

Instructions for PA-20S/PA-65 Schedule A Interest Income

General Information

Purpose of Schedule

Use PA-20S/PA-65 Schedule A to report interest 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.

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

Interest reported on the PA-20S/PA-65 Information Return and PA-20S/PA-65 Schedule A is total interest earned by the entity itself. There is no need to distinguish between resident and nonresident portions since interest is not a class of income on the PA-20S/PA-65 Schedule NRK-1. For Pennsylvania personal income tax purposes, nonresidents are not taxed on ordinary interest from Pennsylvania sources. Interest is ignored by the nonresident unless the entity has reclassified interest on PA-20S/PA-65 Schedule M, Part A and PA-20S/PA-65 Schedule A, Line 2 as working capital, in which case it will be included with business or rental income.

Pennsylvania-Taxable Interest

Pennsylvania law (72 P.S. § 7303(a)(6)) provides that interest derived from obligations that are not statutorily free from state or local taxation under any other act of the General Assembly of the Commonwealth of Pennsylvania or under the laws of the U.S. is taxable.

Include all interest income except:

- interest derived from purchase money mortgages on real estate or land contracts that the entity includes in determining net gain

(loss) from the sale, exchange or disposition of property;

- interest incidental to the production of rental or royalty income that the entity includes in determining net rent or royalty income;

- interest that is statutorily free from Pennsylvania tax;
- interest derived from assets employed as working capital in a business; and
- interest from accounts and notes receivable from sales of products or services sold in the ordinary course of business that the entity includes in determining net profit (loss) from its business, profession or farm (generally current assets).

A PA S corporation or partnership cannot assume that an obligation that is exempt from federal income tax is also exempt from Pennsylvania personal income tax. The exclusion for U.S. tax-exempt obligations does not automatically extend to those obligations whose sole statutory basis for exclusion is the Internal Revenue Code.

The entity may only deduct forfeited interest penalties from a premature withdrawal of a time deposit against the interest income from that account or certificate. The PA S corporation or partnership cannot offset such interest

penalty against other interest income. If the total penalty exceeds the interest on an account or certificate, the entity can report the excess as a loss on PA-20S/PA-65

Pennsylvania Taxable Interest Income To Pennsylvania Resident and Nonresident Owners		
Type of Interest (Not allocated to net profits)	Pennsylvania Resident	Nonresident of Pennsylvania
Saving or other bank deposits	Taxable as Interest	Not Taxable
Coupon bonds	Taxable as Interest	Not Taxable
Open accounts	Taxable as Interest	Not Taxable
Promissory notes	Taxable as Interest	Not Taxable
Mortgages	Taxable as Interest	Not Taxable
Corporate bonds	Taxable as Interest	Not Taxable
Debentures	Taxable as Interest	Not Taxable
Interest on legacies or life insurance proceeds	Taxable as Interest	Not Taxable
Interest on tax refunds	Taxable as Interest	Not Taxable
Interest on U. S. obligations - Direct ownership	Not Taxable	Not Taxable
Interest on other states' obligations or political subdivisions	Taxable as Interest	Not Taxable
Unstated or imputed interest, including government obligations (original issue discount)	Taxable as Interest	Not Taxable
GNMA	Taxable as Interest	Not Taxable
FNMA	Taxable as Interest	Not Taxable
PA Commonwealth and PA Municipal Obligations	Not Taxable	Not Taxable
Income reported for federal purposes from life insurance, annuities, and endowment contracts.	Taxable as Interest	Not Taxable

Schedule D, Part I or PA-20S/PA-65 Schedule D, Part III, Line 13.

For a listing of tax-exempt and taxable obligations, obtain Pennsylvania form REV-1643, Tax Exempt Obligations for Pennsylvania Personal Income Tax Purposes.

Completing the PA Schedule A

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 Instructions

Line 1

Interest 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 4, Column A. Include federal Schedule K-1 interest income from other entities.

Line 2

Less Business or Rental Interest Income (Working Capital)

Enter the amount reported on PA-20S/PA-65 Schedule M, Part A, Line 4, Column B and/or Column F.

Line 3

Adjusted Federal Interest Income

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

Line 4

Federal-Exempt Interest Income Taxable for Pennsylvania Personal Income Tax

Enter the amount reported on federal Schedule K from line "Tax-exempt interest income."

Line 5

Other Interest Income not included on Line 3 and Line 4

If the entity received interest income reported on a line other than federal 1120S Schedule K, Line 4 or federal 1065 Schedule K, Line 5 then report as interest income for Pennsylvania personal income tax purposes on PA-20S/PA-65 Schedule A, Line 5.

Line 6

Gross Pennsylvania Interest Income

Add Lines 3 through 5. Enter the result on Line 6.

Line 7

Pennsylvania-Exempt Interest Income included on Line 6

Enter income reported as federal interest income that has been taxed federally and is exempt for Pennsylvania purposes. This number can be obtained from entity books and records. Refer to Pennsylvania form REV-1643, Tax-Exempt Obligations for Pennsylvania Personal Income Tax Purposes.

Line 8

Pennsylvania-Taxable Interest Income

Subtract Line 7 from Line 6. Enter the result on Line 8. Enter this amount on the PA-20S/PA-65 Information Return, Page 1, Part III, Line 3.