

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

Rent and Royalty Income (Loss)

PA-20S/PA-65 Schedule E (10-15)

## 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 and LLC's filing as S corporations and Partnerships for federal income tax purposes.

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 includes 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, manufac-

turing, 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.

 **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 personal income tax law permits using IRC §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 §179 expense for all activities in PA. The IRC §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) from the dropdown box 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) from the dropdown box 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 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 nine-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.

## LINE INSTRUCTIONS

### 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.

## 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. Reporting of rental income should be done separately from royalties using different columns on Schedule E.

#### LINE 2

#### Royalty Income Received

Enter the gross royalties from oil, gas or mineral properties (not including operating interests), copyrights and patents. Reporting of royalties should be done separately from rental income using different columns on Schedule E.

### 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.

#### 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. Since Pennsylvania law does not allow any federal bonus depreciation and limits IRC §179 expensing, depreciation expenses must be adjusted on Schedule M, Part B. Any generally accepted depreciation method may be used, but it must be used consistently. For assets where basis is different between federal and PA then depreciation must be taken on a straight line basis.

**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.

**INCOME OR LOSS**

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

**LINE 18****Income – If Line 1 or 2 is Greater Than Line 17**

Subtract Line 17 from the sum of Line 1 and Line 2.

**LINE 19****Loss - If Line 1 or 2 is Less Than Line 17**

Subtract Line 17 from the sum of Line 1 and Line 2. Fill in the oval.

**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 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.

 **TIP** 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.

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