9. If Line 7 is more than twice as great or less than half as much as Line 8, add Lines 7 and 8 and divide by 2. Otherwise enter Line 7. 9
  
- 10. **NET WORTH** - Enter Line 9, or if Line 9 is less than zero enter "0". 10
- 11. Multiply Line 10 by 0.75. 11
- 12. Add Lines 6 and 11. 12
- 13. Divide Line 12 by 2. 13
- 14. Valuation deduction 14
- 15. **CAPITAL STOCK VALUE** - Line 13 minus Line 14, but not less than zero. If 100% taxable, enter Line 15 on Line 17. 15
  
- 16. Proportion of taxable assets or apportionment proportion (from Schedule A-1, Line 5) 16
- 17. **TAXABLE VALUE** - Multiply Line 15 by Line 16. If less than zero, enter "0". 17
- 18. **CAPITAL STOCK/FOREIGN FRANCHISE TAX** - Multiply Line 17 by \_\_\_\_\_. 18

Total Beginning of Taxable Year Assets

Total End of Taxable Year Assets



REVENUE ID  
TAX YEAR END  
RCT-101 (I) PAGE 3 OF 6

NAME  
PA CORPORATE TAX REPORT 20\_\_

SECTION B: Bonus Depreciation

- 1. Current year fed. deprec. of 168k prop. **1**
  - 2. Current year adj. for disp. of 168k prop. **2**
  - 3. Other adjustments **3**
- (Attach schedule C-3 if claiming bonus depreciation.)


- Business Trust **XX**
- Solicitation Only **XX**
- Single-Member LLC **XX**
- Multi-Member LLC **XX**
- PA S Corporation **XX**
- Taxable Built-in Gains **XX**




USE WHOLE DOLLARS ONLY

SECTION C: CORPORATE NET INCOME TAX

- 1. Income or loss from federal return on a separate-company basis **1**
  
- 2. DEDUCTIONS:
  - A. Corporate dividends received (from Schedule C-2, Line 6) **2A**
  - B. Interest on U.S. securities (GROSS INT minus EXPENSES) **2B**
  - C. Curr yr. addtl. PA deprec. plus adjust. for sale (Attach Schedule C-3.) **2C**
  - D. Other (Attach schedule.) See instructions. **2D**
  - TOTAL DEDUCTIONS - Sum of A through D** **2**
  
- 3. ADDITIONS:
  - A. Taxes imposed on or measured by net income (Attach schedule.) **3A**
  - B. Tax preference items (Attach copy of federal Form 4626.) **3B**
  - C. Employment incentive payment credit adjustment (Attach Schedule W.) **3C**
  - D. Current year bonus depreciation (Attach Schedule C-3.) **3D**
  - E. Other (Attach schedule.) See instructions. **3E**
  - TOTAL ADDITIONS - Sum of A through E** **3**
  
- 4. Income or loss with Pennsylvania adjustments (Line 1 minus Line 2 plus Line 3) **4**
- 5. Total nonbusiness income or loss **5**
- 6. Income or loss to be apportioned (Line 4 minus Line 5) **6**
- 7. Apportionment proportion (from Schedule C-1, Line 5) **7**
- 8. Income or loss apportioned to PA (Line 6 times Line 7) **8**
- 9. Nonbusiness income or loss allocated to PA **9**
- 10. Taxable income or loss after apportionment (Line 8 plus Line 9) **10**
- 11. Total net operating loss deduction (from RCT-103) **11**
- 12. PA taxable income or loss (Line 10 minus Line 11) **12**
- 13. Corporate net income tax (Line 12 times \_\_\_\_\_; if Line 12 is less than zero, enter "0") **13**



REVENUE ID  
TAX YEAR END  
RCT-101 (I) PAGE 4 OF 6

NAME  
PA CORPORATE TAX REPORT 20\_\_

SECTION D: LOANS TAX

- 1. Foreign corporations only. Did this corporation have a fiscal officer resident in Pennsylvania? XX
- 2. Did this corporation have indebtedness outstanding to individual residents and/or partnerships resident in Pennsylvania? XX
- 3. Did this corporation have indebtedness outstanding held by a trustee, agent or guardian for a resident individual taxable in its own right or by an executor or administrator of an estate wherein the decedent was a resident of Pennsylvania? XX



List outstanding indebtedness. Attach a separate schedule if additional space is needed.

Interest Amount	Interest Rate	Taxable Value	Taxable Indebtedness	XX	<input type="checkbox"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>		XX	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	Loans Tax	XX	<input type="text"/>

SCHEDULE A-1: Apportionment Schedule For Capital Stock/Foreign Franchise Tax (Include Form RCT-102, RCT-105 or RCT-106.)

Three Factor			Single Factor				
Property - PA	1A	<input type="text"/>	1C	<input type="text"/>	Numerator	4A	<input type="text"/>
Property - Total	1B	<input type="text"/>			Denominator	4B	<input type="text"/>
Payroll - PA	2A	<input type="text"/>	2C	<input type="text"/>	Apportionment Proportion	5	<input type="text"/>
Payroll - Total	2B	<input type="text"/>					
Sales - PA	3A	<input type="text"/>	3C	<input type="text"/>			
Sales - Total	3B	<input type="text"/>					

SCHEDULE C-1: Apportionment Schedule For Corporate Net Income Tax (Include Form RCT-106.) \*

Three Factor			Single Factor				
Property - PA	1A	<input type="text"/>	1D	<input type="text"/>	Numerator	4A	<input type="text"/>
Property - Total	1B	<input type="text"/>			Denominator	4B	<input type="text"/>
Payroll - PA	2A	<input type="text"/>	2D	<input type="text"/>	Apportionment Proportion	5	<input type="text"/>
Payroll - Total	2B	<input type="text"/>					
Sales - PA	3A	<input type="text"/>	3D	<input type="text"/>			
Sales - Total	3B	<input type="text"/>					

\* Refer to the instructions in the CT-1 PA Corporation Tax Booklet (REV-1200) found at www.revenue.state.pa.us.



REVENUE ID [ ] TAX YEAR END [ ] NAME [ ] RCT-101 (1) PAGE 5 OF 6 PA CORPORATE TAX REPORT 20\_\_

SECTION E: CORPORATE STATUS CHANGES

Final Report XX [ ]

PA Corporations:

Did you ever transact business anywhere? XX [ ] If yes, enter date all business activity ceased XX [ ]
Did you hold assets anywhere? XX [ ] If yes, enter date of final disposition of assets\* XX [ ]

Foreign Corporations:

Did you ever transact business in PA? XX [ ] If yes, enter date PA business activity ceased XX [ ]
Did you hold assets in PA? XX [ ] If yes, enter date of final disposition of PA assets\* XX [ ]



\*Schedule of Disposition of Assets must be completed and filed with this report.

Has the corporation sold or transferred in bulk 51 percent or more of any class of assets? (See instructions.) XX [ ]
If yes, enter the following information. (Attach a separate schedule if additional space is needed.)

Purchaser Name XX [ ]
Address Line 1 XX [ ]
Address Line 2 XX [ ]
City XX [ ]
State XX [ ]
ZIP XX [ ]

SECTION F: GENERAL INFORMATION QUESTIONNAIRE

Describe corporate activity in PA [ ]
Describe corporate activity outside PA [ ]
Other states in which taxpayer has activity [ ]

State of Incorporation XX [ ] Incorporation Date XX [ ]

- 1. Does any corporation, individual or other business entity hold all or a majority of the stock of this corporation? XX [ ]
2. Does this corporation own all or a majority of stock in other corporations? If yes, complete Schedule X. XX [ ]
3. Is this taxpayer a partnership that elects to file federal taxes as a corporation? XX [ ]
4. Has the federal government changed taxable income as originally reported for any prior period for which reports of change have not been filed in PA? XX [ ]

If yes: First Period End Date: XX [ ] Last Period End Date: XX [ ]

Accounting Method - Federal Tax Return

[ ] A = Accrual C = Cash O = Other

Other [ ]

Accounting Method - Financial Statements

[ ] A = Accrual C = Cash O = Other

Other [ ]



REVENUE ID  
TAX YEAR END

NAME

**RCT-101 (1) PAGE 6 OF 6 PA CORPORATE TAX REPORT 20\_\_**

SCHEDULE OF REAL PROPERTY IN PA (Attach a separate schedule if additional space is needed.)

O = Own  
R = Rent

Street Address

City

County

KOZ/KOEZ

XX  
XX  
XX  
XX


**CORPORATE OFFICERS**  
(See instructions.)

SSN

Last Name

First Name

MI

President/Managing Partner  
Vice President  
Secretary  
Treasurer/Tax Manager

XX  
XX  
XX  
XX

**PREPARER'S INFORMATION**

Mail to Preparer XX  
Firm Federal EIN XX  
Firm Name XX  
Address Line 1 XX  
Address Line 2 XX  
City XX  
State XX  
ZIP XX

I affirm under penalties prescribed by law, this report, including any accompanying schedules and statements, has been prepared by me and to the best of my knowledge and belief is a true, correct and complete report.

**Tax Preparer's Signature**

**Date**

**INDIVIDUAL PREPARER**  
**PHONE**  
**EMAIL**  
**PTIN/SSN**


# ATTACHMENT C

1283013101



DEPARTMENT USE ONLY

## RCT-128C

(I) (07-13)

PAGE 1 OF 3

### REPORT OF CHANGE IN CORPORATE NET INCOME TAX

#### STEP A

Tax Year Beginning   Tax Year Ending

#### STEP B

Regulated Inv. Co.   Address Change    
52-53 Week Filer   KOZ/EIP Credit

#### STEP C

Revenue ID    
Federal EIN   Parent Corporation EIN   
Business Activity Code    
Corporation Name    
Address Line 1    
Address Line 2    
City    
State    
ZIP



USE WHOLE DOLLARS ONLY

#### STEP D

As required by Section 406 of the Tax Reform Code of 1971, the above-named corporation reports the following change(s) or correction(s) in its corporate net income as reported to or changed by the federal government.

1. PA taxable income after change or correction in federal return	1	<input type="text"/>
2. PA taxable income previously reported to the commonwealth	2	<input type="text"/>
A. Increase or decrease in PA taxable income	2A	<input type="text"/>
3. PA corporate net income tax after change	3	<input type="text"/>
4. PA corporate net income tax before change	4	<input type="text"/>
A. Increase or decrease in PA corporate net income tax	4A	<input type="text"/>
5. Remittance made payable to the PA Department of Revenue 04 CNI 121101	5	<input type="text"/>

#### STEP E: Transfer/Refund Method (See instructions.)

Made Payment Electronically

**Transfer:** Amount to be credited to the next tax year after offsetting all unpaid liabilities

**Refund:** Amount to be refunded after offsetting all unpaid liabilities

NOTICE OF FINAL CHANGE WAS RECEIVED FROM THE INTERNAL REVENUE SERVICE OR AMENDED FEDERAL RETURN FILED ON

NOTE: If date not provided, interest will be imposed from original due date applicable to that tax year.

#### STEP F: Corporate Officer (Sign affirmation below.)

NAME   
PHONE   
EMAIL

FORM   
BARCODE

I affirm under penalties prescribed by law, this report, including the accompanying explanations, is made in good faith and is a true and correct statement of the PA taxable income after final changes or corrections, as determined or accepted by the federal government, to the corporation's federal income tax return for the period.	
Corporate Officer Signature	Date

REVENUE ID [ ] TAX YEAR END [ ] NAME [ ] RCT-128C (I) PAGE 2 OF 3 REPORT OF CHANGE IN CORPORATE NET INCOME TAX

SECTION A: Bonus Depreciation

- 1. Current-year fed. deprec. of 168k prop. 1 [ ]
2. Current-year adj. for disp. of 168k prop. 2 [ ]
3. Other adjustments 3 [ ]
(Attach Schedule C-3 if claiming bonus depreciation.)

Business Trust XX [ ] Multi-Member LLC XX [ ]
Solicitation Only XX [ ] PA S Corporation XX [ ]
Single-Member LLC XX [ ] Taxable Built-in Gains XX [ ]



SECTION B: CORPORATE NET INCOME TAX

USE WHOLE DOLLARS ONLY

- 1. Income or loss from federal return on a separate company basis 1 [ ]
2. DEDUCTIONS:
A. Corporate dividends received (from Schedule C-2, Line 6) 2A [ ]
B. Interest on U.S. securities (GROSS INT less EXPENSES) 2B [ ]
C. Curr yr. addtl. PA deprec. plus adjust. for sale (Attach Schedule C-3.) 2C [ ]
D. Other (Attach schedule.) See instructions. 2D [ ]
TOTAL DEDUCTIONS - Sum of A through D 2 [ ]
3. ADDITIONS:
A. Taxes imposed on or measured by net income (Attach schedule.) 3A [ ]
B. Tax preference items (Attach copy of federal Form 4626.) 3B [ ]
C. Employment incentive payment credit adjustment (Attach Schedule W.) 3C [ ]
D. Current-year bonus depreciation (Attach Schedule C-3.) 3D [ ]
E. Other (Attach schedule.) See instructions. 3E [ ]
TOTAL ADDITIONS - Sum of A through E 3 [ ]
4. Income or loss with Pennsylvania adjustments (Line 1 minus Line 2 plus Line 3) 4 [ ]
5. Total nonbusiness income or loss 5 [ ]
6. Income or loss to be apportioned (Line 4 minus Line 5) 6 [ ]
7. Apportionment proportion (from Schedule C-1, Line 5) 7 [ ]
8. Income or loss apportioned to PA (Line 6 times Line 7) 8 [ ]
9. Nonbusiness income or loss allocated to PA 9 [ ]
10. Taxable income or loss after apportionment (Line 8 plus Line 9) 10 [ ]
11. Total net operating loss deduction (from RCT-103) 11 [ ]
12. PA taxable income or loss (Line 10 minus Line 11) 12 [ ]
13. Corporate net income tax (Line 12 times \_\_\_\_; if Line 12 is less than zero, enter "0") 13 [ ]



REVENUE ID [ ] TAX YEAR END [ ] NAME [ ]  
RCT-128C (1) PAGE 3 OF 3 REPORT OF CHANGE IN CORPORATE NET INCOME TAX

**DETERMINATION OF APPORTIONMENT PERCENTAGES**  
From RCT-106, applicable for the tax year being reported

**SCHEDULE C-1:** Apportionment Schedule For Corporate Net Income Tax (Include Form RCT-106.) See instructions for apportionment in the CT-1 PA Corporation Tax Booklet (REV-1200) found at www.revenue.state.pa.us.

**Three-Factor**

Property - PA **1A** [ ] **1D** [ ]  
Property - Total **1B** [ ]  
Payroll - PA **2A** [ ] **2D** [ ]  
Payroll - Total **2B** [ ]  
Sales - PA **3A** [ ] **3D** [ ]  
Sales - Total **3B** [ ]

**Single-Factor**

Numerator **4A** [ ]  
Denominator **4B** [ ]

Apportionment Proportion **5** [ ]



**PREPARER'S INFORMATION**

Mail to Preparer **XX** [ ]  
Firm Federal EIN **XX** [ ]  
Firm Name **XX** [ ]  
Address Line 1 **XX** [ ]  
Address Line 2 **XX** [ ]  
City **XX** [ ]  
State **XX** [ ]  
ZIP **XX** [ ]

I affirm under penalties prescribed by law, this report, including any accompanying schedules and statements, has been prepared by me and to the best of my knowledge and belief is a true, correct and complete report.

**Tax Preparer's Signature** [ ] **Date** [ ]

**INDIVIDUAL PREPARER**

PHONE [ ]  
EMAIL [ ]  
PTIN/SSN [ ]





## ATTACHMENT D

Report	Due Date of Report	Extension Form/Time	Due Date of Extension
RCT-101/RCT-101-I (Capital Stock-Franchise/Loans/Corporate Net Income)	15 <sup>th</sup> day of the fourth month after end of month in which the tax period closes	Act 52 of 2013 grants automatic PA ext. if taxpayer has valid federal ext. (180 days) OR PA ext REV-853 filed, for 60 day extension	TP indicates on report when file that Federal Extension Granted OR If REV-853 filed, it's due before Due Date of Report
Amended Reports (Check "Amended Report" Box) RCT-101- Capital Stock-Franchise/Loans/Corporate Net Income changes OTHER than changes to Federal Taxable Income RCT-111,RCT-112, RCT-113A&B,RCT-121A,B,&C, RCT-122, RCT-123, RCT-124, RCT-125, RCT-126, RCT-131, RCT-132, RCT-132A&B RCT-143- Amended report can be used to ALSO report Fed Inc. changes by marking "RAR Changes"	On or Before 3 years from the later of the Received Date or Due Date (w/ or W/o Ext)	Consent to Extend- Later of 1 year from Received Date of Amended or 3 years from the later of the Received Date or Due Date (w/ or W/o Ext)	Signature section on Page 1 of Report has the Consent to Extend
RCT-128 (Report of Change)(Corporate Net Income Tax)- filed due to Federal Audit or Federal Amended Taxable Income (Originally filed on RCT-101)	30 days from final notification of fed audit/amended Tax Years commencing 2013 forward- 6 Months	None	N/A
RCT-112 (Gross Receipts-Electric, Hydro-Electric)	March 15	REV-426/60 days	March 15
RCT-113A (Gross Receipts-Transportation)	March 15	REV-426/60 days	March 15
RCT-113B (Gross Receipts-Managed Care Organizations)	March 15	REV-426/60 days	March 15
RCT-114A (Gross Receipts-Motor Vehicle for Hire)	March 15	REV-426/60 days	March 15
RCT-121A (Gross Premiums-Insurance Companies)	April 15	REV-426/60 days	April 15
RCT-121B (Gross Premiums-Insurance Companies)	April 15	REV-426/60 days	April 15
RCT-121C (Gross Premiums-Insurance Companies)	April 15	REV-426/60 days	April 15

RCT-122 (Gross Premiums-Unauthorized Insurance)	30 days after procurement of insurance	REV-426/60 days	30 days after procurement of insurance
RCT-123 (Gross Premiums-Surplus Lines)	January 31	REV-426/60 days	January 31
RCT-124 (Marine Insurance-Net Underwriting Profits)	June 1	REV-426/60 days	June 1
RCT-125 (Agriculture Cooperative)	15 <sup>th</sup> day of the fourth month after the tax period closes	REV-426/60 days	15 <sup>th</sup> day of the fourth month after the tax period closes
RCT-126 (Electric Cooperative)	July 1st	None	N/A
RCT-127 (PURTA)	May 1	None	N/A
RCT-131 (Gross Receipts-Private Banker)	February 15	REV-426/60 days	February 15
RCT-132 (Bank Shares & Loans) used only for prior years (see form)	March 15	REV-426/6 months	March 15
RCT-132A (Domestic Title Insurance Shares & Loans) current yrs (see form)	March 15	REV-426/6 months	March 15
RCT-132B (Bank Shares & Loans) current years (see form)	March 15	REV-426/6 months	March 15
RCT-143 (Mutual Thrift Institutions Net income)	April 15	REV-426/6 months	April 15

- If any due date or extended due date falls on a Saturday, Sunday or Holiday, the due date will be the next business day.



# ATTACHMENT E

TAX YEAR BEGINNING \_\_\_\_\_  
 TAX YEAR ENDING \_\_\_\_\_

CORPORATION NAME \_\_\_\_\_ REVENUE ID \_\_\_\_\_

## SCHEDULE A-3 ADJUSTMENTS TO NET INCOME PER BOOKS

(See CT-1 booklet at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) for requirements to complete this schedule)

### PART A

<p>1. Net Income per Books from federal Schedule M-1 or federal Schedule M-3. _____</p> <p><b>Additions</b></p> <p>2. Dividends from subsidiary corporations not included in Line 1 _____</p> <p>3. Losses from subsidiary corporations deducted in arriving at Line 1 _____</p> <p>4. Losses from limited liability companies deducted in arriving at Line 1* _____</p> <p>5. Distributions from limited liability companies not included in Line 1* _____</p> <p>6. Other (Itemize) _____                  _____                  _____</p> <p>7. Total Lines 1 to 6 _____</p>		<p><b>Reductions</b></p> <p>8. Income from subsidiary corporations included in Line 1 _____</p> <p>9. Income from limited liability companies included in Line 1* _____</p> <p>10. Distributions to materially participating member of limited liability companies** _____</p> <p>11. Other (Itemize) _____                  _____                  _____</p> <p>12. Total Lines 8 to 11 _____</p> <p>13. Revised Net Income per Books (Line 7 minus Line 12) _____</p>
--	--	---

\* Any taxpayer making these adjustments must provide a copy of federal Schedule K-1, if the investee LLC files federal Form 1065, or a reconciliation of beginning and ending net worth of the investee LLC, if the investee LLC is a disregarded entity.

\*\* This reduction may only be taken by LLCs and business trusts not taxed as corporations for federal income tax purposes. Taxpayers claiming this reduction must complete Part B below.

### PART B

<p>Name of Member _____</p> <p>SSN or EIN of Member _____</p> <p>How does member qualify as materially participating under IRC Section 469? _____</p>		<p>Current-Year Distribution _____</p> <p>Less Current-Year Distribution included in Prior-Year Reduction _____</p> <p>Plus Current-Year Reduction distributed in subsequent year _____</p> <p>Current-Year Reduction _____</p>
<p>Name of Member _____</p> <p>SSN or EIN of Member _____</p> <p>How does member qualify as materially participating under IRC Section 469? _____</p>		<p>Current-Year Distribution _____</p> <p>Less Current-Year Distribution included in Prior-Year Reduction _____</p> <p>Plus Current-Year Reduction distributed in subsequent year _____</p> <p>Current-Year Reduction _____</p>
<p>Name of Member _____</p> <p>SSN or EIN of Member _____</p> <p>How does member qualify as materially participating under IRC Section 469? _____</p>		<p>Current-Year Distribution _____</p> <p>Less Current-Year Distribution included in Prior-Year Reduction _____</p> <p>Plus Current-Year Reduction distributed in subsequent year _____</p> <p>Current-Year Reduction _____</p>
<p>Total Reduction from Supplemental Schedule (Attach additional schedule(s) if necessary.) . . . . .</p>		_____
<p>Total Reduction for Distributions to Materially Participating Members (Carry to Part A, Line 10.) . . . . .</p>		_____



# ATTACHMENT F



CORPORATION NAME \_\_\_\_\_ REVENUE ID \_\_\_\_\_

## Schedule L – Balance Sheets for Single-Member Limited Liability Companies When the Income is Reported on the Personal Income Tax Return of the Member

	Beginning of Year		End of Year	
	a	b	c	d
1. Cash				
2. a. Trade notes and accounts receivable				
b. Less allowance for bad debts				
3. Inventories				
4. U.S. government obligations				
5. Tax-exempt securities				
6. Other current assets (attach schedule)				
7. Mortgage and real estate loans				
8. Other investments (attach schedule)				
9. a. Buildings and other depreciable assets				
b. Less accumulated depreciation				
10. a. Depletable assets				
b. Less accumulated depletion				
11. Land (net of any amortization)				
12. a. Intangible assets (amortizable only)				
b. Less accumulated amortization				
13. Other assets (attach schedule)				
14. Total assets				
Liabilities and capital				
15. Accounts payable				
16. Mortgages, notes, bonds payable in less than one year				
17. Other current liabilities (attach schedule)				
18. Mortgages, notes, bonds payable in one year or more				
19. Other liabilities (attach schedule)				
20. Member's capital account				
21. Total liabilities and capital				

## Schedule M-1 – Reconciliation of Income (Loss) per Books to Income (Loss) per Return

1. Net income (loss) per books		5. Income included on books not included on federal Schedule C, federal Schedule E or federal Schedule F this year (itemize)	
2. Income included on federal Schedule C, federal Schedule E or federal Schedule F and not included on books this year (itemize)		a. Tax-exempt interest \$	
3. Expenses recorded on books not included on federal Schedule C, federal Schedule E or federal Schedule F this year (itemize)		6. Expenses recorded on federal Schedule C, federal Schedule E or federal Schedule F and not included on books this year (itemize)	
a. Depreciation \$		a. Depreciation \$	
b. Travel and entertainment \$		7. Add Lines 5 and 6	
4. Add Lines 1 through 3		8. Income or loss on federal Schedule C, federal Schedule E or federal Schedule F Line 4 minus Line 7	

## Schedule M-2 – Reconciliation of Member's Capital Account

1. Member's beginning capital account	
2. Capital contributed during tax period	
3. Net income for tax period	
4. Withdrawals of capital during tax period	
5. Member's ending capital account (Lines 1+2+3-4) Must equal Schedule L, Column D, Line 20	



ATTACHMENT G

1019012101



[Empty box]

DEPARTMENT USE ONLY

INACTIVE

RCT-101-I (1) (06-12) PAGE 1 OF 3 INACTIVE PA CORPORATE TAX REPORT 20\_\_

STEP A

Tax Year Beginning XX [ ] Tax Year Ending XX [ ]

STEP B

52-53 Week Filer XX [ ] Change Fed Group XX [ ] File Period Change XX [ ]
Address Change XX [ ] First Report XX [ ]

STEP C

Revenue ID XX [ ] Parent Corporation EIN [ ]
Federal EIN XX [ ]
Corporation Name XX [ ]
Address Line 1 XX [ ]
Address Line 2 XX [ ]
City XX [ ]
State XX [ ]
ZIP XX [ ]

USE WHOLE DOLLARS ONLY

STEP E:

Payment Due/Overpayment

Calculation: A minus B minus C
See Instructions

STEP D

A. Tax Liability from Tax Report

B. Estimated Payments & Credits on Deposit

C. Restricted Credits

CS/FF LOANS CNI TOTAL

Table with 4 columns: A, B, C, and Payment Due/Overpayment. Rows for CS/FF, LOANS, CNI, and TOTAL.

STEP F: Transfer/Refund Method: See Instructions

E-File Opt Out: See Instructions [ ]

[ ] Transfer: Amount to be credited to the next tax year after offsetting all unpaid liabilities

[ ] Refund: Amount to be refunded after offsetting all unpaid liabilities

STEP G: Corporate Officer (Sign affirmation below)

NAME PHONE EMAIL [ ] [ ] [ ]

FORM BARCODE [ ] [ ]

I affirm under penalties prescribed by law this report, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct and complete report.

Corporate Officer Signature Date



REVENUE ID  
TAX YEAR END

[REDACTED]

NAME

[REDACTED]

RCT-101-I (1) PAGE 2 OF 3 INACTIVE PA CORPORATE TAX REPORT 20\_\_

STEP H: INACTIVE DECLARATION

CHECK ONE BOX IN SUPPORT OF FILING THE INACTIVE REPORT (RCT-101-I).

A. This Pennsylvania corporation, to which a charter was granted by the Commonwealth of Pennsylvania, did not conduct any business, had no assets or income and did not exercise any corporate rights or privileges during the tax period ended (MMDDYYYY): [REDACTED]

B. This foreign corporation, chartered under the laws of a state other than Pennsylvania, did not conduct any business, own property or exercise any corporate rights or privileges during the tax period ended (MMDDYYYY): [REDACTED]

If neither of these statements applies to the corporation, PA Corporate Tax Report (RCT-101) must be completed and filed. Specifically, a corporation with business activity outside Pennsylvania must file RCT-101. See instructions for completing the RCT-101.



STEP I: GENERAL INFORMATION QUESTIONNAIRE

1. Location of corporation records: [REDACTED]  
2. Corporation's records are in care of: [REDACTED]

3. Name, SSN, EIN and/or Revenue ID Number of any individual or business entity owning all or a majority of the stock of the taxpayer.

Name: [REDACTED]  
Revenue ID: [REDACTED] SSN or EIN: [REDACTED]

4. Incorporation Date (MMDDYYYY) XX [REDACTED]

5. State of Incorporation: XX [REDACTED]

6. Has the corporation previously had business activity anywhere? XX [REDACTED]

7. If the answer to 6 is "Yes", enter the last tax period the corporation had business activity (MMDDYYYY). XX [REDACTED]

8. Has the federal government changed taxable income as originally reported for any prior period for which reports of change have not been filed in PA? XX [REDACTED]

9. Is this taxpayer a partnership that elects to file federal taxes as a corporation? [REDACTED]

If yes:

First period end date: XX [REDACTED]  
Last period end date: XX [REDACTED]



REVENUE ID  
TAX YEAR END

[REDACTED]

NAME

[REDACTED]

RCT-101-I (1) PAGE 3 OF 3 INACTIVE PA CORPORATE TAX REPORT 20\_\_

STEP J: CORPORATE STATUS CHANGES

Final Report XX

PA Corporations:

Did you ever transact business anywhere? XX  If yes, enter date all business activity ceased XX [REDACTED]  
Did you hold assets anywhere? XX  If yes, enter date of final disposition of assets XX [REDACTED]

Foreign Corporations:

Did you ever transact business in PA? XX  If yes, enter date PA business activity ceased XX [REDACTED]  
Did you hold assets in PA? XX  If yes, enter date of final disposition of PA assets XX [REDACTED]

Reinstatement XX  Effective Date of Reinstatement XX [REDACTED]



CORPORATE OFFICERS  
(See Instructions.)

SSN

Last Name

First Name

MI

		SSN	Last Name	First Name	MI
President/Managing Partner	XX	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Vice President	XX	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Secretary	XX	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Treasurer/Tax Manager	XX	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

PREPARER'S INFORMATION

Mail to Preparer XX   
Firm Federal EIN XX [REDACTED]  
Firm Name XX [REDACTED]  
Address Line 1 XX [REDACTED]  
Address Line 2 XX [REDACTED]  
City XX [REDACTED]  
State XX [REDACTED]  
ZIP XX [REDACTED]

I affirm under penalties prescribed by law this report, including any accompanying schedules and statements, has been prepared by me and to the best of my knowledge and belief is a true, correct and complete report.

Tax Preparer's Signature [REDACTED] Date [REDACTED]

INDIVIDUAL PREPARER  
PHONE  
EMAIL  
PTIN/SSN

[REDACTED]





# ATTACHMENT H

General "Business Tax" Questions- 717-787-1064

Corporation Taxes- 717-783-6031

- Notice of Adjustment Questions
- Notice of Assessment Questions
- Letters Requesting missing/incorrect information

Accounting Division- 717-705-6225

- Liability, Credit, or Refund Questions
- Request for Revenue ID
- Clearing/Application of Payments to Outstanding Liabilities
- Account Notice Questions
- Penalty/Interest/Transfers/Refunds

IVR 1-888-PA TAXES- 7am-7pm-Must have Revenue ID

Department of Revenue Web Site- [www.revenue.state.pa.us](http://www.revenue.state.pa.us) – Forms, publications and Online Customer Service Q & A site to research and ask questions



***REVENUE  
MODERNIZATION  
PROJECT  
INTEGRATED TAX  
SYSTEM  
CONVERSION  
UPDATE***



## Revenue Modernization

Integrated Tax System Implementation  
Electronic Commerce  
Revenue Website Redesign

Presented by:  
Donald Sheridan  
Thomas Van Kirk

Integrated Tax System Business  
Operations Office



## Revenue Modernization

### AGENDA

- Revenue Modernization Background
- Current Status of the Corporation Taxes Implementation
- Business Trust Fund Taxes Implementation
- eCommerce Updates
- Department of Revenue Website Redesign
- Questions



## Revenue Modernization Background

2008 – Revenue Roadmap identified opportunity for integrated tax system

2009 – 2010 RFP. SAP chosen as ITS platform

December, 2010 – Project kick-off

March, 2013 – Corporation Taxes Go-live



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## Corp. Taxes Implementation Status

All corporation taxes returns are being processed in the system

All correspondence is being mailed



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## Corp. Taxes Implementation Status

### Common Return Issues:

- Taxpayer Identification
- Taxpayer errors
  - Using 'None' on apportionment schedule
  - RCT-101 Amended return: incomplete data submitted in one or more of the original tax types.
  - Gaps in the History of Earnings.
  - Incomplete returns.
  - Software errors.
- Duplicate filings

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## Business Trust Fund Taxes Implementation

### Tax Types Impacted:

- Sales, Use, Hotel Occupancy
- Employer Withholding
- Malt Beverage Tax
- Vehicle Rental Tax
- Public Transportation Assistance Fund
- Small Games of Chance
- Cigarette Licenses
- Unstampable Little Cigar

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## Business Trust Fund Taxes Implementation

### Identification Numbers:

- License and account number for the impacted tax types will not change
- Entities will be assigned a Revenue ID
  - Tax account specific number will remain the primary identifiers for the new ITS tax types

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## Business Trust Fund Taxes Implementation

### Short-term Impacts:

- Payment frequency change notifications
- License runs
- License renewal letters
- e-TIDES

### Permanent Impacts:

- Correspondence
- Offsetting of credits against outstanding liabilities across taxes

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## eCommerce Updates

**e-TIDES** will be expanded to include the following:

- Returns and payments for Public Transportation Assistance Fund Taxes and Fees (form PA-4) and vehicle rental tax (forms PA-5 and DAS-28)
- Notice/liability payments for sales/use tax, employer withholding, PTA and VRT
- Maintenance functionality for PTA and VRT including updating bank information, FEIN, legal and trade name and cancel account

**TeleFile** will also be expanded to include the following:

- Returns and payments PTA and VRT (PA-5 only)
- Payment only for unstampable little cigar tax and malt beverage tax
- Notice/liability payments for all ITS tax types.

**Credit/Debit Card Program** will now accept payments for PTA, VRT, unstampable little cigar tax, malt beverage tax, and notice/liability payments for all ITS tax types.



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## eCommerce Updates

Two account identifiers are needed to access our electronic filing and payment systems. Temporary and alphanumeric Entity ID numbers can no longer be used. Credit/debit card payments do not require a second identifier.

**e-TIDES**

- PA Account ID number
- FEIN
- SSN
- Revenue ID (new 10-digit number)
- Department of State number (corporation taxes only)

**TeleFile**

- PA Account ID number
- FEIN
- SSN
- Revenue ID (new 10-digit number)



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## Revenue Website Redesign

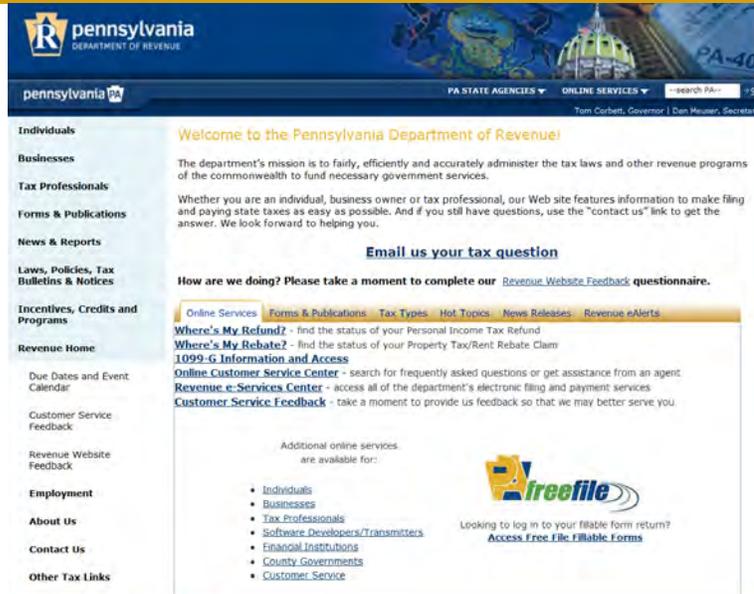
Commonwealth websites are all moving to a new platform by 2016, and the September 2014 redesign of the Revenue website provides some exciting improvements over our old site:

- Modern, progressive and visually appealing design consistent across agencies
- More intuitive navigation
- Enhanced search capabilities (fully functional in October)
- Responsive design that makes the site more accessible and easy-to-use from mobile devices.



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## Old Site: Cluttered & Overwhelming

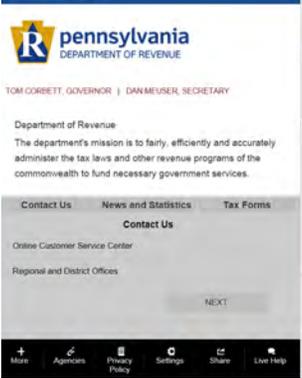




**Fly-out Navigation:** Exposure to deeper levels of content before a single click. Content also organized by function, rather than audience.

## ▶ Debuting Later this Year

**Responsive Design:** Site adjusts automatically to the device the user is on.



## ▶ Getting Adjusted

- Most bookmarks to individual Revenue website pages or documents will automatically redirect to the new Revenue home page, so you may have to re-bookmark some favorites.
- Keep in mind our applications (e-TIDES, e-Services Center, Online Customer Service Center) are NOT part of this platform change, so those links should all still work.
- If you discover errors – for example links that break or documents that don't open – please email those issues to our website team: [RA-RevenuePortal@pa.gov](mailto:RA-RevenuePortal@pa.gov)



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## Questions / Contact Information

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Tom Van Kirk  
Revenue Modernization Communications and  
Change Management  
[tvankirk@pa.gov](mailto:tvankirk@pa.gov)





***UNEMPLOYMENT  
COMPENSATION***



## 2014 FALL TAX SEMINAR

### Office of Unemployment Compensation Tax Services

### Controlling Unemployment Costs



## CONTROLLING UC COSTS

### What is UC Tax?

- Established to fund Unemployment Compensation benefits
- Self reported tax (contributions)
- Quarterly filing (April, July, October and January)
- Calculated as a percentage of employee earnings



## CONTROLLING UC COSTS

Calendar Year	Taxable Wage Base for Employer Contributions (per employee per year)	Maximum State Adjustment Factor
2013	\$8,500	1.0%
2014	\$8,750	1.0%
2015	\$9,000	1.0%
2016	\$9,500	1.0%
2017	\$9,750	0.85%
2018 and thereafter	\$10,000	0.75%



## CONTROLLING UC COSTS

**HOW CAN EMPLOYERS MINIMIZE UC COSTS?**

**AVOID A DELINQUENCY RATE SURCHARGE (3%)**



## CONTROLLING UC COSTS

**AVOID A DELINQUENCY RATE SURCHARGE (3%)**

- **FILE PA-100 REGISTRATION FORM WITHIN 30 DAYS**
- **INCLUDE ACCURATE AND COMPLETE INFORMATION**

✓ Avoids civil penalty charges of \$100 – \$1,500 per offense

Register on-line at [www.pabizonline.com](http://www.pabizonline.com)



## CONTROLLING UC COSTS

**AVOID A DELINQUENCY RATE SURCHARGE (3%)**

- **FILE ALL QUARTERLY REPORTS BY THE DUE DATE**
  - ✓ Avoids penalty charge of 10% of contributions owed:
    - Minimum Penalty \$25
    - Maximum Penalty \$250
  - ✓ Minimizes administrative costs associated with UC claims



## CONTROLLING UC COSTS

### AVOID A DELINQUENCY RATE SURCHARGE (3%)

➤ **PAY ALL CONTRIBUTIONS ON TIME**

- ✓ Avoids interest charges
- ✓ Avoids liens and legal fees
- ✓ Avoids paying additional tax to IRS - Receive full FUTA credit



## CONTROLLING UC COSTS

### AVOID A DELINQUENCY RATE SURCHARGE (3%)

➤ **PREVENT DISHONORED REMITTANCES**

- ✓ Avoids penalty charge:
  - Minimum Penalty \$25
  - Maximum Penalty \$1000
- ✓ Avoids interest charges
- ✓ Avoids liens and legal fees
- ✓ Avoids "Bad Check" restitution complaints



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **FILE ALL REQUIRED REPORTS AND PAYMENTS ON-LINE**
  - ✓ Eliminates postage costs
  - ✓ Eliminates paper and check processing costs
  - ✓ Reduces overpayments
  - ✓ Minimizes costly reporting errors



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **INACTIVATE UC ACCOUNT IF NO LONGER NEEDED**
  - ✓ Avoids costly assessments due to missing reports
  - ✓ Avoids liens on assessed contributions
  - ✓ Avoids legal fees



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **REVIEW YOUR BENEFIT CHARGE NOTIFICATIONS FOR ACCURACY AND APPEAL AS NEEDED**
  - UC benefits are charged to the employers account
  - Request relief from charges (15 day appeal period)
  - Report discrepancies on monthly charge notices
  - Benefit charges impact your tax rate
  - Reimbursable employers must pay the solvency fee in order to request relief from charges



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **REVIEW YOUR UC TAX RATE FOR ACCURACY AND APPEAL AS NEEDED**
  - Based on UC activity through second quarter of prior year
  - Remedy delinquencies
  - 90 day appeal period
  - Voluntary contributions
  - Debit Reserve Balance Adjustment



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **KEEP UC ACCOUNT INFORMATION CURRENT**
  - Mailing address
  - Email address
  - Contacts
  - Phone numbers
  - Ownership
  - ✓ Avoids delays in time sensitive notifications
  
- **CHOOSE EMAIL PREFERENCE TO RECEIVE TAX CORRESPONDENCE**



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **REGISTER CHANGES IN LEGAL STRUCTURE, ACQUISITIONS, MERGERS, AND CONSOLIDATIONS**
  - ✓ Successor may apply for transfer of predecessor's UC experience & reserve account
  - ✓ Successor can take credit towards taxable wage base



## CONTROLLING UC COSTS

### HOW CAN EMPLOYERS MINIMIZE UC COSTS?

- **PROPERLY CLASSIFY WORKERS**
  
- **REPORT ALL COVERED WAGES AND FRINGE BENEFITS**
  - ✓ Avoids paying back taxes, interest and penalty
  - ✓ Minimizes administrative costs associated with UC claims and amending previously filed UC reports



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## CONTROLLING UC COSTS

### HOW CAN EMPLOYER MINIMIZE UC COSTS?

- **NOTIFY US WHEN YOU SUSPECT A BUSINESS IS NOT REPORTING**
  - Provide the Business name and address
  - Note the number of employees
  - Contact information
  - Any documentation
  - Website: [www.dli.state.pa.us](http://www.dli.state.pa.us)
  - Fraud Hotline: 800-692-7469



## CONTROLLING UC COSTS

### INFORMATION SOURCES

UCMS Site: [www.paucemployers.state.pa.us](http://www.paucemployers.state.pa.us) or



Labor & Industry Website: [www.dli.state.pa.us](http://www.dli.state.pa.us)

UC Employer Contact Center: 1-866-403-6163

UC Benefit Charges: [UIEMPCHARGE@pa.gov](mailto:UIEMPCHARGE@pa.gov) or 717-787-4677



## CONTROLLING UC COSTS

QUESTIONS?





***BUSINESS USE TAX  
AND VOLUNTARY  
COMPLIANCE  
INITIATIVES***



## Compliance Initiatives

### Enforcement Planning, Analysis & Discovery (EPAD)

Presented by:

James M. Foster, Fiscal Analyst  
William Hartman, Fiscal Analyst Manager  
Kevin Milligan, Director



## Compliance Initiatives

### AGENDA

- Voluntary Compliance Initiatives
  - Use Tax for Business Taxpayers
  - Use Tax for Consumers/Individual Taxpayers
  - Personal Income Tax Nonfiler Program
- Compliance Programs
  - Corporate Taxes
  - Sales and Use Tax
- New Enforcement Tools



## Voluntary Compliance Initiatives

### BUSINESS USE TAX VOLUNTARY COMPLIANCE PROGRAM

- Started November 2005
- Monthly mailings continue - 10,000 a month
- All industry segments

3



## Voluntary Compliance Initiatives

### BUSINESS USE TAX VOLUNTARY COMPLIANCE PROGRAM

#### *Additional Benefits*

- Indirect effect
- Expanded discussion – sales tax

4



## Voluntary Compliance Initiatives

Results to date....

- Total collections = \$332 million
- FYE 2014 = \$71 million
- 70,000 new use taxpayers



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## Voluntary Compliance Initiatives

### Example One

An out of state manufacturer responded to a use tax letter in July 2009 with an initial payment of \$10. The taxpayer has continued to remit use tax since that time via a PA-3 with use tax payments totaling \$175 thousand. This amounts to tax on \$2.9 million in nontaxed purchases.



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## Voluntary Compliance Initiatives

### Example Two

An in state management company responded to a use tax letter by submitting their initial payment of \$51,214 received June 2014. This amounts to \$853 thousand in nontaxed purchases.

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## Voluntary Compliance Initiatives

### INDIVIDUAL/CONSUMER USE TAX

- PA40 – Line 25
- Individual Use Tax
  - Table used for purchases under \$1,000
  - Exact tax due for purchases \$1,000 or more
- Impact of Remote Seller Initiative

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## Voluntary Compliance Initiatives

Use Tax Worksheet	
	Amount
1. Purchases of taxable items subject to Pennsylvania use tax, including shipping & handling	
2. Purchases of taxable services subject to Pennsylvania use tax	
3. Amount of utilities expense from Schedules C, E and/or UE subject to use tax	
4. Total taxable purchases and utilities expense	
5. Tax rate (0.07 Allegheny County, 0.08 Philadelphia or 0.06 state)	0. ___
6. Use tax: Multiply Line 4 by Line 5	
7. Additional estimated use tax from Table 1	
8. Sales tax previously paid on any amount included on Lines 1 and 2 (up to 0.07 per item for Allegheny County, 0.08 for Philadelphia or 0.06 state)	
9. Total use tax liability. Add Lines 6 and 7, then subtract Line 8 and enter the amount here and on Line 25 of your PA-40, Pennsylvania personal income tax return	



## Voluntary Compliance Initiatives

If you have incomplete or inaccurate receipts to calculate use tax on purchases less than \$1,000, you may use Table 1 to estimate your use tax liability based on taxable income.

Table 1 - Estimated Use Tax Due			
PA-40 Line 9, Total PA-Taxable Income	City of Philadelphia	Allegheny County	Remainder of PA
\$15,000 and less	\$8	\$7	\$6
\$15,001 - \$30,000	\$17	\$14	\$12
\$30,001 - \$50,000	\$22	\$19	\$17
\$50,001 - \$75,000	\$30	\$26	\$23
\$75,001 - \$100,000	\$43	\$37	\$32
\$100,001 - \$150,000	\$59	\$52	\$44
\$150,001 - \$200,000	\$76	\$66	\$57
> \$200,000	.03% (0.0003) of PA-40 Line 9, Total PA Taxable Income, or \$94 (Philadelphia), \$83 (Allegheny) or \$71 (PA), whichever amount is smaller		



## Voluntary Compliance Initiatives

### INDIVIDUAL/CONSUMER USE TAX

- Focus on individual – purchases from business
- No penalty or interest
- Increased consumer awareness
- Remote sellers that do not collect PA sales tax
- \$10.5 million in collections to date (tax years 2011 - 2013)



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## Voluntary Compliance Initiatives

### INDIVIDUAL/CONSUMER USE TAX

- Focus on individual – purchases from business
- No penalty or interest
- Increased consumer awareness
- Remote sellers that do not collect PA sales tax
- *Tax collected on \$175 million in purchases*



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## Voluntary Compliance Initiatives

### INDIVIDUAL/CONSUMER USE TAX

- Antiques
- Paintings
- Appliances
- Books, stationary
- Computers
- Exercise & sports equipment
- Formal clothing
- Furniture
- Furnishings
- Jewelry
- Luggage
- Handbags
- Musical instruments
- Office equipment
- TV, radios
- Stereo, video & camera equipment



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## Voluntary Compliance Initiatives

### Common Purchases/Taxable Services

- Lawn care
- Pest control
- Self storage
- Home cleaning services

REV-717 – Retailers' Information Guide

[www.revenue.state.pa.us](http://www.revenue.state.pa.us)

Forms and Publications



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## Voluntary Compliance Initiatives

### PERSONAL INCOME TAX NONFILER PROJECT

- IRS data match (information returns)
- PA address on info return/no PA return
- Notifications and taxpayer response
- Penalties waived for compliance
- Assessments issued for non-compliance
- *Total Revenue = \$14.9 million (tax years '08 – '10)*



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## Voluntary Compliance Initiatives

### PERSONAL INCOME TAX NONFILER PROJECT

- IRS data match (information returns)
- PA address on info return/no PA return
- Notifications and taxpayer response
- Penalties waived for compliance
- Assessments issued for non-compliance
- *Collected tax on \$485.3 million in taxable income*



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## Voluntary Compliance Initiatives

### PERSONAL INCOME TAX NONFILER PROJECT

- Residency
  - PA domicile not abandoned
  - Meets PA statutory residency requirements
  - REV-611 *Determining Residency for PA Personal Income Tax Purposes*

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## Voluntary Compliance Initiatives

### PERSONAL INCOME TAX NONFILER PROJECT

- Minimum filing requirement
  - \$33 in taxable income requires the filing of a return
  - Return filing with a PA loss from business, rents or sale of property

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## Voluntary Compliance Initiatives

### Example One

A PA resident taxpayer was sent a PIT nonfiler letter in November 2013. The nonfiler notice was 1099 Misc income reported to the IRS for 2010 without a corresponding PA filing for that year. In 2014 the taxpayer filed their 2009 and 2010 PA-40s with payment of \$5,352. This represents tax on \$174,000 in taxable income.



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## Voluntary Compliance Initiatives

### Example Two

A PA resident taxpayer was sent a PIT nonfiler letter in January 2014. The nonfiler notice was based on 1099-MISC, 1099B and 1099S income reported to the IRS for 2010 without a corresponding PA filing for that year. In February the taxpayer filed his 2010 PA-40 and remitted \$6,062 in personal income tax as a joint filer. This represents tax on \$197,500 in taxable income.



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## Voluntary Compliance Initiatives

### MVUV PROGRAM

- \$2 million annually
- Indirect effect
- Entity concept
- Source documents

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## Discovery Program

### Nexus

- Remote seller
- 1099-MISC
- Customs
- Vehicle inspection stations
- Tax registration matches
- Bank Shares

### Use Tax Enforcement

- Aircraft
- Motor vehicles
- Watercraft
- ATVs/snowmobiles
- Out-of-state referrals
- Audit referrals

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## Discovery Program

### Example One

An out-of-state corporation performing construction contracts in PA was discovered through a cross match project. The taxpayer was registered for employer withholding but not corporation taxes. The company was subjected to franchise tax and corporate net income tax from 2010 forward.

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## Discovery Program

### Example Two

An out-of-state meat market (corporation) making retail sales in Pennsylvania was discovered through a cross match project. The taxpayer was registered for employer withholding but not for corporation taxes. The company was subjected to franchise tax and corporate net income tax from 2012 forward.

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## Discovery Program

### REMOTE SELLER UPDATE

- Ongoing nexus research
- “Level playing field”
- Enforcement actions
- 111 new registrants
- \$121.7 million in taxes collected

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## Discovery Program

### REMOTE SELLER UPDATE

- Ongoing nexus research
- “Level playing field”
- Enforcement actions
- 111 new registrants
- Sales tax collected on \$2 billion in taxable sales

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## Legislative Changes

### NEW ENFORCEMENT TOOLS

- Act 52 of 2013: Enhanced Citation Authority
- Act 85 of 2012: Administrative Bank Attachment

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## Contact Information

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**Kevin Milligan**, Director  
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## ARE YOU RECEIVING THE PENNSYLVANIA TAX UPDATE?

*Stay up-to-date on PA  
Department of  
Revenue news with  
Tax Update, the  
department's  
bi-monthly  
e-newsletter*



The screenshot shows the header of the Pennsylvania Tax Update e-newsletter. It features the Pennsylvania Department of Revenue logo, the names of Governor Tom Corbett and Secretary Daniel Meuser, and the issue number (174) and date (June/July 2014). The main headline is "GOVERNOR CORBETT SIGNS 2014-15 BUDGET AND FISCAL CODE, CALLS FOR ACTION ON PENSION REFORM". Below this is a "FAST FACT" section highlighting the integrated tax system. A table of contents lists other articles in the issue, such as "PREVENT RCT-101 PROCESSING ERRORS" and "2013-2014 GENERAL FUND REVENUE".

**pennsylvania**  
DEPARTMENT OF REVENUE

**TAX UPDATE**

Tom Corbett, Governor Daniel Meuser, Secretary of Revenue

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**GOVERNOR CORBETT SIGNS 2014-15 BUDGET AND FISCAL CODE, CALLS FOR ACTION ON PENSION REFORM**

*Invests Record \$12 Billion in Education, Continues Investments in Healthy PA, but Vetoes Certain Legislative Appropriations*

On Thursday, July 10, Governor Tom Corbett signed a state budget for fiscal year 2014-15 that includes no new taxes and invests a record \$12 billion in state funding for students in Pennsylvania's early, basic and post-secondary education systems – an increase of \$323 million over last year. The budget also invests more than \$12.8 billion in health and human services programs that will help increase access to quality, affordable healthcare and preserve the safety net for seniors, children, low-income families and individuals with disabilities.

Concerned with the revenue assumptions used by the House and Senate in crafting their budget, however, the governor chose to use his line-item veto authority to reduce spending and ensure the state was meeting revenue estimates.

**Education Investments**

"I am pleased with the additional investments that this budget makes into the students of Pennsylvania" Corbett said. "This budget directs funding to areas that will support student achievement and ensure that students are prepared for postsecondary success, whether they choose to enter the workforce, further their education or enlist in the military."

Since taking office, Governor Corbett has increased funding for early, basic and postsecondary education from \$10.8 billion to \$11.9 billion – an increase of more than \$1 billion.

Two of the Governor's landmark initiatives are included in the final budget: the Ready to Learn Block Grant for public schools and the Ready to Succeed Scholarship that provides financial assistance to middle-income students pursuing a postsecondary education.

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**FAST FACT:**

The integrated tax system enables a more robust and analytical review of corporation tax return data, including prior year data for history of earnings, net operating losses, calculations, valuation deduction and rate changes.

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Tax Update is a bi-monthly e-newsletter published by the Pennsylvania Department of Revenue.

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