

Instructions for PA-20S/PA-65 Schedule B Dividend and Capital Gains Distribution Income

What's New

For tax year 2010, PA-20S/PA-65 Schedule B has been separated from PA-20S/PA-65 Schedule A and PA-20S/PA-65 Schedule B is now a single form.

PA-20S/PA-65 Schedule A & B will no longer be available.

General Information

Purpose of Form

Use PA-20S/PA-65 Schedule B to report dividend and capital gains distributions income of PA S corporations, partnerships, estates and trusts and limited liability companies filing as partnerships or PA S corporations for federal income tax purposes.

For Pennsylvania personal income tax, nonresidents are not taxed on ordinary dividend income from Pennsylvania sources.

Pennsylvania-Taxable Dividends

Pennsylvania law (72 P.S. § 7301(f)) provides that dividends mean any distribution in cash or property made by a corporation, association, or business trust:

- Out of accumulated earnings and profits; or
- Out of earnings and profits of the year in which such dividend is paid.

The term dividends shall not include a distribution of stock of a corporation made by the corporation originally issuing it to its own stockholders if such distribution is not treated as personal income for federal individual income tax purposes.

The Pennsylvania definition of dividends is similar, but not identical, to the federal definition. Distributions from mutual funds, money market funds, and real estate investment trusts are classified as dividends for Pennsylvania purposes and interest for federal purposes. Distributions from PA S corporations are reportable as dividends by resident shareholders only if it is from PA C corporation earnings and profits.

Line Instructions

Business Name

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

FEIN

Enter the 9-digit federal employer identification number (FEIN) of the entity or business as shown on the PA-20S/PA-65 Information Return.

Line 1

Ordinary Dividend Income from Federal Schedule K

Enter the amount reported on federal Schedule K. This number will also tie to PA-20S/PA-65 Schedule M, Part A, Line 5, Column a. Include federal Schedule K-1 dividend income from other entities.

Line 2

Less Business or Rental Dividend Income (Working Capital)

Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Line 5, Column b and/or Column f.

Line 3

Adjusted Federal Dividend Income

Subtract Line 2 from Line 1. Enter the result on Line 3.

Line 4

Federal-Exempt Dividend Income Taxable for Pennsylvania Personal Income Tax

Enter the amount reported on federal Schedule K from line "Other tax-exempt income."

Line 5

Other Dividend Income Not Included on Line 3 and Line 4

If the entity received dividend income reported on a line other than federal 1120S Schedule K, Line 5a or federal 1065 Schedule K, Line 6a then report as

dividend income for Pennsylvania personal income tax purposes on PA-20S/PA-65 Schedule B, Line 5.

Line 6

Capital Gains Distributions Income

Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Column d, Line 5, 7, 8 and 11.



Note. Pennsylvania taxes capital gains distributions from mutual funds as dividends.

Line 7

Gross Pennsylvania-Taxable Dividend Income

Add Lines 3 through 6, and enter the result on Line 7.

Line 8

Pennsylvania-Exempt Dividend Income Included on Line 7

Enter income reported as federal dividend income that has been taxed federally and is exempt for Pennsylvania purposes. This number can be obtained from entity level books and records.

Regulated investment companies (RIC) that invest in state and local bonds distribute exempt-interest dividends. The companies and their shareholders are not taxed on them.

Not every RIC that invests in state and local bonds invests exclusively in Pennsylvania state and local bonds. Only federally exempt-interest dividends that are derived from Pennsylvania state and local bonds are exempt for personal income tax purposes. Federally exempt-interest dividends that are not derived from Pennsylvania state and local bonds are fully taxable for personal income tax purposes.

Some federally taxable dividends are Pennsylvania exempt-interest dividends. They are derived from federal obligations.

Line 9

Pennsylvania-Taxable Dividend Income and Capital Gains Distributions Income

Subtract Line 8 from Line 7, and enter the result on Line 9. Enter this amount on the PA-20S/PA-65 Information Return, Page 1, Part III, Line 4.