

# Instructions for PA-20S/PA 65 Schedule E

## Rent and Royalty Income (Loss)

### General Information

#### Purpose of Schedule

Use PA-20S/PA-65 Schedule E to report income (loss) from rent and royalty income of PA S corporations, partnerships, estates and trusts.

Pennsylvania does not follow federal At-Risk Rules or Passive Activity Loss Rules.

#### Net Income (Loss) from Rents, Royalties, Patents and Copyrights

Gross rent and royalty income include all items of gross income or receipts derived from rents, royalties, patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises and similar property, except:

- income or receipts derived from the sale, exchange or other disposition of rents, royalties, patents, secret processes, formulas, goodwill, trademarks, trade brands, franchises and similar property; or
- income or receipts derived from operating oil, gas, or mining interests includable in the calculation of net profit (loss) from a business, profession or farm, or otherwise derived in the ordinary course of and from the operation of a business.

#### Net Rent

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

#### Net Royalties

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

A business uses a patent in Pennsylvania to the extent that it employs the patent in the production, fabrication, manufacturing, or other

processing in Pennsylvania, or to the extent that it produces a patented product in Pennsylvania.

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

#### Allowable Deductions

The PA S corporation or partnership may only deduct the expenses that it ordinarily pays or incurs during the taxable year. The expenses must be necessary for the production or collection of rent and royalty income or the management, conservation or maintenance of rents, royalties, patents, copyrights or similar property. Such expenses include advertising, cleaning and maintenance, agents' commissions, insurance, legal fees, management fees, interest, repairs, supplies, utilities, and depreciation expense or cost depletion. Refer to 61 PA Code § 125.51 for cost depletion and § 125.52 for percentage depletion.



**Important.** Pennsylvania personal income tax law does not permit a deduction for any bonus depreciation elections that federal law allows. The maximum deduction that Pennsylvania income tax law permits using IRC Section 179 is \$25,000. If you have income/loss from more than one business, profession or farm you may not deduct more than a total of \$25,000 of IRC Section 179 expense for all activities. The PA Section 179 expense is phased out for purchases in excess of \$200,000. Federal increases enacted after 1997 are disregarded for personal income tax purposes.

#### Rent vs. Net Business Income

The determination of whether rent and royalty income is reported on PA-20S/PA-65 Schedule E or PA-20S/PA-65 Schedule M, Column (b) is dependent upon the classification of such income. Whether an activity is a passive activity for federal

income tax purposes is not controlling.

Refer to the Pennsylvania Personal Income Tax Guide for the detailed rules used in classifying rent and royalty income and net business income.

All requisite Pennsylvania/federal differences are used in arriving at net rent and royalty income. Refer to the PA-20S/PA-65 Schedule M for similar Pennsylvania/federal differences.

#### PA Rental Property

If selecting Column (f) on PA-20S/PA-65 Schedule M, Part B, Section A, then transfer the amount in Part B, Section G, Line 1 to the PA-20S/PA-65 Information Return, Part III, Line 6b. If a loss, fill in the oval.

#### Non PA Rental Property

If selecting Column (f) on PA-20S/PA-65 Schedule M, Part B, Section A, then transfer the amount in Part B, Section G, Line 2 minus Line 1 to the PA-20S/PA-65 Information Return, Part III, Line 6a. If Line 6a is a negative amount, fill in the "loss" oval.

### Completing the PA Schedule E

Copy PA-20S/PA-65 Schedule E to list additional properties.

#### 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.



**Note.** If there are more than four rental properties on Schedule E constituting more than one page, then all totals should appear on the first page of the schedule.

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# Line Instructions

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## Part A

### Property Description

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

For each rental real estate property (e.g. townhouse) and/or royalty income (e.g. mineral extracts), enter street address, city or town, and state and the type of property. If the property is outside Pennsylvania, fill in the oval.

[Complete PA Schedule M, Part B to reflect your Pennsylvania adjustments.](#)

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## Part B

### Income

PA-20S/PA-65 Schedule E should reflect what is reported on federal Form 8825, Rental Real Estate Income and Expenses of a Partnership or S Corporation. Enter rental and royalty income for each property as reported on federal Form 8825.

Complete PA-20S/PA-65 Schedule M, Part B to reflect your Pennsylvania adjustments.

### Property A, B, C, D

Enter amounts in only whole dollars under the corresponding column of the property listed in Part A.



**Note.** Rental income may not be apportioned. It must be allocated based on expenses and income. Complete Part B using actual amounts.

### Line 1

#### Rental Income Received

Enter the gross rent from the rental of real estate or other tangible personal property, including personal property leased with real estate. Include income received for renting a room or other space. If you received services or property as rent, report the fair market value of such services or property as rental income.

### Line 2

#### Royalty Income Received

Enter the gross royalties from oil, gas or mineral properties (not including

operating interests), copyrights and patents.

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## Expenses

Enter rental and royalty expenses for each property as reported on federal Form 8825.

### Line 3

#### Automobile and Travel

Deduct ordinary and necessary automobile and travel expenses related to your rental activities. You generally can either deduct your actual expenses or take the standard federal mileage rate. Enter the difference on PA-20S/PA-65 Schedule M, Part B, Section F, Line a. Pennsylvania law differs from federal treatment on the meals and entertainment expense.

### Line 4

#### Commissions

Enter commissions paid during the current tax year.

### Line 5

#### Legal and Professional Fees

Enter fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties. Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property or to develop or improve property. Instead, you must capitalize these fees and add them to the property's basis.

### Line 6

#### Repairs

Enter the cost of repairs paid to keep your property in good working condition. Repairs such as fixing a broken lock or painting a room generally do not add significant value to the property or extend its life. Improvements that increase the value of the property or extend its life such as replacing a roof or renovating a kitchen must be capitalized. You cannot deduct such costs in full in the year it is paid or incurred.

### Line 7

#### Management Fees

Enter fees paid to an outside source by the entity to manage property during the current year.

### Line 8

#### Advertising

Enter the cost of advertising property vacancies during the current tax year.

### Line 9

#### Cleaning and Maintenance

Enter fees related to cleaning and maintenance of property performed by an outside source during the current tax year.

### Line 10

#### Insurance

Enter the cost of insurance for property during the current tax year.

### Line 11

#### Interest

Enter the amount of interest paid to banks or other financial institutions if you have a mortgage on your rental property. To determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Pennsylvania does not follow federal rules regarding prepaid interest.

### Line 12

#### Taxes (not based on net income)

Enter taxes paid directly related to the rental activity. Deduct the proportionate share of real estate taxes. You may not deduct taxes based on income. You may deduct gross receipts and business privilege taxes.



**Note.** The portion of the Philadelphia business privilege tax based on gross receipts is deductible for Pennsylvania personal income tax purposes.

### Line 13

#### Utilities

Enter the cost paid for ordinary and necessary telephone calls related to your rental activities or royalty income (for example, calls to the renter). However, the base rate (including taxes and other charges) for telephone service for the first telephone line into your residence is a personal expense and is not deductible.

## Line 14

### Wages and Salaries

Enter wages and salaries related to property during the current tax year.

## Line 15

### Depreciation Expenses

Enter the annual depreciation deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable. Refer to PA PIT Guide, Chapter 16. You may use any other generally accepted depreciation method, but you must use it consistently.

## Line 16

### Other Expenses

Enter other expenses not listed on Lines 3 through 15. If additional space is needed submit an itemized statement indicating the other expenses for each of the properties listed.

## Line 17

### Total Expenses for each Property

Add Lines 3 through 16.

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## Income or Loss



**Note.** Enter the income or loss on Line 18 and Line 19 for each property.

## Line 18

### Income – If Line 1 or 2 is Greater Than Line 17

Subtract Line 17 from Line 1 or Line 2.

## Line 19

### Loss - If Line 1 or 2 is Less Than Line 17

Subtract Line 17 from Line 1 or Line 2. Fill in the oval.

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## Line 20

### Income (Loss) from Property Within Pennsylvania

Add the net income (loss) amounts from Lines 18 and 19 for each property within Pennsylvania. If a loss, fill in the oval.

## Line 21

### Income (Loss) from Property Outside Pennsylvania

Add the net income (loss) amounts from Lines 18 and 19 for each property outside Pennsylvania. If a loss, fill in the oval.

## Line 22

### Rent or Royalty Income (Loss) from Pennsylvania Sources from PA Schedules NRK-1

Enter the rent and royalty income (loss) amounts from PA-20S/PA-65 Schedule(s) NRK-1, Line 3. If a loss, fill in the oval.

## Line 23

### Rent or Royalty Income (Loss) from Sources Outside Pennsylvania from PA Schedules RK-1 and NRK-1

Enter the rent and royalty income (loss) difference of PA-20S/PA-65 Schedule(s) RK-1, Line 5 and PA-20S/PA-65 Schedule(s) NRK-1, Line 3. If a loss, fill in the oval.

## Line 24

### Net Rent and Royalty Income (Loss) from Pennsylvania-Sources

Add Lines 20 and 22.

## Line 25

### Net Rent and Royalty Income (Loss) from Outside Pennsylvania

Add Lines 21 and 23.



Net gain (loss) from federal Form 4797, from the disposition of property from rental real estate activities must be reported on PA-20S/PA-65 Schedule D.



The sum of Lines 24 and 25 should match PA-20S/PA-65 Schedule M, Part A, Lines 2, 3 and 6, Column (f).