

1996  
PA-40

Department of Revenue  
Bureau of Individual Taxes  
Harrisburg, PA 17129-0003

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DEPARTMENT OF  
REVENUE



# Pennsylvania Individual Income Tax Form PA-40, Payment Voucher and Instructions For Residents and Nonresidents



Commonwealth of Pennsylvania

Dear Taxpayer:

Since day one of the Ridge Administration, we've worked hard to make sure that state government is more customer focused than ever before. Those efforts are resulting in positive changes for those living, working and doing business in Pennsylvania.

To that end, this year, the Department of Revenue is unveiling several new services to help you file your PA Personal Income Taxes with greater ease and to be more accessible with improved customer service opportunities.

New technology embraced by the Department will allow taxpayers to contact the Department through a toll-free automated phone service. By calling 1-888-PATAXES (1-888-728-2937), common questions can be answered, plus other information about forms and account status can be obtained - 24 hours a day, 7 days a week. Also, the Department continues to provide up-to-date forms and information on the Internet at: <http://www.revenue.state.pa.us>.

And, available this year, for the first time, is the ability to file your state tax return electronically. The Federal/State Electronic Filing Program allows taxpayers to file their returns through an approved practitioner. Filing electronically will allow returns to be processed more efficiently, and provide taxpayers with acceptance notices and refunds more quickly.

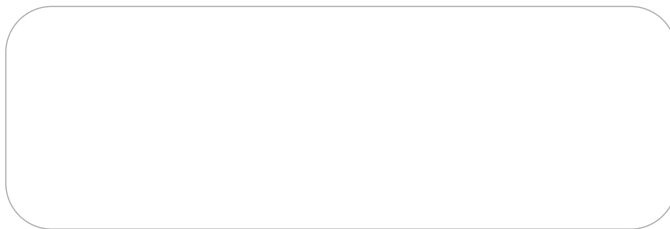
Even this booklet has been improved to provide you with an index for easier location of appropriate instructions and forms.

We remain committed to improving our services to you!

Tom Ridge  
Governor

Robert A. Judge, Sr.  
Secretary of Revenue

1996 PA-40



## NEW FOR 1996 RETURNS

**PA-40 Tax Return.** For 1996, the PA Department of Revenue has combined the PA-40R and PA-40NR. Residents may use either the PA-40 or the PA-40EZ. If you are a nonresident or part-year resident, you **must** use the PA-40 and check the appropriate box on your return. Your PA-40 is on page 3 or page 5.

**PA-40EZ.** This short form is available for taxpayers whose income and credits are limited to Compensation, Interest, Dividends, PA Withholding, Estimated Payments and Tax Forgiveness. One blank PA-40EZ is included in this booklet. Use the PA-40EZ if you can, see page 12.

The PA-40EZ instructions for the income and credit lines common to both forms are enclosed in a box, like this, below the specific PA-40 line instructions.

**Taxpayer Identification Label.** In response to taxpayer requests, the Department is again using labels. The next page is an insert with your preprinted label. Affix your label to the tax return you file. If any of the preprinted information is wrong, make your corrections directly on the preprinted label, see page 16.

**SSN/NAME/ADDRESS CHANGE Box.** Check this box **only** if the information you enter this year is different from your 1995 PA return. If the information on your label is the same as on your 1995 PA tax return, **do not** check this box.

**Last Year's Municipality Name & Zip Code.** If you do check the change box, enter in the space provided the name and zip code of the city, town, borough or other municipality where you lived on December 31, 1996.



**Electronic Filing.** The Department and the Internal Revenue Service are offering one-stop federal and PA electronic tax return filing. You will be able to file your PA tax return electronically with your federal tax return. Electronic filing is available whether you pay a tax preparer or prepare your own return. However, both your federal and PA tax returns must be submitted by an IRS approved transmitter or electronic return originator (ERO). In addition to tax preparers, other firms are approved by the IRS for electronic filing. If you do not have a tax preparer, they are listed in your telephone book.

Electronic returns offer many benefits:

- 1 **Accuracy.** Computer programs catch mistakes before they become problems.
- 1 **Acknowledgment.** Your preparer or ERO is notified electronically of the receipt and acceptance of your return.
- 1 **Refunds.** If your return is complete and accurate, your refund check will be issued within 4 weeks.
- 1 **File Now, Pay Later.** If you owe tax, you can file at anytime before the due date. The Department will process your PA tax return. You must then pay your PA tax due using your PA-V on or before April 15, 1997.

**Customer Services.** In addition to the Taxpayer Assistance information, the Department provides general information, tax forms and schedules on the Internet at <http://www.revenue.state.pa.us>. You may also contact the Department at our e-mail address: [pavev@epix.net](mailto:pavev@epix.net). In February, 1997, the Department will also provide toll-free assistance through recorded messages at **1-888-PATAXES (728-2937)**. Within the local Harrisburg area call **(717) 772-9739**.

**Supporting Documents Checklist.** The Department requires supporting schedules and forms for all income and [losses] reported and all credits you claimed. Use the checklist on the back of your PA-40 to

insure that you have attached all necessary supporting documents. Please indicate the number of each so the Department will know that we have received everything. Read the instructions for each class of income and type of credit for which form and/or schedule is required. **The checklist is not required for the PA-40EZ.**

## REMINDERS FOR 1996 RETURNS

**PA Schedules.** Please read the instructions for each PA schedule you submit with your tax return.

**Payment Voucher.** The Department is again providing you with a preprinted form with which to pay any PA income tax due. Your PA-V is on the insert on the next page. When you file, you will place your PA-V and your check in the same envelope. The Department will use your PA-V to process your payment on our automated equipment. Using your PA-V will save time and reduce costs. If any of the preprinted information on the PA-V is incorrect, **do not use it**. Follow the PA-V instructions on the back of the insert and the Mailing Instructions on page 25. If you owe no tax, do not use your PA-V. Please do not use it for any other tax payment – discard it.

**Tax Forgiveness from PA Schedule SP.** The instructions for claiming tax forgiveness have been changed to answer certain questions. Read the instructions for both the PA Schedule SP and the SP Worksheet. Dependent spouses and children of taxpayers who are eligible for tax forgiveness may still claim tax forgiveness, if they otherwise qualify. Read all the instructions beginning on page 28 before you complete your PA Schedule SP. The SP Worksheet does not need to be filed with your PA tax return.

**School District Code.** Enter the code of the school district in which you resided as of December 31, 1996. Based on these codes, information is provided to the PA Department of Education for use in calculating school district subsidies. Using a wrong or incorrect code may affect your school district's funding. See the instructions on page 16.

**Math Errors.** Double check all your calculations before completing your return. **Remember:** You may not deduct a [loss] in one class of income from income in another class or carried to another tax year. Spouses may not offset [losses] between themselves even if in the same income class.

**DO NOT ENTER CENTS ON ANY LINE OF YOUR PA TAX RETURN.** Using whole dollars reduces math errors, processing time and costs. See the instructions for rounding amounts on page 16.

**Mailing Instructions.** See page 25 for the instructions for using the pre-addressed mailing labels and envelopes and read the U.S. Postal Service recommendations concerning additional postage.

**PA-IRS Exchange.** The agreement between the Department and the Internal Revenue Service permits the exchange of tax information and is used to insure that taxpayers are properly reporting.

**Taxpayer Assistance.** The Department, the IRS and volunteer organizations work together to provide assistance in preparing tax returns.

**Temporary Offices.** Each year the Department establishes temporary offices to help taxpayers. Office locations may be published in local newspapers or are available by calling the Revenue district office nearest you. See page 11.

**Free Income Tax Preparation Service.** Individuals who are elderly, on a fixed income, disabled or housebound can receive free assistance in preparing uncomplicated federal, state and local income tax returns. This assistance is provided by volunteers working through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Contact the Revenue district office nearest you for information, or call the Internal Revenue Service toll free number (1-800-829-1040) for the location of assistance sites.

*continued on page 11...*

**Individual's "Use Tax" Responsibilities**

An individual is responsible for reporting and paying the 6% PA Use Tax directly to the PA Department of Revenue for use of any taxable, tangible personal property, services and hotel occupancies within Pennsylvania. Use Tax is due if such property/service is subject to the Sales Tax and no equivalent amount of Sales Tax has been paid to the seller. A 1% Local Use Tax also applies if the property/service is for use within a county that has imposed a Local Sales and Use Tax.

Use Tax is due on mail orders, "800" number orders and other out-of-state purchases of taxable items when the seller is not licensed to collect Sales Tax or when PA Sales Tax has not been paid. If Sales, Use or Hotel Occupancy Tax is not paid, the Department may issue an assessment for a PA Use Tax liability, upon which both penalty and interest charges may be imposed.

If you pay Sales Tax on an item in another state, Pennsylvania will grant you a credit up to the amount of your Sales Tax liability. Report the 6% PA Sales Tax liabilities (and the 1% local tax, if applicable) on a PA-1, PA Use Tax Return. To obtain a PA-1, contact a Revenue district office or see Forms Ordering below.

All purchases or leases of tangible personal property and certain enumerated services are taxable unless an item qualifies for exemption from tax. Generally, purchases of food from grocery stores, utilities for residential consumption, medicine and clothing for everyday wear are exempt from Sales and Use Tax. For more specific information on taxable items, contact the PA Department of Revenue, Office of Chief Counsel, Dept. 281061, Harrisburg, PA 17128-1061 or one of the revenue district offices listed below.

**REMINDERS FOR 1996 RETURNS (Continued from page 2)**

**Free Federal Tax Assistance from the IRS.**

- 1 Federal tax account or technical information: 1-800-829-1040.
- 1 Recorded Tele-Tax Service on 150 federal tax topics or 1996 tax refund information: 1-800-829-4477.
- 1 Federal tax forms/publications ordering: 1-800-829-FORM (3676).
- 1 Taxpayers unable to solve federal tax account problems through normal contacts may be eligible for help from the Problem Resolution Program: 1-800-829-1040.
- 1 Faster IRS refunds through Electronic Filing: 1-800-829-1040.

**Forms Ordering.** You may order any PA tax form or schedule by calling these special 24-hour answering service numbers:

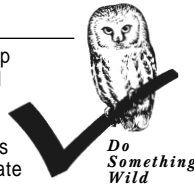
- 1 In Pennsylvania 1-800-362-2050
- 1 Outside Pennsylvania and within local Harrisburg area (717) 787-8094;
- 1 TDD # (717) 772-2252 (Hearing Impaired Only) or
- 1 On the Internet at <http://www.revenue.state.pa.us>.

Mail written requests to: PA Department of Revenue, Tax Forms Service Unit, 2850 Turnpike Industrial Drive, Middletown, PA 17057-5492. All material will be mailed directly to you.

**DONATIONS**

**WILD RESOURCE CONSERVATION FUND**

You have the chance to "Do Something Wild" and help protect Pennsylvania's nongame wildlife and native wild plants by making a contribution of your state refund on line 19c of your PA-40 or line 12c of your PA-40EZ. This special nonprofit fund is designed to help the state's resource agencies protect and restore these unique state treasures, our native wild plants and nongame wildlife.



To make your refund contribution, simply designate on line 19c or line 12c part or all of your tax overpayment to the Wild Resource Conservation Fund.

**UNITED STATES OLYMPIC COMMITTEE, PA DIVISION**

You have the opportunity to support American athletes in the Olympic Games by making a contribution of your state refund on line 19d of your PA-40 or line 12d of your PA-40EZ.



To make your refund contribution, simply designate on line 19d or line 12d part or all of your refund.

If you are not receiving a refund and wish to contribute, PLEASE DO NOT alter your tax return. You may send a check or a money order payable to: Pennsylvania Wild Resource Conservation Fund, P.O. Box 1467, Harrisburg, PA 17120-1467 OR Olympic Committee, P.O. Box 1994, Colorado Springs, CO 80977-1994. Contributions may be claimed as charitable deductions on your federal tax return next year, if you itemize. Consult your IRS instructions for more details.

**ORGAN DONOR AWARENESS TRUST FUND**

For tax years 1997 and 2000, taxpayers will be able to donate all or a portion of their tax refunds to this special non-profit fund.

You may not make a donation on your 1996 PA tax return.

Specific information will be provided in next year's tax booklet.

**REVENUE DISTRICT OFFICES**

- Altoona**  
Cricket Field Plaza  
615 Howard Avenue  
Altoona, PA 16601-4867  
**(814) 946-7310**
- Bethlehem**  
44 East Broad Street  
Bethlehem, PA 18018-5998  
**(610) 861-2000**
- Bradford**  
Second Floor  
86 Boylston Street  
Bradford, PA 16701-2011  
**(814) 368-7113**
- Doylestown**  
Suite 104  
600 Louis Dr.  
Warminster, PA 18974-2846  
**(215) 443-2990**
- Erie**  
Sumner Nichols Building  
Room 216  
155 West Eighth Street  
Erie, PA 16501-1012  
**(814) 871-4491**
- Greensburg**  
Second Floor  
15 West Third Street  
Greensburg, PA 15601-3003  
**(412) 832-5283**
- Harrisburg**  
Lobby  
Strawberry Square  
Harrisburg, PA 17128-0101  
**(717) 783-1405**
- Indiana**  
835 Water Street (Rear)  
Indiana, PA 15701-1705  
**(412) 357-7600**
- Johnstown**  
Central Park Commons Bldg.  
Second Floor  
428 - 430 Main Street  
Johnstown, PA 15901-1823  
**(814) 533-2495**
- Lancaster**  
160 East King Street  
Lancaster, PA 17602-2869  
**(717) 299-7581**
- New Castle**  
Room 201  
101 South Mercer Street  
New Castle, PA 16101-3837  
**(412) 656-3203**
- Newtown Square**  
Suite 1  
90 South Newtown Street  
Road (Route 252)  
Newtown Square, PA 19073-4092  
**(610) 353-4051**
- Norristown**  
Stoney Creek Office Center  
4th Floor  
151 West Marshall Street  
Norristown, PA 19401-4739  
**(610) 270-1780**
- Philadelphia**  
State Office Building  
Room 201  
1400 W. Spring Garden St.  
Philadelphia, PA 19130-4088  
**(215) 560-2056**
- Pittsburgh**  
State Office Building  
Suite 104  
300 Liberty Avenue  
Pittsburgh, PA 15222-1210  
**(412) 565-7540**
- Pottsville**  
110 East Laurel Blvd.  
Pottsville, PA 17901-2527  
**(717) 621-3175**
- Reading**  
Room 239  
625 Cherry Street  
Reading, PA 19602-1186  
**(610) 378-4401**
- Scranton**  
Suite 305, Samters Building  
101 Penn Avenue  
Scranton, PA 18503-1970  
**(717) 963-4585**
- Sunbury**  
335 Market Street  
Sunbury, PA 17801-3466  
**(717) 988-5520**
- Washington**  
George Stewart Building  
75 East Maiden Street  
Washington, PA 15301-4963  
**(412) 223-4550**
- Wilkes-Barre**  
Suite 261  
290 South Pennsylvania Blvd.  
Wilkes-Barre, PA 18701-3398  
**(717) 826-2466**
- Williamsport**  
322 Locust Street  
Williamsport, PA 17701-6085  
**(717) 327-3475**
- York**  
Second Floor  
130 North Duke Street  
York, PA 17401-1113  
**(717) 845-6661**

**REVENUE DISTRICT OFFICES**

**Toll free assistance: 1-888-PATAXES or in the local Harrisburg area (717) 772-9739**

**Who Must File a Return?** You must complete and file a 1996 PA tax return if:

- You received total PA gross taxable income in excess of \$35 during 1996 even if no tax is due with your PA tax return; and/or
- You incurred a [loss] from transactions as an individual, sole proprietor, partner or shareholder of a PA S corporation.

**Filing for a Deceased, Disabled or Minor.** Every person who is charged with the care of the property of a decedent who died in 1996 or of a minor child or disabled individual who cannot prepare his or her own return must complete and file a PA tax return on behalf of that individual, if that person met the circumstances described above.

**Taxable Income.** PA income tax for the 1996 calendar year and for all fiscal years beginning in 1996 is levied at the flat rate of 2.8% on these **eight separate classes of income**:

1. **Compensation** received for services rendered (see page 17);
2. **Interest** (see page 20);
3. **Dividends** (see page 20);
4. **Net Income or [Loss] from the Operation of a Business, Profession or Farm** (see page 20);
5. **Net Gains or [Loss] from Sale, Exchange or Disposition of Property** (see page 21);
6. **Net Income or [Loss] from Rents, Royalties, Patents and Copyrights** (see page 22);
7. **Estate and Trust Income** (see page 23);
8. **Gambling and Lottery Winnings** (see page 23).

**PA-40.** You must use the PA-40 in this booklet if you report the following kinds of income and credits:

**Income:**

- Any Income or [Loss] from a Partnership or PA S corporation;
- Net Income or [Loss] from the Operation of a Business, Profession or Farm;
- Net Gain or [Loss] from the Sale, Exchange or Disposition of Property;
- Net Income or [Loss] from Rents, Royalties, Patents and Copyrights;
- Estate and Trust Income; and/or
- Gambling and Lottery Winnings

**Credits:**

- Total Credit for Taxes Paid to Other States or Countries; and/or
- PA Employment Incentive Payments Credit

You must file the PA-40 if you are filing on a fiscal year basis.

**PA-40EZ.** If you are able to file Form 1040A or Form 1040EZ with the IRS, you should be able to file the PA-40EZ with the Department. Only taxpayers who were residents of Pennsylvania for all of 1996, who are calendar year filers and who report the following kinds of income and credits can use the PA-40EZ:

**Income:**

- Compensation from services rendered;
- Interest Income; and
- Dividend Income

**Credits:**

- PA Income Taxes Withheld;
- Estimated Payments and Credits; and
- Tax Forgiveness from PA Schedule SP

**Joint Income-Joint Returns.** If two or more persons, such as you and your spouse, own income-producing property, including real estate, savings accounts or stock, as joint tenants in common, you must each report your share of the income from the property. In Pennsylvania, spouses may file a joint return for convenience. However, on a joint return, one spouse cannot offset income, gain or profit in any class of taxable income with any [loss] of the other spouse in the same or any other class of taxable income. **Filing Tip:** On a joint return, both spouses are equally liable for the PA income tax shown, even if only one spouse had a liability. If one spouse owes

tax and the other does not, you should consider filing separate returns.

**Costs and Expenses.** PA law does not allow any personal expenses, itemized deductions, personal exemptions or standard deductions. You may only deduct allowable costs and expenses directly incurred in earning or receiving income. **Important.** Interest, Dividends and Gambling and Lottery Winnings are gross taxable income classes - you may not deduct any expenses when calculating your income in these classes.

**Gains and [Losses].** You cannot offset income, gain or profit from one class of taxable income with a [loss] in any other class of taxable income. You cannot carry-forward or carry-back gains or [losses] to other tax years. **If you experience a net [loss] in an income class, enter the dollar amount of the [loss] in brackets on the appropriate line on form PA-40.** You must attach a completed schedule even if you incurred a [loss] in a class of income.

**Making PA Estimated Personal Income Tax Payments for 1997.** If your 1996 tax exceeds \$70, you may need to file a 1997 declaration and pay PA Estimated Tax. You must file a Declaration of PA Estimated Tax when your taxable income, not subject to withholding, reasonably can be expected to exceed \$2,500. You then pay the tax in installments which are due for most individuals on April 15, June 15, September 15 and January 15. **Important.** If you are a PA resident working in a reciprocal state (see page 13) and your employer is not withholding PA tax, you are also subject to making PA Estimated Tax payments. You should either advise your employer to withhold PA tax or obtain PA estimated forms and make installment payments to avoid possible penalty.

Exceptions are:

- If you expect to obtain at least two-thirds of your total 1997 estimated gross income from farming for the period, you have the option of filing your declaration and paying your PA Estimated Tax at any time up to March 1, 1998.
- If your total PA Estimated Tax for 1997 is \$100 or less, you have the option of filing your declaration and paying your PA Estimated Tax at any time up to January 15, 1998.

Your estimated tax payments must be made on the PA-40ES form. These forms are being sent to taxpayers who made payments for the 1996 taxable year. If you do not receive your 1997 PA-40ES forms by March 1, 1997, contact the Revenue district office nearest you, see page 11.

If you will be filing PA estimated taxes for the first time, request a PA-40ESR replacement form. Specific instructions for estimating your PA tax and filing the forms are explained in form REV-413I.

**Filing Tip:** To avoid problems and delays in processing your 1996 PA tax return, married taxpayers should file in the same manner in which you made your 1996 PA Estimated Tax installment payments. If you and your spouse made joint estimated payments, please file a joint return. If you and your spouse made separate estimated payments, please file separate returns claiming the proper amounts on each return.

**Type Filer.** Your filing status depends on whether you are single or married.

**(S) Single.** You **must** file as single if either of the following is true as of the end of your taxable year:

1. You were never married; or
2. You were divorced or widowed and have not remarried.

You **must** file as single if your spouse was deceased by the end of the taxable year.

**(J) Married, Filing Joint Return.** You and your spouse, even if living apart, may file a joint return, but only if all of the following three conditions are met:

1. Your taxable years begin on the same date and end on the same date; and
2. Neither of you is claiming the PA Employment Incentive Payments Credit; and
3. Your spouse was living on January 1, 1997.

**Filing Tip:** Your spouse is not required to file a joint return if he or she did not receive total taxable gross income in excess of \$35. **Important:** If you file jointly, you and your spouse are both liable for all PA tax owed, even only if one of you had taxable income, and even

if you or your spouse had already paid the tax due through withholding or through estimated payments.

**(M) Married, Filing Separate Returns.** You and your spouse each may file a separate return instead of a joint return. You and your spouse must file separate returns if:

- Your taxable years begin on different dates or end on different dates; or
- Your spouse is deceased (see below); or
- You or your spouse are claiming the PA Employment Incentive Payments Credit.

**Married, One Spouse a Resident or Part-Year Resident and One Spouse a Nonresident.** If one spouse is a resident or part-year resident and the other spouse a nonresident, you must file separate PA tax returns, unless you both elect to be taxed as resident taxpayers and meet all the other requirements for filing a joint return (see **Married Filing Joint Return** on page 12).

**(F) Deceased Return or Final Return.**

**Deceased Return.** A separate tax return for a deceased individual must be filed as **Deceased** by the executor, administrator or other person charged with caring for the decedent's property. A joint return may not be filed. Report all income earned, received or credited to the decedent from the beginning of the tax year to the date of death.

**Final Return.** If you lived in Pennsylvania for all of 1996, but permanently moved from Pennsylvania and will not have any PA taxable income, you file as **Final**. You will not receive a 1997 booklet.

**Residency.** To determine whether you are a resident, nonresident or part-year resident for PA purposes, first carefully read the definitions of **Domicile** and **Permanent Abode**. Then answer the four questions below. You are a nonresident for PA purposes **only** if one or more of the following applies to you:

- You maintain a permanent abode outside Pennsylvania for the entire taxable year and can answer both question 3 and question 4 below with a **"NO"**.
- You can answer questions 1, 2 and 3 below with a **"NO"**
- You can answer each of the 4 questions below with a **"NO"**.

Question 1: Was Pennsylvania your domicile for any part of the taxable year?  Yes  No

Question 2: Did you spend in the aggregate more than 183 calendar days of the taxable year in Pennsylvania?  Yes  No

Question 3: Did you have a permanent abode in Pennsylvania at any time during the taxable year?  Yes  No

Question 4: Did you spend in the aggregate more than 30 calendar days of the taxable year in Pennsylvania?  Yes  No

If you do not qualify as a nonresident, as explained above, you must report and pay tax as a resident or part-year resident, even if you are not considered a PA resident for other purposes. For PA purposes, you must consider both where you were domiciled and where you maintained a permanent place of abode during your taxable year.

**Domicile.** Your domicile is your fixed and permanent home to which you always have the intention of returning whenever absent, even though you may live elsewhere. You can have only one state of domicile at any given time. Your state of domicile does not change until you move to another state or country with the sincere intention of making your permanent home there and abandoning your previous domicile. If you move to another state or country, but intend to stay there only for a fixed or limited time (no matter how long), your domicile does not change. Some factors to consider in determining your place of domicile are:

- Where are your usual living quarters?
- Where do you spend most of your non-working hours?
- Where are you registered to operate a motor vehicle?
- Where are you registered to vote?
- Where do you actually reside?
- Where does your immediate family reside and where do your children attend school?
- Where are your bank accounts and other property located?
- Where is your principal place of business or work?

- Where do you maintain memberships in your church, synagogue, other place of worship and civic or fraternal organizations and clubs?

**Permanent Abode.** Your permanent abode is a house, apartment, dwelling place or other residence you maintain as your household for an indefinite period, whether you own it or not. An abode is not permanent if you occupy it only during a fixed or limited period of time for a particular purpose. Barracks, bachelor officer's quarters, quarters on ships and other living accommodations provided by your employer for a definite period do not qualify as a permanent abode. College dormitories, fraternity houses, sorority houses and off-campus rentals by enrolled college students do not qualify as a permanent abode.

**Resident.** For tax purposes, residency in Pennsylvania may be established in two ways:

1. If you are domiciled in Pennsylvania, you are considered a resident unless you meet all three of the following conditions:
  - You did not maintain a permanent abode in Pennsylvania for yourself or your family; and
  - You did maintain a permanent abode outside Pennsylvania throughout the entire taxable year; and
  - You did not spend in the aggregate more than 30 days of the taxable year in Pennsylvania.
2. If you maintain a permanent abode in Pennsylvania and spend a total of more than 183 days of the taxable year in Pennsylvania even though you are not domiciled in the Commonwealth, you are considered a resident.

**How Residents Are Taxed.** If you are a resident, you are taxed on all taxable income received from any source.

Once you have established Pennsylvania as your domicile or permanent home, you are subject to tax on any gain realized from the sale of your former residence in another state. PA law does not provide the same exclusion for deferring the gain from the sale of a residence as federal tax law. Therefore, even if your former state follows federal rules, you must complete a PA Schedule PA-19 and report the gain as taxable. If your former state also taxes the gain, you are entitled to the PA Resident Credit. If the sale was finalized before you established domicile in Pennsylvania, then the gain is not taxable on your PA-40, but you will not receive any credit for taxes paid to your former state. You are allowed a PA Resident Credit (line 14 on your PA-40) for any tax imposed by and paid to other states or countries, based upon income that is also subject to PA tax, see page 24.

**PA Residents Working in Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia.** If you are a PA resident and work in a reciprocal state, your compensation is taxed by Pennsylvania and not by that state. The PA Resident Credit does not apply for compensation from these states. It is your responsibility to notify your employer that you are a resident of Pennsylvania and that the income tax for any of these states should not be withheld from your pay. Your employer should withhold PA tax from your compensation and forward it to the Department. If your employer does not withhold PA tax, you may need to make PA estimated payments, see page 12.

If your out-of-state employer did not withhold PA tax, you must report your compensation as taxable income to Pennsylvania and pay the tax. You may be required to make PA Estimated Tax payments, see page 12. If another state's tax was withheld, you may file for a refund from the other state. You will not receive the PA Resident Credit for any tax you may pay on your compensation to these six states. **Important:** The reciprocal agreements which Pennsylvania has with these six states apply only to compensation and withholding and do not apply to any other class of income.

**Example:** In 1996, Mike, a resident of Pennsylvania, worked in New Jersey. He also received rental income from his New Jersey summer cottage. Mike must report as PA taxable income both his compensation and the rental income he realized. He cannot receive a credit for income tax paid to New Jersey on his compensation from his employment, but he may claim a credit against his PA tax liability for income tax paid to New Jersey on the rental income from the cottage.

**Dual Residency. Special Rules for PA Residents Working in Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia.** If you are a PA resident domiciliary and you are considered a tax resident (a resident for income tax purposes) of one of these states, you may claim a PA Resident Credit for taxes paid to that state on your compensation. The reciprocal agreements with these states are not applicable since you are a tax resident in both Pennsylvania and the other state. You must attach a copy of the tax return you filed with the

other state to explain that you were taxed as a resident in that state in order to claim the PA Resident Credit.

**Example:** Dan is domiciled in Pennsylvania for the entire taxable year. He also maintained a permanent place of abode in Maryland and spent in the aggregate 230 days of the 1996 taxable year in Maryland. Maryland considers Dan to be a Maryland resident for income tax purposes. He earned \$10,000 in compensation working in Maryland. Dan must report his compensation as PA taxable income, but may claim the PA Resident Credit for income tax paid to Maryland on the same compensation because he is domiciled in Pennsylvania and is a resident of Maryland.

**Part-Year Residents.** Part-year residents use the PA-40. You are a part-year resident for PA purposes if you changed your permanent residence during the tax year from:

- A place outside Pennsylvania to Pennsylvania with the intent of residing here permanently; or
- Pennsylvania to a place outside Pennsylvania with the intent of residing there permanently.

**Example:** Mary lived and worked in New York all her life. She obtains a new job in Pennsylvania. She sells her New York home and then moves to Pittsburgh on June 1. She opens a bank account and registers to vote from her Pittsburgh address. Mary is a part-year resident and is taxed as a PA resident for all income she earns and receives for the last seven months of the year. She is not taxed by Pennsylvania on her compensation from New York during the first five months of the year.

**How Part-Year Residents are Taxed.** If you are a part-year resident, you are subject to PA tax on all income earned, received or credited, including interest, dividends and gains, for that part of the year you were a resident. If you earned income from sources inside Pennsylvania during that part of the tax year you were a nonresident, you are subject to PA tax on that income (unless it is compensation covered by a reciprocal agreement). In such a case, both your taxable income as a resident and your taxable income as a nonresident should be entered on the same return in order to compute your total tax liability. **Part-year residents who moved from Pennsylvania after December 31, 1996, must complete the school district code.** If you were not a PA resident on December 31, 1996, enter 99999.

**How Nonresidents are Taxed.** Nonresidents of Pennsylvania use the PA-40 return in this booklet to report income. If you are a nonresident, you are taxed only on the following types of income received from PA sources:

1. **Compensation for Personal Services.** If you received compensation for services performed in Pennsylvania, you are taxed on that income, unless you are a resident of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia. See instructions on this page. Your employer is required to withhold PA tax on the exact amount of your compensation and report your PA earnings in the state block on your W-2 form. If your PA taxable compensation is misreported or not reported by your employer, you must obtain a PA Schedule NRH to determine how to apportion compensation for services performed both inside and outside Pennsylvania. To request a PA Schedule NRH, see Forms Ordering on page 11.
2. **Interest.** Ordinary interest from long term investments, savings accounts and personal checking accounts is not taxable to nonresidents. However, interest which is directly related to activity in a PA income class which results in PA taxable income or [loss], must be reported in that income class. Interest from a taxable installment sale of real property is included in taxable gain on PA Schedule D-1. Interest from a business checking account and interest from short term investments to generate working capital is included in determining net profit or [loss]. Interest on security deposits received for the use of property is included in determining net rental income or [loss].
3. **Dividends.** Generally, ordinary dividend income is not taxable to nonresidents. As with interest, if dividend income is realized from activity in a PA income class, it must be reported in that income class.
4. **Net Income or [Loss] from the Operation of a Business, Profession or Farm.** All income from the operation of a business entity in Pennsylvania, including interest and dividend income received in the ordinary course of business, is taxable income to nonresidents, whether received as a sole proprietor, a partner or a shareholder in a PA S corporation. If income is derived from sources both inside and outside Pennsylvania, you must obtain a PA Schedule NRH to determine how to apportion your income,

unless you maintain separate accounts and records which clearly reflect your PA business activity. You need not personally perform services in Pennsylvania to be taxed by Pennsylvania on business income.

5. **Net Income or [Loss] from the Sale, Exchange or Disposition of Property.** The gain from any real or tangible personal property located in Pennsylvania is taxable to nonresidents. If you move into Pennsylvania and sell your residence in the other state, you are not subject to tax on the gain if the sale was finalized before you established domicile in Pennsylvania. However, if you moved from Pennsylvania and sold your residence here, you must still report the gain, even if your new state of residence follows the federal deferral of gain provisions. **Filing Tip:** The gain from the disposition of intangible property is not taxable. **Important:** Any realized [loss] from such a disposition may not be used to reduce other taxable gains.
6. **Net Income or [Loss] from Rents, Royalties, Patents and Copyrights.** The net amount realized from the use of property located in Pennsylvania or used in Pennsylvania is taxable to nonresidents.
7. **Estate and Trust Income.** Income received by a beneficiary of an estate or trust is taxable to nonresidents to the extent the income is from PA sources.
8. **Gambling and Lottery Winnings.** PA law does not impose PA tax on such income realized from PA sources.

**Residents of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia Working in Pennsylvania.** If you are a resident of one of these states and receive compensation for services performed inside Pennsylvania, this compensation is not subject to PA tax. Withholding is not required if you file form REV-420, "Employee's Statement of Nonresidence in Pennsylvania" with your PA employer.

**Reciprocal agreements apply to Compensation ONLY and not to any other class of income.**

**Example:** In 1996, Joe, a resident of West Virginia, worked in Pennsylvania. He also owned a rental property in Pennsylvania. Joe must report as Pennsylvania taxable income only the rental income realized on the rental property. Because of the reciprocal agreement with West Virginia, he is not subject to tax on his compensation in Pennsylvania.

If you did not file a form REV-420 with your PA employer or your employer erroneously withheld PA tax, you must file a PA tax return to obtain a refund. **Filing Tip:** Report zero compensation on lines 1a, 1b and 1c. On line 11 claim credit for PA tax withheld as shown on your W-2 form. Request your refund check on lines 18 and 19a. You must attach a copy of your W-2 form and a brief explanation.

**Members of the Armed Forces.** Military pay earned by PA residents is fully taxable unless received while on federal active duty or federal active duty for training outside the Commonwealth. Income received by a PA resident for military service performed inside Pennsylvania, even if on federal active duty or federal active duty for training, is fully taxable as compensation.

Nonresident military personnel who are serving in Pennsylvania are exempt from PA tax on their military pay. They are, however, subject to tax on any other income normally taxable to nonresidents.

#### **Military Service Performed Outside Pennsylvania.**

- Income received for military service outside Pennsylvania while on active duty as a member of the armed forces of the United States is not taxable as compensation and may be deducted, if included in your W-2 form. Attach an explanation along with copies of your orders.
- Reservists and National Guardsmen ordered to active duty for training pursuant to Title 10 or Title 32 of the U.S. Code shall be presumed to be on federal active duty. Military pay received for such service is not taxable when the active duty training is performed outside Pennsylvania.

**Important:** A PA resident on active duty with the U.S. Public Health Service is considered to be on federal active duty and his or her compensation is not includable in gross compensation if earned outside Pennsylvania. A written explanation should be provided in lieu of copies of orders. A PA resident in the U.S. Foreign Service is not considered to be on federal active duty and his or her income is includable in PA taxable compensation.

If you are domiciled in Pennsylvania, you are considered to be a PA resident, even if you spend no time during the taxable year in this Commonwealth. You must file as a resident. However, your income is not taxable for PA purposes if you meet the exceptions as explained under Residency on page 13.

**Evidence of Active Duty.** Residents must provide proof that the military income excluded from taxable compensation was earned outside Pennsylvania while on federal active duty. The Department will accept as proof the authority section of the military orders directing the PA resident to federal duty outside Pennsylvania. If the authority for reporting to active duty is based on a federal statute, such as 32 U.S.C. §§316, 502, 503, 504, or 505, federal active duty is presumed. However, if the authority for reporting to active duty is based on a PA statute, such as 51 P.S. §§508 or 3102, state active duty will be presumed and such income is considered taxable compensation.

**Filing Tip:** Attach to your PA tax return copies of your orders and explain where you earned your active duty pay. Your W-2 form may indicate active duty, but unless you certify that you earned that pay outside Pennsylvania, the processing of your return and refund, if any, may be delayed.

**Members of Partnerships and PA S Corporations Reporting Income.** If you are a resident member of a partnership or a resident shareholder in a PA S corporation, you must report your share of income whether it was distributed to you or not. You report your share of the income from the partnership or PA S corporation in the same class in which the partnership or PA S corporation realized the income.

Each resident partner in a business, profession or farm must attach to his or her PA-40 a copy of REV-1675, PA Schedule RK-1, for every partnership in which he or she is a member. If your partnership only provides a federal Schedule K-1, you must classify the income or [loss] according to the instructions for each class of income in this booklet.

Each resident shareholder in a PA S corporation must attach to his or her PA-40 a copy of REV-1682 PA Schedule RK-1 for every PA S corporation in which he or she is a shareholder. Do not attach federal Schedules K-1.

If you are a nonresident and are a member of a partnership or a shareholder in a PA S corporation which realizes PA taxable income or [loss], you must report your share of that income or [loss], whether it was distributed to you or not. You report your share of income or [loss] from the partnership or PA S corporation in the same class in which the partnership or PA S corporation realized the income or [loss].

As a nonresident partner and shareholder you must attach to your PA-40 a copy of each PA Schedule NRK-1 received from the partnership or PA S corporation. If the partnership only provides a federal Schedule K-1, you must classify the income or [loss] according to the instructions for each PA income class.

**Taxable Year — Calendar Year Taxpayer.** You must report all taxable income received or accrued from January 1, 1996 through December 31, 1996, unless you file on a fiscal year basis for federal purposes.

**Taxable Year — Fiscal Year Taxpayer.** If you are approved to file on a fiscal year basis for Federal Income Tax purposes, you must report all taxable income received or accrued during your fiscal year for PA purposes.

#### When To File?

**Calendar Year Taxpayers.** Returns for calendar year filers must be postmarked by **midnight, Tuesday, April 15, 1997**. The U.S. Postal Service postmark date on the envelope is proof of timely filing. **Don't be late!** Late filing can result in your paying penalty and interest.

**Fiscal Year Taxpayers.** If you file on a fiscal year basis, your PA tax return is due on or before **the fifteenth day of the fourth month** following the close of your fiscal year or the next business day if the due date falls on a Saturday, Sunday or holiday. You may not file on a fiscal year basis for Pennsylvania if you are not permitted to file on a fiscal year basis for federal purposes.

**Extension of Time to File.** An extension of time to file your PA tax return does not extend the time to pay the tax. An extension to file cannot exceed six (6) months unless the taxpayer is outside the United States. The amount you reasonably estimate to be your tax due must be paid in full with your extension request. **Important:** Attach a copy of the federal or PA extension you submitted to the front

of your PA tax return when you file. Placing your extension form behind your return may result in correspondence or a billing notice from the Department.

There are two ways to obtain an extension of time to file:

1. If you are granted an extension of time for filing your federal tax return, you automatically will be granted the same extension for filing your PA tax return. For an automatic four-month extension, attach a copy of the completed Form 4868 to your PA return when you file. For extensions over four months, also attach a copy of the letter or form granting the federal extension.
2. If you have not been granted an extension of time for filing your federal tax return, you may request an extension for filing your PA tax return by submitting an Application for Extension of Time to File (form REV-276). To obtain this form, see Forms Ordering on page 11. The extension application must be received in sufficient time for the Department to consider and act upon it prior to the date your return is due. Mail the extension application and any payment due to: PA Department of Revenue, Bureau of Individual Taxes, Dept. 280504, Harrisburg, PA 17128-0504.

**Important:** With an extension, you must pay in full the amount reasonably expected to be your PA tax due. Include this extension payment on line 12c of your PA-40 or on line 7 of your PA-40EZ when you file your return. Underpayment penalty will not be charged if the amount you pay on or before the original due date is at least 90% of the total tax actually due, and the remaining balance is paid with a timely filed return. However, interest will be charged on the amount not paid by the original due date.

You will not receive an approval letter from the Department if your request for extension has been accepted. Only if the Department has a question concerning your request will you receive correspondence.

**Filing Amended Returns.** It is not necessary to attach a complete copy of your original return. Use a PA tax return from the same tax year you are amending. **Example:** To amend for 1994 and 1995, use a 1994 and a 1995 PA tax return.

Clearly print **AMENDED RETURN** at the top. Then, follow these steps:

1. Enter the amounts from your original return that you **are not** amending.
2. Enter your amended amounts. Explain the reason you are filing an amended return and attach the amended forms or schedules supporting your amended amounts.
3. Calculate your amended Total PA Taxable Income.
4. Calculate your PA Tax Liability. If you received a refund on your original return, add that amount to your PA Tax Liability.
5. Calculate your Total Payments and Credits. If you paid tax with your original return, add that payment to your Total Payments and Credits.
6. Calculate your amended Tax Due or Overpayment. If an overpayment, be sure to complete lines 19a through 19d.

If amending a PA-40EZ, be sure to complete lines 12a through 12d.

The Department will take your original refund or payment into account when reviewing your amended return. Be sure to sign your amended return.

Mail your amended return with all explanations and attachments to: PA Department of Revenue, Bureau of Individual Taxes, Dept. 280502, Harrisburg, PA 17128-0502.

**Refunds.** To receive a refund if you overreported your income or are entitled to credits or deductions which you failed to claim, you must file an Amended PA tax return within three years from the date your original return was due. The Department will accept amended returns filed within three years of the extended due date if an extension was granted.

**Important.** An amended return may not be filed after an assessment has been issued if the amendment relates to the same taxable year and item of income, gain, deduction or [loss] involved in the assessment. In this instance, you must either file a timely petition for reassessment or pay the assessment and file a timely refund petition to claim your refund. To order the Petition, form REV-65, see Forms Ordering on page 11.

**Underreported Income.** If at any time after you file your return, you discover that you have underreported your income tax or erroneously

claimed credits or deductions to which you are not entitled which would increase your taxable income, you must correct the error within 30 days by filing an Amended PA tax return. You must pay the additional tax, plus applicable penalty and interest.

**Records Must Be Maintained.** All amounts reported on your return and accompanying schedules are subject to verification and audit by the Department. Books and records must be maintained for at least four years after filing to verify any information you reported on PA tax returns.

**Penalties For Not Filing or for Filing a Late Return.** If you do not file your return on or before the due date, or if you do not file your return on or before the date to which an extension has been granted, then for each month or fraction of a month your return is late a 5% penalty will be imposed, unless reasonable cause for late filing is shown. The maximum penalty is 25%. The minimum penalty is \$5. Any person who attempts to evade or defeat their PA tax responsibility may be prosecuted.

**Interest for Nonpayment or for Late Payment of Your Tax.** If you do not pay the tax due on or before the due date, interest will be computed from the date the tax was due and payable to the date of payment. The annual interest rate is that rate established by the U.S. Secretary of the Treasury and which is in effect on January 1 of each calendar year.

**Penalties for Nonpayment or for Late Payment of Your Tax.**

- If you do not pay the full amount of your tax due with your return, a 5% underpayment penalty will be imposed.
- If you fail to report an amount of taxable income which is more than 25% of the taxable income shown on your return, an additional penalty of 25% of the tax due on the unreported income will be imposed.

These penalties will be imposed if the underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud.

- If any part of any underpayment of the tax is due to fraud, 50% of the underpayment will be added to the tax.

**Important.** You may be assessed **both** late filing and underpayment penalty if you file your return after the due date (or extended due date) and do not pay your tax liability with your return.

**Other Penalties.** Any taxpayer who files a return which does not contain sufficient information on which to determine the correct liability or which contains information which indicates the liability is significantly incorrect and the return is filed frivolously or in a manner to delay or impede the administration of the tax law shall pay a \$500 penalty. Any person required to furnish an information return who furnishes a false or fraudulent return shall be subject to a penalty of \$50 for each failure.

**Rounding Amounts to Whole Dollars and Entering [Losses].** Do not enter cents on your tax return and schedules. Enter amounts in whole dollars:

Round money amounts to whole dollars. Any amount which is less than 50 cents is eliminated. Any amount which is 50 cents or more is increased to the next dollar amount. Using whole dollars expedites the processing of tax returns.

Enter the dollar amount of a net [loss] in brackets [ ] on your tax return. Do not use the word LOSS.

**PA and Federal Schedules and Forms.** You may be able to file copies of federal Schedules B, C and F instead of the corresponding PA schedules. You may not use federal Schedules D, 2119 or K-1 (if a PA Schedule RK-1 or NRK-1 was provided) or Forms 3903 and 3903F. You may not use federal schedules or forms if you are filing as a nonresident or part-year resident.

**Important:** The federal amounts may not be correct for PA purposes. See the instructions for each class of PA income to determine if you can use a federal schedule. You may use federal Schedule E but not for reporting income or [loss] from partnerships, PA S corporations, estates or trusts.

**Reproducing PA Returns and Schedules.** You may make copies of all the PA tax returns and schedules in this booklet, **with the exception of your PA-V.**

## SPECIFIC INSTRUCTIONS

Read all instructions carefully. This booklet contains two PA-40 returns and a PA-40EZ for residents only. Please file one return using the preprinted label. Use the PA-40EZ if you can. See page 12.

**Social Security Number, Name and Address.** Review the preprinted information on your label and make any necessary corrections directly on the label. If you do not have a preprinted label, print or type your Social Security Number, your spouse's SSN (even if filing separately), your complete name(s)—last name first, and your complete address including Zip Code. If a husband and wife use different last names, please write in both last names. If married and filing separately, do not enter your spouse's name, but enter his or her SSN.

**SSN/NAME/ADDRESS CHANGE.** If making corrections to your label or if entering on a blank return and your Social Security Number(s), name(s) or address is different from your 1995 PA tax return, please check this box.

**Last Year's Municipality Name & Zip Code.** If you checked the **SSN/NAME/ADDRESS CHANGE** box, then you must provide this information, even if you moved within the same area. Enter the name and Zip Code of the city, town, borough or other municipality where you lived on December 31, 1996.

**Fiscal Year Filer.** Check this box only if you are not a calendar year taxpayer. Enter the beginning and ending dates of your fiscal year.

**Type Filer.** See page 12. Enter your filing status:

- S**  SINGLE
- M**  MARRIED, FILING A SEPARATE RETURN
- J**  MARRIED, FILING A JOINT RETURN
- F**  FINAL RETURN. If filing for a **Deceased** individual, enter the date of death. File as **FINAL** if you permanently moved from Pennsylvania.

**Residency Status.** See page 13 to determine if you are a resident, nonresident, or part-year resident. Enter your residency status:

- R**  RESIDENT
- NR**  NONRESIDENT
- P**  PART-YEAR RESIDENT. Enter the months during 1996 when you were a resident of Pennsylvania.

**School District Information.** Enter the name and code number of the school district where you lived December 31, 1996. See pages 33 and 34 for school district names and code numbers. If you do not know the name of the school district in which you lived at the end of 1996, contact the nearest school or your local government office. If you are filing as a part-year resident and you moved to a place outside Pennsylvania during 1996, use code 99999.

**Option Not To Receive a 1997 PA Tax Booklet.** If you do not use the forms mailed to you or you paid a preparer who does not use the Department provided forms to complete your 1996 PA tax return, check this box. You will receive a letter and a personalized PA-V next year, instead of a booklet.

## LINE INSTRUCTIONS FOR REPORTING INCOME AND [LOSS]

**If you were a resident of Pennsylvania for all of 1996, you may be able to use the short form PA-40EZ. See page 12. If you use the PA-40EZ, the line instructions are enclosed in a "box", under each specific line instruction.**

For each income line, part-year residents must report all income and [losses] earned, received, credited or realized while a PA resident and their apportioned PA source income and [losses] while a nonresident.

**Miscellaneous or Other Income.** PA law does not define a **Miscellaneous** or **Other** class. All income must be classified and reported on the appropriate line of your PA tax return. Generally, **Miscellaneous** or **Other Income** is either payments for services rendered (**Compensation**) or derived in the ordinary course of business activities (**Net Income** or **[Loss] from the Operation of a Business, Profession or Farm**). Include this income on the appropriate line of your PA return and attach your Form 1099, statement, schedule or other explanation of the income. Some examples of **Miscellaneous** or **Other Income** which are classified as **Compensation** are:



- Damage awards and settlements (other than in personal injury cases) constitute taxable income to the extent the payments represent back wages or other uncollected entitlement to taxable income;
- Honorariums;
- Fees received by executors (unless in the business of being an executor);
- Fees received by directors of corporations (unless in the business of being a director);
- Severance pay received as consideration for terminating employment before reaching normal retirement age;
- Covenant not to compete (for refraining from the performance of services);
- Jury fees; and
- Expert witness fees.

**Important:** Nonresidents are subject to PA tax on compensation from PA sources. Part-year residents are taxed as residents while domiciled in Pennsylvania and as nonresidents after moving from Pennsylvania. See the instructions for how residents, nonresidents and part-year residents are taxed beginning on page 13.

#### Line 1a. Gross Compensation.

For **both** PA-40 and PA-40EZ.

Enter your total taxable compensation from the PA or state block of your W-2 forms and other statements. Do not use block 1 federal wages.

**Form W-2 Wage and Tax Statement.** A copy of your W-2 form from each employer must accompany your PA tax return as evidence of your compensation and taxes withheld. If you worked for more than one employer during the year, you should have more than one W-2 form. You must provide copies of all W-2 forms. If the PA taxable compensation you report on line 1a differs from that on your W-2 form, you must explain this difference in a separate written statement or schedule. Attach this explanation to the back of your return. **Filing Tip:** Statutory employees enter income on line 1a, not as business income on line 4, see page 18.

Use only the wages reported in the PA or state block of your W-2 form. If you are unable to attach a W-2 form or the Federal Substitute W-2, Form 4852, attach copies of evidence of compensation paid and taxes withheld (such as pay stubs) along with a statement explaining the reason you do not have a W-2 form.

Compensation means remuneration received for services whether directly or through an agent and whether in cash or in property. Compensation includes salaries, wages, tips, gratuities, commissions, bonuses, incentive payments, vacation or holiday pay, termination or severance pay, sick pay (unless excludable), reimbursements and allowances in excess of allowable business expenses, and payments realized in the form of property or a discharge of indebtedness, unless specifically excludable from compensation. Compensation paid in any medium other than cash is valued at fair market value.

Sick pay and disability benefits, other than regular wages, are not taxable for PA purposes. Payments made by third party insurers for sickness or disability are not taxable. Where sick pay represents regular wages or sick leave pay, the income is taxable to the employee.

**Reimbursement For Expenses.** You must report all reimbursements and allowances paid by your employer as compensation unless:

1. The expenses for which you are reimbursed are allowable employee business expenses (see page 19); and
2. You are required to, and do account for these expenses to your employer; and
3. You are reimbursed by your employer in the exact amount of the allowable business expenses; and
4. You do not report these expenses on PA Schedules UE-1 or UE-2.

See page 25 for instructions for reporting employee business expenses.

Although you must be able to substantiate travel expenses as to time, place and business purpose, you meet the above requirements when you receive a fixed mileage allowance or a per diem living expense allowance which does not exceed applicable limits as defined for federal purposes.

**Exclusions from Compensation.** Certain income is not taxable as compensation. Examples are:

1. Social security benefits, public assistance and unemployment compensation;
2. Qualifying old age or retirement benefits;
3. Payments received under workers' compensation acts, occupational disease acts or similar legislation for injuries received while working and damages received (whether by suit or otherwise) for personal injuries or sickness. If the payments you received for injuries received while on the job are included in your W-2 form, attach an explanation;
4. All premiums for group term life insurance policies purchased for employees;
5. Prizes and awards unless the winner is required to render any substantial services as a condition to receiving the prize or award;
6. Federally taxable noncash fringe benefits realized from an employee's personal use of his employer's property or services, such as an employee's personal use of his or her employer's vehicle or airplane.

**Gifts.** Gifts made from detached or disinterested generosity are not taxable. However, transfers of cash or property made pursuant to an obligation to provide payment for compensable services or as an inducement to perform compensable services are taxable compensation, not gifts.

**Scholarships, Fellowships and Stipends.** Scholarships and fellowship awards made on the basis of need or academic achievement for the purpose of encouraging or allowing the recipient to further his educational development and not as compensation for past or present services or in expectation of future employment are not taxable. If you believe your scholarship or fellowship award meets this requirement, you must attach an original detailed description of the program under which the scholarship, fellowship or stipend was granted. This must be an original letter signed by your department head or other official. **Important.** You must attach to your return a detailed description of the program under which the award was granted. A form letter is not acceptable.

Fellowship awards and stipends constitute compensation for services if the recipient is required to apply his or her skill and training to advance research, creative work or some other project or activity, unless the recipient can show that:

1. The benefits resulting from the services of the recipient are so minimal, given the actual services performed or expected to be performed, that they constitute no realistic basis for compensation; or
2. The activities of the recipient are so closely and directly supervised and immediately controlled by regular faculty members so as to constitute a burden on the institution which would offset any benefit it receives from the recipient's activities; or
3. The recipient is a candidate for a degree and the same activities are required of all candidates for that degree as a condition to receiving such degree.

Stipends paid to medical interns and residents pursuant to an internship or residency program that conforms with the Essentials of an Approved Internship or the Essentials of an Approved Residency as established by the American Medical Association are taxable.

**PA Differences from Federal Rules for Compensation.** On the W-2 form, your PA taxable compensation will usually be higher than your federal taxable wages. Below are described some of the major reasons for differences on your W-2 form.

**Employer Retirement, Pension and Other Deferred Payment Programs.** Your employer sponsored deferred payment program constitutes a qualifying retirement program for PA purposes only if **ALL** of the following conditions are met:

1. The plan is reduced to writing and communicated to the participants;
2. The plan establishes eligibility requirements for separation from service by retirement on the basis of old age, infirmity, long-continued service or a combination of old age or infirmity and long-continued years of service;
3. The plan makes provisions for payments based on retirement to be made at regularly recurring intervals to employees after their

retirement from service which continue at least until the retired employee's death; and

4. The plan does not permit the distribution of program benefits to any employee until termination of employment except:
  - a) Incidental disability benefits; or
  - b) The return of the employee's previously taxed contributions and income or gains thereon in the case of a contributory retirement benefit plan.

The State Employees Retirement Fund, the State School Teachers and Employees Retirement Fund, the U.S. Civil Service Commission Retirement Disability Plan, and governmental thrift savings plans are some examples of plans that qualify as retirement benefit programs.

**Employee Contributions and Payments.** Your payments, whether voluntary or mandatory and whether direct or through withholding, into your employer sponsored retirement plan are not excludable from your gross PA taxable compensation. This is true even if your contributions are not taxable for federal purposes. You may not exclude, or take as an expense, any payments you make into a retirement plan.

**Reason:** Pennsylvania does not tax commonly recognized retirement benefits. If you meet the requirements of the retirement plan, your benefits are not taxable.

**Employer Contributions and Payments.** Payments to these plans and programs made by employers are not includable in employee compensation and are deductible as an employer business expense to the extent the contributions represent reasonable compensation to the employees for services rendered.

**Distributions from Employer Sponsored Deferred Payment Programs.** All amounts you receive under your deferred payment program are taxable, in the year received, to the extent that your contributions and income earned on your contributions were not taxed previously, except:

1. Payments from a qualifying retirement benefit program or old age benefit program by reason of your retirement; or
2. Payments paid to the estate or designated beneficiary by reason of the employee's death; or
3. Payments received from a qualifying retirement benefit program or old age benefit program which you roll over into another deferred payment program or IRA, **when the transferred amounts are not includable in your income for federal purposes;** or
4. Payments you receive at regularly recurring intervals during periods of disability by reason of disability.

**Early Retirement Incentive Plans.** Payments received as an inducement for early retirement are taxable as compensation. Such payments are not considered as part of a qualifying retirement plan. Your employer should include these incentive payments on your W-2 form and withhold PA tax. Even if you move out of Pennsylvania, these incentive payments are taxable.

**Other Deferred Payment Plans.** Simplified Employee Plans (SEP), Keogh plans, federally qualified tax sheltered annuity programs and tax deferred custodial accounts established by federally tax exempt educational, charitable or religious organizations are PA qualifying old age benefit programs. Other deferred payment programs are also qualifying old age programs for PA purposes only if **ALL** of the following conditions are met:

1. The plan is reduced to writing and communicated to the participants;
2. Program benefits cannot be paid before retirement, death, disability, separation from service, unforeseeable emergency or the attainment of age 59-1/2 or, if payable before retirement, death, disability, separation from service, unforeseeable emergency or the attainment of age 59-1/2, program benefits are subject to substantial penalty when so paid;
3. The plan makes provisions for payments to be made at regularly recurring intervals to participants which continue at least until the participant's death.

The cost recovery method of accounting must be used to determine the portion of a distribution to be included in taxable income.

**Annuities.** If you invest in a retirement annuity that is not sponsored by an employer or is not part of an employer's program, as described above, to the extent the amount received exceeds the amount of your previously taxed contributions, you must report the difference as taxable income on a **PA Schedule D, Net Gain or [Loss] from the Sale, Exchange or Disposition of Property.**

**Sick Pay and Disability Pay.** If you receive periodic payments for sickness or disability, including payments from third party insurers, your employer should not include those payments in your PA taxable compensation. If your employer does include sick or disability pay in your W-2 form compensation and withholds PA tax, you must provide an explanation from your employer stating the number of days and amount of nontaxable sick or disability pay included. **Exception:** Sick leave pay or payments equal to your full regular wages are taxable for PA purposes.

**Fringe Benefits.** PA law does not have language similar to federal law concerning employee benefits plans (cafeteria plans). For PA purposes, if an employer pays or reimburses you for a personal expense or gives you cash, or the option to select cash instead of a benefit, the value of the benefit, or the cash, is included in your PA taxable compensation. Taxable benefits include cash, reimbursements for dependent care expenses, life insurance on dependents, the option to receive cash or take any other benefit (including nontaxable benefits) and tuition reductions for dependents. Nontaxable benefits include health, eye and dental care, group term life insurance and personal use of employer property, such as a car, recreational facility, housing and dependent care facility.

**Employer Welfare Benefit Programs.** Sick pay, disability pay and fringe benefits are usually paid from an employer sponsored employee welfare benefit program. Your contributions to such plans, whether direct or through employer withholding of your voluntary or mandatory contributions, are not excludable from your gross taxable PA compensation. Your contributions, as an employee, to profit-sharing plans, stock bonus plans, money purchase plans, Federal Employee Thrift Savings Plan, 401(k) or 403(b) plans, and other programs established by employers are not excludable or deductible from your gross PA taxable compensation.

Employer contributions and payments are not includable in your compensation and are deductible as an employer business expense to the extent the contributions represent reasonable compensation to the employees for services rendered.

Benefits received or realized from such welfare benefit programs are taxable, in the year received, to the extent attributable to employer contributions that were not included in employee compensation or directly paid by the employer, except:

- Amounts received for the permanent loss or loss of use of a part or function of the body or permanent disfigurement or in reimbursement of expenses incurred for medical care; or
- Amounts which are computed with reference to the nature of a sickness or injury and without regard to the period the employee is absent from work; or
- Amounts other than regular wages or sick leave pay which are computed with regard to the period that the employee is absent from work due to sickness or disability; or
- Strike benefits; or
- Supplemental Unemployment Compensation (SUB) payments made periodically during the period of actual unemployment and that continue only for the period of actual unemployment. **Lump sum SUB payments are taxable;** or
- Amounts paid to beneficiaries or to the estate of an employee by reason of the death of the employee; or
- The fair market value of employer-provided dependent care facilities and the use of other employee property, unless provided as a disguised form of compensation.

**Clergy and Statutory Employees.** Pennsylvania has no special rules for these employees or any other employee. All employees report compensation on line 1a and take allowable expenses on a PA Schedule UE, not a federal or PA Schedule C. Housing allowances are always included in PA taxable compensation. The fair market value of the use of employer owned property (car and housing) is not included in taxable compensation. PA law does not make any exception for any specific type of employee or job situation.

**Individual Retirement Arrangements Contributions.** No exclusion is provided for contributions to Individual Retirement Arrangements (IRA) **except:**

- Direct employer contributions; and/or
- Amounts rolled over from another IRA or from a qualifying old age or retirement benefit program where the transferred amounts are not includable in income for federal purposes.

**Undistributed Income on IRA Assets.** Undistributed income including interest and other earnings on assets held is not includable in income.

**Withdrawals from IRA's.** Amounts withdrawn from an IRA are includable in income to the extent that contributions and income earned on such contributions were not taxed previously, **except:**

1. Payments, including lump sum distributions, **made on or after retirement after reaching the age of 59-1/2 years;**
2. Payments received at regularly recurring intervals during periods of disability by reason of disability;
3. Payments paid to the estate or designated beneficiary of the participant by reason of the participant's death; and/or
4. Payments which are rolled over into another IRA or into a qualifying old age or retirement benefit program, where the transferred amounts are not includable in income for federal purposes.

**Line 1b. Unreimbursed Employee Business Expenses.**

For **both** PA-40 and PA-40EZ.

The specific instructions for PA Schedule UE-1 and UE-2 begin on page 25. Enter your unreimbursed employee business expenses from your PA Schedule(s) UE. If you are not reimbursed for an allowable business expense, or if the amount of your reimbursement does not cover the entire amount of the allowable expenses you incurred, you may reduce your taxable compensation by the amount of your unreimbursed expenses. You must use a PA Schedule UE. If the amount of your reimbursement is more than the amount of the allowable business expense you incurred, the excess is taxable as compensation. Include the excess on line 1a and explain with your PA Schedule UE.

**Example:** Dave is a salesman. He earns gross compensation of \$30,000 during the year. He incurred allowable business expenses of \$3,000. He was reimbursed by his employer in the amount of \$3,500. Dave must report the excess reimbursement of \$500 as compensation. His total taxable compensation is \$30,500. If Dave had been reimbursed in the amount of \$2,000 by his employer, his taxable compensation would be \$29,000. For both examples, Dave must complete a PA Schedule UE.

**Unreimbursed Employee Business Expenses.** Nonresidents who claim unreimbursed employee business expenses and receive compensation from sources both within and outside Pennsylvania must complete PA Schedule NRH, Part I. To obtain a PA Schedule NRH, see Forms Ordering on page 11.

**What Are Allowable Employee Business Expenses?** Allowable expenses on PA Schedule UE are different than allowable business expenses on a PA or federal Schedule C, E, F, 1065, PA-65, PA-20S, 1120S, etc. To be an allowable employee business expense, the expense must be:

1. **Ordinary** - customary and accepted in the industry or occupation in which you work; and
2. **Actual** - incurred in performing the duties of your employment; and
3. **Reasonable** - in amount and not excessive; and
4. **Necessary** - to enable you to properly perform the duties of your employment; and
5. **Directly Related** - to performing the duties of your occupation or employment.

You did not incur an allowable business expense during the year if you:

- Received a fixed mileage allowance or a per diem living expense allowance and you did not, nor did your employer, include the allowance in income;
- Were required to account for your expenses to your employer and you were reimbursed by your employer in the exact amount of your expenses.

Do not include such reimbursements in gross compensation or claim such expenses on PA Schedule UE.

**What Expenses Are Not Allowable and Not Deductible from Compensation?**

- Personal, living or family expenses;
- Dues to fraternal organizations or professional societies, Chambers of Commerce or recreational club memberships;
- Dues and subscriptions to publications, including trade and professional publications;
- Political candidate or campaign contributions;
- Charitable contributions;
- Commuting expenses;
- Cost of meals while working late, unless while traveling away from home overnight on business;
- Occupational privilege taxes or assessments and other local, county, state, federal and foreign country taxes;
- Child care or elderly care expenses;
- Life, disability income and health insurance premiums;
- Contributions to deferred compensation plans or other pension plans;
- Legal fees (except to recover back wages), fines, penalties and bad debts;
- Bribes, kickbacks or other illegal payments;
- Job hunting or other pursuit of employment expenses;
- Malpractice insurance premiums, except when required by law or by the employer as a condition of employment. See PA Schedule UE-1, Part D;
- Moving expenses, except when moving for the convenience of the employer. See PA Schedule UE-1, Part G;
- Educational expenses, except when required by law or by the employer. See PA Schedule UE-1, Part H;
- Capital expenditures. Depreciation may be allowable in determining expenses on PA Schedule UE-1. Federal depreciation or cost recovery deductions are acceptable for PA purposes to compute allowable business expenses. See specific instructions for each part of PA Schedules UE-1 and UE-2.

**Use Of The Allowable Employee Business Expense Schedules UE-1 and UE-2.** The specific instructions for PA Schedules UE-1 and UE-2 begin on page 25. This booklet contains both schedules.

**PA Schedule UE-1** is for claiming all allowable business expenses incurred by employees and individuals earning nonemployee compensation. If you are claiming your actual travel and mileage expenses or office in home, moving, education or miscellaneous expenses, you must use PA Schedule UE-1, which is on page 37 or 39.

**PA Schedule UE-2** is for claiming certain common employee business expenses. If you are claiming only union dues, work clothes and uniforms, small tools and supplies, professional license fees or insurance and/or travel and mileage expenses from Form 2106 as allowable business expenses, you may use PA Schedule UE-2 which is on the back of your PA tax return.

Even when filing jointly, a separate PA Schedule UE must be filed for:

- Each taxpayer, if both spouses incurred unreimbursed allowable business expenses;
- Expenses incurred for different employers (a separate PA Schedule UE for each employer is required; you may not combine expenses);
- Expenses incurred in more than one specific occupation.

Sole proprietors, partners, shareholders or other self-employed individuals do not use either PA Schedule UE-1 or UE-2 to claim any expenses. Nonresidents who earn compensation and incur allowable employee business expenses both within and outside Pennsylvania may need to complete and file PA Schedule NRH. See Forms Ordering on page 11.

**Line 1c. Net PA Taxable Compensation.**

For **both** PA-40 and PA-40EZ.

Subtract the amount shown on line 1b from the amount shown on line 1a and report the difference on line 1c.

**Important:** Nonresidents are not taxed on ordinary interest and dividends from PA investments and financial institutions. Part-year residents are only taxed on ordinary interest and dividends as residents while domiciled in Pennsylvania and are not subject to tax after moving from Pennsylvania. See the instructions for how residents, nonresidents and part-year residents are taxed beginning on page 13.

#### Line 2. PA Taxable Interest.

For **both** PA-40 and PA-40EZ.

Include all PA taxable interest received during the taxable year from savings and loan associations, credit unions, bank deposits, bonds, certificates of deposit, interest-bearing checking accounts, PA, federal and local tax refunds or other obligations on line 2 of your return. If over \$1,000, a PA Schedule A must be completed and filed. Generally, Form 1099, issued by financial institutions will indicate the amount of interest received or credited from or by such institutions. Interest received on GNMA and FNMA certificates is taxable for PA purposes.

**PA Tax Exempt Interest.** Interest from direct obligations of the Commonwealth of Pennsylvania or its political subdivisions and direct obligations of the United States Government is not taxable income and should not be reported. Interest from Series E, F, G, H and EE bonds, federal treasury bills and notes is not taxable. Interest received from obligations of other states or countries is taxable income.

For a complete list of exempt obligations, request form REV-1643 by calling the Forms Ordering numbers on page 11.

**Important:** Exempt interest is included in Eligibility Income for tax forgiveness purposes.

**Distributions from Money Market and Mutual Funds and Other Investment Companies.** Distributions from the earnings and profits of money market or mutual funds and investment trusts and companies must be reported as dividend income on line 3 and not interest income.

**Forfeited Interest Penalty.** You may offset forfeited interest penalty incurred for premature redemption or withdrawal of a time savings account or certificate of deposit against only the interest income from that account or certificate. You cannot offset such interest penalty against other interest income. If the total penalty exceeds the interest on an account or certificate, the excess may be taken as a [loss] on PA Schedule D.

**Undistributed Interest Income from Individual Retirement Arrangements.** See page 19.

**Line 2. PA Taxable Interest.** Residents report all PA taxable interest income on your return. When your interest income exceeds \$1,000, you must complete and file a PA Schedule A, on page 41 or 43. You are not required to attach your Forms 1099-INT.

#### Line 3. PA Taxable Dividends.

For **both** PA-40 and PA-40EZ.

All dividend income is reported on line 3 in the taxable year in which it is received or credited. Report as taxable dividend income any distribution by a business corporation or business association out of its earnings and profits, without regard to the manner in which the business derived the income. For PA purposes, a business association is an unincorporated business enterprise which is organized in a manner similar to a business corporation. Business corporations or business associations include, but are not limited to, business trusts, federally qualified real estate investment companies, mutual funds, other federally regulated investment companies and limited liability companies. If over \$1,000, a PA Schedule B must be completed and filed.

**Important:** If you are a shareholder in a Subchapter S corporation in another state which is NOT also a PA S corporation, you report only the cash or property you actually received (your distributions) as dividend income on your PA tax return. You do not report the amount of your distributable income and you may not claim a credit for any tax paid to the other state on this income.

**Example:** B Corporation, a Subchapter S corporation for federal purposes, distributes all of its earnings and profits for the year to its sole stockholder Carolyn, a resident of Pennsylvania. The corporate earnings and profits were derived from a department store operated by the corporation, from federal and state obligations and other securities, and from rental properties. B corporation is not a PA S corporation. Notwithstanding the source of such earnings and profits, the distribution represents taxable dividend income to Carolyn in the taxable year received.

**Dividend Reinvestment Plans.** An individual who, pursuant to a stock dividend reinvestment plan, chooses to receive a dividend in the form of stock rather than cash or other property must report as dividend income the stock's fair market value as of the date it is paid.

#### Dividend Income Does Not Include:

1. Dividends distributed by a corporation to its stockholders in the form of stock if the distribution is not treated as personal income for federal purposes.
2. Distributions designated as "return of capital" by utility companies or other corporations reduce the basis of your stock in the corporation. Once your basis is reduced to zero, any further distributions are taxed as gain from the sale or disposition of property. (See instructions on Taxable Return of Capital Distributions on page 28.)
3. "Dividends" paid by savings and loan associations, mutual savings banks, cooperative banks and credit unions on deposits or withdrawals from accounts must be reported as interest on line 2.
4. Ordinary dividends paid by a mutual fund or a registered investment company and designated as being "Exempt-interest Dividends" for PA purposes in the written notice issued to the shareholder. You may exclude the portion of total dividends which are designated by the fund or company as being from exempt PA obligations and exempt federal obligations. The amount designated as capital gains is fully taxable as dividend income for PA purposes.

**Line 3. PA Taxable Dividends.** Report all PA taxable dividend income on your return. When your total dividend income exceeds \$1,000, you must complete and file a PA Schedule B, on page 41 or 43. You are not required to attach your Form(s) 1099-DIV.

#### Line 4. Net Income or [Loss] from the Operation of a Business, Profession or Farm.

**Important:** Nonresidents are subject to PA income tax only on their net income or [loss] from PA sources. See page 14 for how nonresidents and part-year residents are taxed.

Include on line 4 the total of all PA Schedules C, F, RK-1 and NRK-1. Also include the PA net profit or [loss] from PA Schedule C-F Reconciliation. If using federal schedules, other than federal Schedule K-1, **and** not using PA Schedule C-F, report your federal income or [loss] on line 4.

If married and electing to file a joint return, you and your spouse must each determine your own net income or [loss] separately. If you each realize a total net profit, add your total net income together and report that total on line 4. If you each realize a net [loss], add your total [losses] together and report that total in brackets on line 4. If one spouse has a net income and the other a net [loss], enter only the net income on line 4.

Sole proprietors who had income or [loss] from a business or profession must complete and attach a PA Schedule C. Sole proprietors who had income or [loss] from a farm must complete and attach a PA Schedule F. If you have income from a partnership or PA S corporation, whether distributed or not, you must attach the PA Schedule RK-1 you received. **Note:** If you are a shareholder in a federal S corporation in another state which is NOT also a PA S corporation, you only report cash or property you actually received (distributions) as dividends on line 3; however, you are not entitled to any credit for tax paid on your distributed/distributable income reported to the other state.

**PA and Federal Schedules.** Attach all PA Schedules C, F, RK-1, NRK-1 and C-F Reconciliation. Indicate on the checklist on the back of your PA-40 the number of each schedule attached. If you do not receive a PA Schedule RK-1 or NRK-1, you must classify the income shown on the federal Schedule K-1 using PA rules. Read all instructions for each class of income carefully and report your income accordingly. If attaching a federal Schedule C, F or K-1, include those schedules in the number.

**What is a Business or Profession?** Not every income-producing activity constitutes a business or profession. For PA purposes, a business or profession has certain common characteristics. You realize income from a business or profession if you meet **each** of the following:

1. You market your products, goods and/or services to your customers in a marketplace; and
2. You regularly and continuously conduct your commercial activities; and
3. You do not limit or restrict your commercial activities to certain related or unrelated customers.

Net income or [loss] is computed solely from those items of revenue, cost, expense or liability which you receive from or incur in:

1. The ordinary course and operation of your business, profession or farm activities; or
2. Securities employed as working capital in the ordinary operation of your business, profession or farm; or
3. Accounts and notes receivable from the sales of products and/or services in the ordinary operation of your business, profession or farm; or
4. Assets which serve an operational function in the ordinary operation of your business, profession or farm.

Allowable expenses must be those ordinary, necessary and reasonable expenses currently paid or incurred during the taxable year which are directly related to and necessary for the production and marketing of your products, goods and services. Only business expenses are allowable. Personal expenses are not deductible.

The following activities **DO NOT** constitute the operation of a business, profession or farm:

1. A sale, discontinuation or abandonment of a business or segment thereof;
2. An isolated or nonrecurring transaction which is not a normal or routine business activity;
3. The ownership or disposition of assets which are held for long-term investment purposes;
4. Trading in securities for personal purposes;
5. A nonoperating interest in coal, oil, gas or minerals in place, unless they serve an operational function in the operation of the owner's business;

**Note:** Income or [loss] from these activities is reportable in other classes of PA income.

6. Paying any tax imposed on, or measured by, gross or net earned or unearned income.

**Allocation Of Net Profits.** Nonresidents reporting net income or [loss] from the operation of a business or farm must allocate business activity in accordance with the following rules:

**Operation Wholly Within Pennsylvania.** The operation of a business or farm is wholly within Pennsylvania if during the entire taxable year you or your representative:

1. Maintained or operated a commercial establishment (office, shop, store, warehouse, farm, factory, agency, etc.) within Pennsylvania where your business was systematically and regularly conducted or managed; and
2. Did not maintain and operate a commercial establishment outside Pennsylvania where your business was systematically and regularly conducted or managed.

If your representative operated as an independent contractor, the business activity will not be taken into account.

**Operation Wholly Outside Pennsylvania.** The operation of a business or farm is wholly outside Pennsylvania if during the taxable year you or your representative:

1. In the ordinary course of business did not transact any business in Pennsylvania or only transacted business in Pennsylvania on a sporadic or temporary basis; or
2. In the ordinary course of business the only business transacted with any permanency or continuity was either or both of the following:

- a) Soliciting orders for, or sales of, property or services when such orders were sent outside Pennsylvania for approval or rejection and, if approved, are filled by shipment or delivery of goods or services from a point outside Pennsylvania; or
- b) Soliciting orders in Pennsylvania in the name of, or for the benefit of, a prospective customer when the orders resulting from such solicitation enable your customer to fill orders of the type described in paragraph 1 above.

**Operation Partly Within Pennsylvania.** If your business or farm is not wholly within or outside Pennsylvania as described above, allocation shall be made by separate accounting if:

1. Your business or farm operation within and outside Pennsylvania constitutes independent profit centers (i.e. there are no transfers of finished goods, raw materials, supplies, services or operational assets inter se and each is free to buy outside and because of geographical location neither is in competition with the other); and
2. Your books are kept so as to properly disclose the amounts of revenues, costs, expenses and liabilities attributable to PA operations.

Otherwise, your allocation must be made using the three factor (Property, Sales and Payroll) formula. Use PA Schedule NRH.

**PA Schedule C-F Reconciliation.** The specific instructions are on page 27. If you choose to report your income or [loss] from a federal business schedule, be aware that PA rules differ from federal rules in arriving at net taxable income or [loss] for PA purposes. PA law determines net income or [loss] under generally accepted principles and practices. Use PA Schedule C-F to make adjustments to your federal amounts. Attach your federal schedule.

**PA Income or [Loss] from PA Schedules RK-1 or NRK-1.** If you are a partner in a partnership or a shareholder in a PA S corporation, you will receive this PA schedule from each business. This schedule will show your share of ordinary income or [loss], as well as any income or [loss] for the other PA income classes. If you received any guaranteed payments from the business operations of your partnership or PA S corporation, you generally must add those payments to the amount of your ordinary business income or [loss] shown on your PA schedule. All allowable expenses and adjustments are to be made by the partnership or PA S corporation. However, if under the partnership or PA S corporation agreement, you are required to incur direct business expenses for which you will not be reimbursed, you must itemize those expenses on a separate schedule or statement. The expenses claimed must be ordinary, necessary, reasonable and directly related to the business activity of the partnership. Expenses not allowable for PA purposes, personal expenses and expenses incurred for your own convenience are not deductible.

**Line 4. Net Income or [Loss] from the Operation of a Business, Profession or Farm.** Total all business, farm, partnership and PA S corporation schedules and enter the net income or [loss] on line 4. In determining this net reportable amount, you may offset business income on one schedule with a business [loss] from another. Spouses may not offset each other's income and [losses] in this class.

**Line 5. Net Gain or [Loss] from the Sale, Exchange or Disposition of Property.**

**Important:** Nonresidents are subject to PA tax on gain from the sale, exchange or disposition of real or tangible property located in Pennsylvania. Nonresidents are not taxed on the gain from the disposition of intangible property (stocks, bonds, ownership interests) and may not use [losses] from such transactions to reduce other PA taxable gains. See page 14 for how nonresidents are taxed.

Include on line 5 the total of your PA Schedule(s) D. Also include gains and [losses] from other PA schedules which are reported in this income class.

If married and electing to file a joint return, you and your spouse must each determine your total PA net gain or [loss] separately. If you each realize a net gain, add your total net gains together and report that total on line 5. If you each realize a net [loss], add your total [losses] together and report that total in brackets on line 5. If one spouse has a net gain and the other a net [loss], enter only the net gain on line 5.

You must report each sale, exchange or disposition of any kind of property, including land, buildings, a residence, and any other real or tangible personal property. You must also report the sale, exchange or disposition of stocks, bonds, ownership interests in partnerships and business enterprises, contracts of insurance, annuities, contracts of insurance with refundable accumulated refundable reserves payable upon lapse or surrender and any other intangible personal property.

**Gain** on the disposition of property is recognized only in the taxable year in which the amount realized from the disposition of the property exceeds the adjusted basis of such property.

**[Loss]** on the disposition of property is recognized only in the year in which the transaction is closed and completed by some identifiable event which fixes the amount of the [loss] so there is no possibility of any eventual recovery.

**[Loss]** is recognized only with respect to transactions entered into for profit such as investments, business property and real estate.

**Example:** If you realize a [loss] on the sale of your personal residence or if you sell your personal automobile at a [loss], you may not offset other gains with such [losses].

**Capital Gain Distributions.** Capital gain distributions you receive from mutual funds or other regulated investment companies are taxable as dividends on line 3.

**Exempt Obligations Originally Issued Before February 1, 1994.** Net gains from the sale, exchange or disposition of the following pre-February 1, 1994, obligations are not subject to PA tax:

1. Direct obligations of the U.S. Government, such as federal treasury bills and treasury notes;
2. Obligations of certain agencies, instrumentalities and territories of the U.S. Government;
3. Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions.

Any [loss] realized on the disposition of the above obligations may not be used to offset any other gains.

**Exempt Obligations Originally Issued On or After February 1, 1994.** If the above obligations were originally issued on or after February 1, 1994, the gain or [loss] realized on the sale, exchange or disposition of such obligations must be reported. Gains are taxable and [losses] may be used to offset other gains.

**Important.** Net gains and [losses] from the disposition of obligations of other states and countries are subject to PA tax.

**Allocating Gains and [Losses].** Generally revenues, costs, expenses and liabilities derived from or incurred in the sale, exchange or other disposition of real estate or tangible personal property is considered as being entirely derived or incurred from the state or country in which the property is physically located. If your real or tangible property is located within Pennsylvania, you must report the gain or [loss] realized from the disposition on PA Schedule D, unless the property is:

- Stock, trade goods, assets or other property which would normally be held for sale to customers and included in your inventory if on hand at the end of your taxable year; or
- An asset that is employed in and serves an operational function in the ordinary course of operating your business.

Sale, exchange or disposition of such property is includable in determining net profit or [loss] from the operation of a business, profession or farm.

**PA Schedule D.** The specific instructions are on page 27.

**Line 5. Net Gain or [Loss] from the Sale, Exchange or Disposition of Property.** Total PA Schedule(s) D and enter the net gain or [loss] on line 5. In determining this net reportable amount, you may offset your gains and [losses]. Spouses may not offset each other's income and [losses] in this class.

**Line 5a. Amount of Gain Excluded from PA Schedule PA-19.** Enter the amount from line 21 of PA Schedule PA-19 if you are eligible for this exclusion.

## Line 6. Net Income or [Loss] from Rents, Royalties, Patents and Copyrights.

**Important:** Nonresidents are subject to PA tax on net rental, royalty, patent or copyright income from property located and/or used within Pennsylvania. See page 14 for how nonresidents are taxed.  
**Remember:** Married taxpayers may not offset income and [loss] from separately owned property.

Include on line 6 the total of your income or [loss] from all PA Schedule(s) E and all PA Schedule(s) RK-1 or NRK-1 or federal Schedule(s) K-1 if the correct PA schedule is not provided. Do not use federal Schedule E unless reporting only Part I. You may offset net rent, royalty, patent and copyright income and [losses] in determining this line. If a net [loss] is realized, enter the amount in brackets on line 6.

Rental income is income you receive for the use of your real or tangible property. Royalty income is income you receive upon the extraction of coal, oil, gas or other minerals or for the use of your patent or copyright. Attach all PA Schedule(s) E and indicate in the column on the back of your PA-40 the number of schedules attached.

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

1. Income or receipts from the sale, exchange or other disposition of rental property, royalty rights, copyrights, secret processes, patents, formulas, goodwill, trademarks, trade brands, franchises and similar property; and
2. Income or receipts from operating oil, gas or mineral interests includable in the computation of net profits from a business, profession or farm or otherwise derived in the ordinary course of and from the operation of a business.

**Allowable Deductions.** Only expenses paid or incurred during the taxable year which are ordinarily incurred in and necessary for:

1. The production of or collection of rents and royalties; or
2. The management, conservation or maintenance of rents, royalties, patents, copyrights and similar property are deductible.

Such expenses include advertising, cleaning and maintenance, agent commissions, insurance, legal fees, management fees, interest, repairs, supplies, utilities, depreciation and depletion. Deductions allowable under MACRS including the IRC Section 179 additional first year depreciation allowable for small businesses, are acceptable depreciation deductions for Pennsylvania.

No deduction is allowed for your own labor, capital investment or capital improvements. No deduction is allowed for personal expenses or any part of an allowable deduction which is personal.

**Rents vs. Net Profits.** The leasing of tangible property would constitute business only if:

1. You offer the use of your property on a commercial basis to others in a marketplace and at least one of the following applies:
  - The average period of customer use is 30 days or less; or
  - Your property is customarily made available for use only during defined business hours; or
  - In addition to the property you also provide significant services to your lessee; or
  - You incur significant operating expenses in making the property available for lease; or
  - The leasing activity is incidental to a real estate sales business; **and**
2. You offer the use of your property with the intention of realizing a profit; and
3. The leasing of your property is characterized by regularity and continuity of activities.

Generally, you provide significant services when you provide services for the lessee's convenience and such services are not ordinarily or customarily incurred in leasing property. **Example:** Providing heat, lighting, electric service, elevators, cleaning public access and exit areas, collecting trash and maintenance of the property in a usable rentable condition are not usually significant services. However, providing maid service, room service, valet parking, decorating assistance, delivery services, transportation services and concierge services are significant.

**Rents vs. Sales.** A lease with an option to buy real property in Pennsylvania may be a purchase contract. If so, the payments received are reportable as net gains from the sale or other disposition of property. You must complete and file a PA Schedule D. If you give up all mineral rights or ownership rights to PA property or your patents or copyrights, the payments you receive are reportable as net gains from the sale or other disposition of property. You must complete and file a PA Schedule D.

**Allocation of Rents and Royalties.** Rents received from real estate and tangible personal property (not employed in the operation of a business) and the costs, expenses and liabilities incurred in producing and collecting such rents are allocable to Pennsylvania only if the property is located in Pennsylvania. If the property is used both within and outside Pennsylvania, the net income allocable to Pennsylvania is determined by multiplying the net income by a fraction, the numerator being the number of days your property was in Pennsylvania during the rental period and the denominator being the total number of days in the rental period.

Royalties received from the extraction of minerals and the costs, expenses and liabilities incurred in generating such royalty income are allocable to Pennsylvania when the property is located in Pennsylvania and the income is not derived from the operation of a business.

Royalties received from patents and copyrights (not employed in the operation of a business) and the costs, expenses and liabilities incurred in producing and collecting such royalty income are allocable to Pennsylvania only if, and to the extent that, the patent or copyrighted material is employed by the payer in production, fabrication, manufacture or other processing in Pennsylvania, the patented products are produced by the payer in Pennsylvania or the printing or publication by the payer originates in Pennsylvania.

**PA Schedule E.** This schedule is on page 10 or 36. The schedule is self-explanatory. If making PA adjustments to your federal rent, royalty, patent or copyright income, attach an explanation.

**Line 6. Net Income or [Loss] from Rents, Royalties, Patents and Copyrights.** Total your net income or [loss] from your schedule(s). You may offset net income and [losses] in determining this line. If a net [loss] is realized, enter the amount in brackets on line 6. Spouses may not offset each other's income and [losses] in this class.

#### Line 7. Estate and Trust Income.

**Important:** Nonresident beneficiaries are subject to PA tax on income from PA sources.

Cash and property acquired from an estate or trust by gift, bequest, devise or inheritance are not taxable. Income received by the estate or trust on its assets which is currently distributable or, in fact, is paid or credited to a beneficiary of the estate or trust is taxable to the beneficiary. If you are a beneficiary of one or more estates or trusts, you must complete PA Schedule J.

Nonresidents must enter on PA Schedule J the amount reported on the PA Schedule L provided you by the estate or trust.

**PA Schedule J.** This schedule is on page 9 or 35. The schedule is self-explanatory. Do not use a federal Schedule K-1.

**Line 7. Estate and Trust Income.** Total the distributed income or income credited from the PA Schedule(s) L you received. If you received a federal Schedule K-1, you must total the positive income amounts and report that income on line 7.

#### Line 8. Gambling and Lottery Winnings.

**Important:** Nonresidents are not subject to PA tax on gambling and lottery winnings from PA sources.

Enter the net amount of gambling and lottery winnings.

- You do not report winnings and may not use [losses] from the PA State Lottery if realized on or after July 21, 1983. You may offset other gambling and lottery [losses] to determine net income or [loss].
- Expenses. No expenses which are attributable to gambling and lottery winnings are deductible.

**Schedule of Gambling and Lottery Winnings.** Attach the same schedule, explanation or information to your PA-40 that you provided with your federal tax return.

**Line 8. Gambling and Lottery Winnings.** Total your net gambling and lottery winnings. You may not deduct any expenses, such as travel, meals, lodging, etc., incurred in realizing your net income or [loss] in this class.

#### Line 9. PA TAXABLE INCOME.

Enter on **line 4** if filing a PA-40EZ.

Total all income lines. Do not include [losses]. A [loss] in one class of income **may not** be used to reduce income in the other classes.

#### Line 10. PA TAX LIABILITY.

Enter on **line 5** if filing a PA-40EZ.

Multiply your PA TAXABLE INCOME amount by 2.8% (0.028). Enter the result here. This amount is your PA TAX LIABILITY before adjustment for your tax payments and credits.

### LINE INSTRUCTIONS FOR PAYMENTS AND CREDITS

#### Line 11. Total PA Tax Withheld.

Enter on **line 6** if filing a PA-40EZ.

Enter the total of PA tax withheld as shown in the PA or state box of your W-2 form(s). Attach your W-2 form(s) to the back of your PA tax return.

If your employer withheld more than 2.8% from your wages, attach an explanation.

#### Lines 12a through 12d. 1996 Estimated Payments and Credits.

Enter the **TOTAL** of your 1996 PA estimated installments, your credit from your 1995 PA tax return and any payment you made with a 1996 extension request on **line 7** if filing a PA-40EZ.

Enter on line 12a your credit from your 1995 overpayment.

Enter on line 12b the total of your 1996 estimated income tax installment payments. **Important:** Do not include any payment of tax due which you made with your 1995 PA tax return.

Enter on line 12c any payment you made with your request for an extension of time to file your 1996 PA tax return.

Nonresidents enter on line 12d the amount of tax withheld by your partnership or PA S corporation, as shown on your PA Schedule(s) NRK-1.

Add the amounts on lines 12a through 12d and enter the total on line 12e.

**Filing Tip:** If married and you and your spouse made separate estimated income tax installment payments, you should each file separate returns claiming your own payments. If you and your spouse made your estimated payments jointly, you should file a joint return. Filing in this manner will avoid processing delays and correspondence from the Department.

**Important:** If you are not filing in the same manner as you made your estimated payments, attach to the front of your return a statement signed by both you and your spouse explaining how you want your payments applied and authorizing the Department to make the necessary adjustments to your estimated account(s). For married couples with a joint estimated account but filing separately, the Department may delay processing until both tax returns are received and recorded on our computer processing system.

**Lines 13a through 13d. Tax Forgiveness Credit from PA Schedule SP.**

Enter on **lines 8a** through **8d** if filing a PA-40EZ.

**Important: Nonresidents may claim this credit but must include all income from all sources** both inside and outside Pennsylvania in calculating eligibility for the tax forgiveness credit.

You must complete your PA Schedule SP on the reverse side of your PA tax return and the SP Worksheet on page 32 before you can complete these lines – **the Specific Instructions begin on page 28.**

**Line 13a. Household Members from line 4, Part II.**

Enter on **line 8a** if filing a PA-40EZ.

Enter the number of household members from Part II of PA Schedule SP.

**Line 13b. Eligibility Income from line 2, Part III.**

Enter on **line 8b** if filing a PA-40EZ.

If single or married filing separately (including dependents of persons eligible for tax forgiveness), enter your Eligibility Income only. If married, filing jointly, and you and your spouse both qualify for tax forgiveness, enter your combined Eligibility Income.

**Line 13c. Total Household Income from line 1, Part III.**

Enter on **line 8c** if filing a PA-40EZ.

Enter Total Income determined on your SP worksheet. If single, use line 21, YOUR Column. If married, even if filing separately, use line 21, JOINT Column.

**Line 13d. Tax Forgiveness Credit from line 7, Part III.**

Enter on **line 8d** if filing a PA-40EZ.

**Line 14. Total Credit for Taxes Paid to Other States or Countries.**

**Important:** Residents earning compensation in reciprocal states (see page 13) may not claim this credit unless taxed as a resident by the other state. Nonresidents are not eligible for this credit. Part-year residents may claim this credit for that part of the taxable year you were a PA resident.

If you paid tax to another state or country on income also taxable on your PA-40, you may claim a credit up to the amount of your PA tax liability on that income. One PA Schedule G with instructions is on page 42. You may copy this schedule as needed.

You must submit a complete PA Schedule G and a **signed** copy of the tax return you filed in the other state or country.

**Line 15. Employment Incentive Payments Credit.**

Persons and corporations who employ welfare recipients may be eligible for an Employment Incentive Payments Credit. To obtain PA Schedule W and instructions, see Forms Ordering or contact the Revenue district office nearest you, see page 11. A completed PA Schedule W must accompany a return claiming this credit.

**Line 16. TOTAL PAYMENTS AND CREDITS.**

Enter on **line 9** if filing a PA-40EZ.

Add all your payment and credit lines and enter the result here.

**TAX DUE OR OVERPAYMENT****Line 17. PA TAX DUE.**

Enter your PA TAX DUE on **line 10** if filing a PA-40EZ.

If your PA TAX LIABILITY is more than your TOTAL CREDITS AND PAYMENTS, enter the difference.

You **must** pay the amount of tax due in full on or before April 15, 1997.

**Line 18. OVERPAYMENT.**

Enter your OVERPAYMENT on **line 11** if filing a PA-40EZ.

If your TOTAL CREDITS AND PAYMENTS are more than your PA TAX LIABILITY, enter the difference.

**Important.** The Department may apply your overpayment to any tax liability you owe for previous tax years.

**Lines 19a through 19d. Application of Overpayment.** If you have an overpayment of \$1 or more, you may request that all or any part of that overpayment be:

- Refunded to you on line 19a.

Enter on **line 12a** if filing a PA-40EZ.

- Credited to your 1997 estimated tax account on line 19b.

Enter on **line 12b** if filing a PA-40EZ.

- Donated to the Wild Resource Conservation Fund on line 19c.

Enter on **line 12c** if filing a PA-40EZ.

- Donated to the U.S. Olympic Committee, PA Division on line 19d.

Enter on **line 12d** if filing a PA-40EZ.

See page 11 for additional information regarding the Wild Resource Conservation Fund and the U.S. Olympic Committee, PA Division.

The total of lines 19a through 19d must equal line 18.

The total of **lines 12a** through **12d** must equal **line 11** if filing a PA-40EZ.

**Review Your Return.** Carefully double check your return to make sure that:

- You have reported your Social Security Number(s), name(s) and address correctly.
- You have reported all your income and claimed all credits to which you are entitled.
- You have checked all the entries on your form and have not made mathematical errors. Errors increase return processing time.
- You have attached all necessary and appropriate supporting forms and schedules.

**Taxpayer's Signature and Verification.** You must sign and date your return. You have not filed a valid return unless the return is signed. Read the oath before you sign. You may submit a photocopied return, but it must have your original signature(s). A husband and wife who choose to file a joint return must both sign the return. Include the area code and telephone number where you may be called between the hours of 8:30 a.m. and 4:00 p.m.

**Occupation.** State your occupation. If married and filing jointly, also enter your spouse's occupation.

**Preparer's Name and Telephone Number.** If you paid someone to prepare your tax return, the preparer should also enter his or her name or business name and telephone number on your return.

**You Have Now Completed Your 1996 PA Tax Return.** Be sure your name and Social Security Number are on all forms and schedules which accompany your return.

**How To Pay.** The balance of tax due shown on your PA return must be paid in full on or before April 15, 1997. Make check or money order payable to **PA Dept. of Revenue**. Include your Social Security Number on the check or money order. See the instructions on the insert for using your PA-V.

**Bad Check.** If your check is returned to the Department unpaid, you will be subject to a 10% bad check penalty (minimum of \$10) and possible criminal prosecution in addition to other penalties and interest.



**Mailing Instructions.** To insure your return is mailed properly, follow these instructions:

1. Remove all six labels along perforation from envelope flap; and
2. Choose the correct label that applies to your return. See the descriptions below; and
3. Moisten and affix only the correct label on the front of the return envelope enclosed for your convenience.

Type of Return	City & State	Extended Zip Code
<b>If you are filing a PA-40 and owe –</b> <b>PAYMENT Enclosed</b>	<b>HBG., PA</b>	<b>17129-0004</b>
<b>An amount of Tax Due is shown on your PA-40, line 17.</b>		

<b>If you are filing a PA-40EZ and owe –</b> <b>PAYMENT Enclosed</b>	<b>HBG., PA</b>	<b>17129-0001</b>
<b>An amount of Tax Due is shown on your PA-40EZ, line 10.</b>		

<b>If you are filing a PA-40 and overpaid–</b> <b>REFUND/CREDIT</b> <b>Requested</b>	<b>HBG., PA</b>	<b>17129-0006</b>
<b>An Overpayment amount is shown on your PA-40, line 18 .</b>		

<b>If you are filing a PA-40EZ and overpaid –</b> <b>REFUND/CREDIT</b> <b>Requested</b>	<b>HBG., PA</b>	<b>17129-0003</b>
<b>An overpayment amount is shown on your PA-40EZ, line 11.</b>		

<b>If you are filing a PA-40 and neither overpaid nor owe –</b> <b>NO PAYMENT</b> <b>(No Refund/No Credit Due)</b>	<b>HBG., PA</b>	<b>17129-0005</b>
<b>You report zero on the TAX DUE and OVERPAYMENT lines.</b>		

<b>If you are filing a PA-40EZ and neither overpaid nor owe –</b> <b>NO PAYMENT</b> <b>(No Refund/No Credit Due)</b>	<b>HBG., PA</b>	<b>17129-0002</b>
<b>You report zero on the TAX DUE and OVERPAYMENT lines.</b>		

Please do not use these mailing labels to send other correspondence to the Department. Using these labels for other purposes will delay our response to you.

**Assembling Your Return.** Please place your PA tax return and the schedules and forms in this sequence. Staple in the upper left hand corner.

- PA or Federal Extension, if you requested one
- PA-40 or PA-40EZ and PA Schedules UE-2/SP
- **Important:** Staple W-2 form(s) and other statements to the **back** of your PA-40 or PA-40EZ.
- PA Schedule UE-1
- PA Schedule A/B/D
- PA Schedule(s) C and/or PA Schedule F
- PA Schedule C-F/J
- PA Schedule E
- Explanation of any gambling or lottery winnings
- PA Schedule W
- PA Schedules RK-1 and/or NRK-1 (Only submit federal Schedule K-1 **if no PA Schedule provided**)
- All other supporting schedules and documents

**Important.** Do not insert your PA-V and payment until after you have placed your complete PA tax return in your envelope. Do not staple your check or money order to your PA-V or to your return.

If you cannot use your PA-V or do not have a **preprinted** PA-V, then staple your payment to the **front** of your PA tax return.

**Mailing Your Return.** The U.S. Postal Service requires sufficient postage on your envelope. The Post Office may return envelopes without sufficient postage. If your envelope contains more than five (5)

pages, it may require additional postage. Oversized envelopes may also require additional postage. Also, it is important that your envelope include your complete return address in the upper left corner.

## SCHEDULE INSTRUCTIONS

Enter your name(s) and Social Security Number(s) as requested on each schedule.

**PA Schedule A. PA Taxable Interest.** List and total all PA Taxable Interest received or credited during the taxable year from your Form(s) 1099 and all other statements. Include interest passed through from partnerships and PA S corporations. Also include interest from obligations of other states and countries. Do not include interest from direct obligations of the U.S. Government, the Commonwealth of Pennsylvania and political subdivisions of Pennsylvania. If your interest is from a mutual fund or regulated investment company, it may be necessary to calculate your PA exempt interest using the statement you are given by the fund or company. Enter payer name and the net PA taxable interest, from each payer, on your PA Schedule A. Enter the total on line 2 of your PA tax return. **Important:** You may not deduct any expenses paid or incurred in earning or receiving interest income.

**Filing Tip:** If your total PA taxable interest income is less than \$1,000, you do not have to attach PA Schedule A to your tax return.

**You have completed your PA Schedule A. Double check all your calculations before filing your PA tax return.**

## PA Schedule B. PA Taxable Dividends.

List and total all dividends received or credited during the taxable year from your Form(s) 1099 and all other statements. Include dividend income passed through from partnerships and PA S corporations. Enter your total taxable dividend income on line 3 of your PA tax return.

**Filing Tip:** If your total PA Taxable Dividends are less than \$1,000, you do not have to attach PA Schedule B to your tax return.

**You have completed your PA Schedule B. Double check all your calculations before filing your PA tax return.**

## Specific Instructions for Completing PA Schedule UE-2 and Parts A through K of PA Schedule UE-1.

**Part A. Union Dues.** Union dues, assessments and initiation fees are allowable business expenses if:

1. Such payments are a condition of continued membership in the union and membership is related directly to your present job; or
2. Such payments are required to be deducted from regular wages under an agency shop agreement.

**Part B. Work Clothes and Uniforms.** The costs of purchasing and maintaining uniforms and work clothing to protect you from bodily injury are allowable business expenses if the uniforms and clothing are both:

1. Of a type specifically required by the employer to be purchased as a condition of continued employment; **and**
2. Not adaptable to general usage.

**Part C. Small Tools and Supplies.** Expenditures for small tools and supplies which are required to perform the duties of your job, but which are not provided by your employer, are allowable business expenses. If any of the required tools or supplies has a useful life of more than one year, its cost is depreciated or amortized if it cannot be currently expensed under IRC Section 179. PA Schedule UE-1 must be completed to claim depreciation expenses (Part I).

**Part D. Professional License Fees, Malpractice Insurance and Fidelity Bond Premiums.** Trade, professional or occupational licenses or fees required as a condition of employment are allowable business expenses. Include malpractice insurance and fidelity bond premiums where required by law or by your employer.

**Part E. Employee Travel and Mileage Expenses.** Expenses for travel, meals and lodging which were incurred in performing the duties of your job are allowable business expenses. Transportation expenses, but not commuting to and from any job, incurred in performing the

duties of your job are allowable business expenses. Business expenses incurred by outside salespersons are also allowable.

You will need to refer to your Form 2106 to complete Part E. The Department accepts the standard mileage rate used by the IRS. If your employer reimburses you at a per mile rate which is less than the federal allowable rate, you may not claim the difference on PA Schedule UE-1, Part E.

You may always claim your allowable actual expenses for PA purposes. On PA Schedule UE-1, report your actual travel and mileage expenses and the amount of reimbursements received from your employer. Report the difference.

You may use the PA Schedule UE-2, on the back of your PA tax return, if you are only claiming expenses from lines 1, 2, 3 and 5 of your Form 2106. If you are claiming expenses from line 4 of your Form 2106, you must itemize those expenses or complete a PA Schedule UE-1. If you are claiming your actual expenses, you must complete PA Schedule UE-1.

**Important:** If using Form 2106, you must itemize your expenses from line 4 in Part J of PA Schedule UE-1. You must also itemize any other miscellaneous business expenses. The Department will not accept the Federal 1040 PC Format Return.

**Filing Tip:** If you are claiming only the above unreimbursed employee business expenses, use PA Schedule UE-2 on the back of your PA return. Total your expenses from Parts A through E and enter on line 1b of your PA tax return. If you are claiming any other allowable business expenses, complete PA Schedule UE-1.

**Specific Instructions for Completing PA Schedule UE-1.** For Parts A through E, see instructions above. Complete applicable parts of PA Schedule UE-1 accordingly.

**Part F. Office or Work Area Expenses.** Answer the questions on lines F1, F2 and F3. If you answer **all** three questions YES, complete Part F to determine your office or work area expenses. Your office or work area expenses are allowable business expenses if:

1. The duties of your employment require a suitable work area apart from your employer's premises; and
2. Your employer does not provide a suitable work area; and
3. You must provide your own work area as a condition of employment; and
4. The work area you use is your principal place of work; and
5. Your work area is used regularly and exclusively to perform the duties of your employment.

**Part G. Moving Expenses.** Answer the questions on lines G1, G2 and G3. If you answer **all** three questions YES, complete Part G to determine your allowable moving expenses. Expenses paid or incurred in moving yourself, your immediate family, your household goods and your personal effects are allowable business expenses if:

1. The move is made for the benefit of your current employer; that is, you work for the same employer before and after your move; and
2. The move is from one permanent duty station to another permanent duty station.

Other allowable moving expenses include: cost of transportation to the new home (you may use actual out-of-pocket costs or the federal per mile allowance), storage of household goods, meals and lodging on the way (including such costs on the day you arrive) and parking fees and tolls.

Moving expenses incurred in starting a new job are personal and not allowable. Reimbursement received for such personal expenses is includable in taxable compensation. Other personal expenses which are not allowable include: costs incurred in the sale or purchase of a home, breaking a lease expenses, pre-move house hunting, temporary lodging prior to moving, and any costs or expenses not directly related to moving.

**Example 1:** Mary is employed by XYZ Corp. in York. In 1996, Mary is reassigned to Erie by XYZ Corp. Mary incurs \$2,500 in moving expenses. XYZ Corp. reimburses Mary for \$1,900 of her costs. Mary's salary in 1996 was \$35,000. Mary's W-2 form for 1996 shows \$36,900 of taxable compensation in the state or PA block. Mary may deduct \$2,500 on PA Schedule UE-1 on line 1b. She will then report taxable wages of \$34,400 on line 1c.

**Example 2:** Theresa accepts a position with a new employer in Harrisburg. She incurs \$900 in moving expenses in starting her new job. She is reimbursed in full by her new employer. Theresa's salary is \$35,000. Theresa's 1996 W-2 form must show taxable employee compensation of \$35,900 and she may not claim any moving expense deduction because her moving expenses were not incurred for the same employer.

**Distance Test.** Your new workplace must be at least 50 miles farther from your old residence than your old workplace was. For example, if your old workplace was 3 miles from your old residence, your new workplace must be at least 53 miles from your old residence. Measure distance using the shortest of the most commonly traveled routes.

**Military Personnel.** If you are in the military service, you do not have to meet the distance test if the move is due to a permanent change of duty station. If you, your spouse and dependents are moving to or from different locations, you may consider all moving as one move.

**Part H. Education Expenses.** Answer the questions on lines H1, H2 and H3. Follow the instructions for the questions and, if your expenses are allowable, complete Part H. The PA test for allowable education expenses is different from the federal test. For PA purposes, costs for education expenses which you pay or incur are allowable business expenses if:

1. The education is specifically required by law or by your employer to retain an established employment status or rate of compensation; and
2. The education is not part of a program which would qualify you for a new occupation, trade or business, even if you have no intention of entering that new occupation, trade or business.

**Example 1:** Helen is an armed security guard. State law requires that every five years she must take courses on the proper use of a firearm. If she fails to take the courses, Helen will lose her license to carry a weapon and, therefore, lose her job as a security guard. Helen may claim costs of the courses in Part H of her PA Schedule UE-1.

**Example 2:** Anthony is a pharmacist. State law requires every pharmacist to obtain a specific number of continuing education credits every other year to retain their license as a pharmacist. If he fails to obtain these credits, he will lose his license and, therefore, his job as a pharmacist. Anthony may claim the cost of his continuing education credit courses on his PA Schedule UE-1.

**Important:** A deduction for travel expenses is not allowed if such expenses would be deductible only on the grounds that the travel itself constitutes a form of education.

**Part I. Depreciation.** Do not report depreciation for vehicles and an office or work area here. See the specific parts of PA Schedule UE-1 above. Depreciation is the amount you can claim over the useful life of property used in performing the duties of your employment. An expense is allowable if the property:

1. Has a useful life exceeding one year; and
2. Is required to be regularly and predominantly used to perform the duties of employment; and
3. Is required and not provided or supplied by your employer.

Federal depreciation or current expensing deductions are acceptable for PA purposes in computing allowable business expenses for depreciation. You may use any other generally accepted depreciation method as long as it is consistently used. Once you have selected a depreciation method, it may not be changed.

**Part J. Miscellaneous Expenses.** Enter here those expenses which you would also report on line 4 of Form 2106. You must itemize and describe in detail the expenses you are claiming. Attach a separate schedule or sheet if necessary. Expenses which may be claimed in this part include:

- Breakage fees or cash shortages required to be paid to your employer;
- Fees or income included in your PA taxable compensation on your W-2 form that you are required to pay over to your employer as a condition of employment;
- Costs incurred by blind employees to pay readers who assist them in performing their job duties;
- Business gifts which are ordinary, necessary, reasonable and actually incurred for business purposes. (Pennsylvania does not follow federal limits on such expenses.)

**Important:** You may be considered a statutory employee for federal purposes. Pennsylvania does not have a similar provision. For PA purposes, you must claim your expenses in Part J of PA Schedule UE-1. You may use your federal schedule or form, but you must also make the adjustments necessary to comply with PA rules.

**Part K. Use This Part To Determine Your Total Allowable Business Expenses.**

**Line K1. Total Expenses.** Add the expenses you are claiming in each part of your PA Schedule UE-1. Enter the total on line K1. If you are a part-year resident who continued employment in Pennsylvania and incurred expenses after moving from Pennsylvania, you must complete PA Schedule NRH. To obtain a PA Schedule NRH, see Forms Ordering on page 11.

**Line K2. Reimbursements.** You must include in gross compensation all reimbursements or payments for any business expenses you incurred, including your reimbursements for the expenses you are claiming on your PA Schedule UE-1. If your employer included your reimbursements in the amount of PA taxable wages on your W-2 form, you do not enter that reimbursement here. If your employer DID NOT include your reimbursements in your W-2 wages, enter the amount received on line K2.

**Line K3. Net Amount.** If your employer reimbursed you in an amount more than your expenses, the excess payments are income and must be added to your compensation on line 1a of your PA tax return. If your employer reimbursed you in an amount less than your expenses, the excess expenses are deductible on line 1b of your PA tax return.

**Retention of Records.** The Department may require you to substantiate the amount and nature of any allowable business expenses you claim. You should retain necessary documents, receipts, vouchers or other records for at least four years to substantiate your expenses. You have the burden of proving that any expenses claimed are ordinary, actual, reasonable and necessary.

You have completed your PA Schedule UE-1 and/or UE-2. Double check all your calculations before filing your PA tax return.

**Specific Instructions for PA Schedule C-F Reconciliation.** If you choose to report the gain or [loss] from federal business schedules, use this schedule to account for the differences between Pennsylvania and the IRS in arriving at net taxable income or [loss] for PA purposes. You must attach your federal schedule.

**Part A.** Enter your SSN or Federal EIN, whichever applies.

**Part B.** Copy the gross income information from your federal Schedule C or for lines 1a, 1b, 1c and 2.

**Line 1d.** List here any income which must be reported as business or farm income for PA purposes that may be reported elsewhere on your federal tax return. **Example:** Add interest from short term investments to generate working capital; net gain or [loss] from the sale of assets in the ordinary course of business. Deduct income which is not reportable for PA purposes. **Example:** Subtract a [loss] from the sale of assets used in business.

**Line 3.** Total the amounts from lines 1c plus 1d, less line 2 and enter the result.

**Part C. Line 4.** Enter your business expenses total from your federal schedule or form.

**Part D.** Make any necessary adjustments to your business expenses. If reducing an expense item, please indicate by using brackets [ ]. If increasing an expense amount, enter the difference between the federal amount and the PA allowable amount. The most common differences between PA and federal expenses are explained below. **You must make adjustments for those lines marked with \* \*.** For PA purposes, expenses must be **ordinary** to the business or farm activity, **necessary** to operate the business or farm, **actually incurred** in operating the business or farm, **reasonable** in amount and not excessive and **directly related** to the business or farm activity. Personal expenses are not allowable.

5a. The federal limitation on business meals and entertainment does not apply. You may deduct 100% of these expenses.

5b. Sales tax on depreciable business assets may be currently expensed for PA purposes. On disposition, your PA basis will be different than your federal basis.

5c. Charitable contributions made from your business and publicly acknowledged by the recipient are allowable deductions. Personal donations are not allowable for PA purposes.

5d. You may use the capitalization rules established by your trade, profession or industry under its generally accepted accounting principles and practices instead of the federal accounting rules. As with depreciation, once elected, it must be consistently applied.

5e. You may use any generally recognized and accepted depreciation method for your business or farm activity, including IRC Section 179 current expensing and the special rules for the construction of handicap accessible facilities. Once a method is elected, you must consistently follow that depreciation method.

\*5f.\* The federal labor hired deduction or federal wage deduction does not apply for PA purposes. If claimed, these deductions must be added back to your wage expense.

\*5g.\* If you are claiming the PA Employment Incentive Payments (EIP) Credit (line 15 of your PA-40), you must reduce your total wages expense by the amount of your EIP credit.

\*5h.\* Contributions you make as a self-employed individual to your own pension plan (such as an IRA or Keogh plan) are not allowable expenses in determining net profit or [loss] nor an allowable expense against any other taxable income. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.

\*5i.\* Federal, state and local taxes may be deducted, but not taxes based on gross or net income; Federal Income Taxes; taxes paid to other states or foreign countries based on income; estate taxes; inheritance, legacy, succession and gift taxes and assessments for betterments and improvements. You may not deduct the one-half of self-employment tax which the IRS allows.

\*5j.\* Contributions to your own health or welfare benefits plan are not allowable expenses in determining net profit or [loss] nor allowable expenses against any other taxable income. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.

5k. Other. Itemize expenses which are allowable under GAAP or FASB rules but are not allowable or limited under federal rules.

If making any of these PA adjustments, complete and attach the PA Schedule C-F Reconciliation, on page 9 or 35, to your federal schedule(s).

**Line 6.** Total lines 5a through 5k and enter the net amount. If a negative amount, enter in brackets [ ].

**Line 7.** Total lines 4 and 6 and enter the net amount. Enter negative numbers in brackets [ ].

**Part E. Line 8.** Subtract line 7 from line 3. Your PA net income or [loss] should be different from your federal schedule. Include this amount on line 4 of your PA-40.

You have completed your PA Schedule C-F. Double check all your calculations before filing your PA tax return.

**Specific Instructions for PA Schedule D.** Unless the specific instructions require a different PA schedule, report sales, exchanges or dispositions of property on PA Schedule D, line 1 and the net total gain or [loss] from those transactions on line 2. Spouses should complete separate PA Schedules D, unless selling jointly owned property.

**Line 1. Columns a through f.**

**Column a.** List and describe the property sold or otherwise disposed of for cash or other property. For example: 60 acres of land in Dauphin County or 100 shares of ABC Inc. common stock.

**Column b.** Enter the month, day and year you sold the property.

**Column c.** Enter the month, day and year you acquired the property.

**Column d.** Enter the gross sales price or fair market value of cash and/or property you received less applicable expenses of sale.

**Column e.** Enter the Adjusted Basis of the property sold.

**Column f.** If the property is income-producing property acquired as an investment (for example: capital stock, interest in a partnership or other business, a rental property or a patent or copyright) or if you held the property in connection with a business, profession or occupation when you disposed of it (and it is not inventory or an operational asset), subtract Column e from Column d and then enter either the gain or the [loss] or zero in Column f.

If the property was other than income-producing property:

1. If the adjusted basis is less than Column d, subtract Column e from Column d and enter the gain in Column f; or
2. If the adjusted basis is greater than Column d, you do not have either a gain or a [loss]. Enter zero in Column f.

**Line 2. Net Gain or [Loss].** Add Column f and enter the net amount. You may offset gains and [losses] to calculate line 2.

**Line 3. Installment Sales from PA Schedule D-1.** Enter your taxable gain from each PA Schedule D-1, Computation of Installment Sale Income (form REV-1689). If you need a PA Schedule D-1, see Forms Ordering on page 11. The installment method of reporting gains from the disposition of tangible personal property or real estate, whether the sale is an isolated transaction or is from the inventory of a dealer or broker, may be elected if at least one payment is to be received in any taxable year after the taxable year of the sales transaction. If the installment method is not elected, you must report all of the gain from the sale in the taxable year of the sale on your PA Schedule D or PA Schedule C or F.

**Important:** The installment method is not allowed for:

1. Reporting gains from the sale of intangible personal property; or
2. Transactions where the object is the lending of money or the rendering of services.

**Election.** You must make an election to use the installment sale method. The Department will deem the election to have been made in the following instances:

1. If you report an isolated transaction as an installment sale at the time of filing your PA-40 by:
  - Using PA Schedule D-1 (REV-1689) to calculate the gain to be reported; and
  - Including the gain on your PA Schedule D; and
  - Identifying the transaction on your PA Schedule D as an installment sale.
2. If you report other transactions by:
  - Using PA Schedule C or F; and
  - Identifying the transaction as an installment sale.

**Once this election is made, you may not change your method of reporting in subsequent years.**

**Important.** Interest received which is directly from an installment sale contract or agreement is included as gain on PA Schedule D-1 or included as business income on PA Schedule C or F.

**Repossession of Property.** Where property is sold under an installment contract and you repossess the property upon default of the buyer in a subsequent tax year, you must adjust your basis in the property by the amount of gain you previously reported. You may not amend your tax return for the taxable year in which the installment sale was originally reported.

**Example:** Ben purchased his vacation home in 1984 for \$30,000 and sold it in 1995 for \$50,000, under an installment agreement. The installment sales contract requires the buyer to make payments of \$5,000 each year for ten years, starting in 1995. On his 1995 PA tax return he reported his taxable installment gain of \$5,000. The buyer defaults on the agreement in 1996, before Ben receives the next installment payment. Ben may not amend his 1995 PA tax return. He must adjust his basis in the property to \$35,000, which is his original cost of \$30,000 plus the \$5,000 of gain he reported on his 1995 PA tax return. When Ben resells his vacation home, he will use a basis of \$35,000, thus reducing his gain on a future sale.

**Line 4. Taxable Return of Capital Distributions.** As a shareholder you must report as a taxable gain, in the taxable year in which received or credited, the excess of the fair market value of any return of capital distribution over the adjusted basis of your stock. A return of capital distribution is any distribution which is not made by a business corporation out of its earnings and profits. The basis of stock or shares shall be decreased (but not below zero) by any distribution which is not taxable as a dividend on line 3 of your PA tax return.

**Example:** B corporation distributes from its capital account \$100,000 to Karen, the only stockholder. Karen's adjusted basis in her stock is \$75,000. Since the distribution is not from the corporation's earnings and profits, it is not considered a taxable dividend to be reported on line 3 of her PA tax return. Karen must, however, reduce her basis in her stock by \$75,000 to zero. The remaining \$25,000 of the \$100,000 return of capital distribution must be reported as a taxable gain on Karen's PA Schedule D.

**Line 4. Calculation.** From the total return of capital distributions, subtract the amount of previously unrecovered basis and enter the difference as taxable gain on line 4.

**Line 5. Sale of Property Acquired Before June 1, 1971, PA Schedule D-71.** Gain or [loss] on the sale, exchange or disposition of property that you bought or acquired before June 1, 1971 is determined by subtracting the adjusted basis or the alternative basis, whichever is larger, from the cash and/or property you received. A separate schedule is used to report the disposition of property you acquired before June 1, 1971, PA Schedule D-71 (form REV-1742). To obtain this schedule, see Forms Ordering on page 11.

If you acquired your residence before June 1, 1971, use PA Schedule D-71 to calculate your gain. If not claiming the **Age 55 and over Exclusion**, report the gain from your PA Schedule D-71. If claiming the **Age 55 and over Exclusion**, transfer your gain to a PA Schedule PA-19, Sale of Residential Property, and complete that schedule.

**Line 6. Sale of Personal Residence.** You must use PA Schedule PA-19 if you realize cash or property on the sale, exchange, taking by eminent domain, destruction or other disposition of your residential property. To obtain this schedule, see Forms Ordering on page 11. If you sell your residence at a [loss], report zero (0) on line 6 of PA Schedule D.

**Note:** If you were the only owner of the residence sold (you did not jointly own the residence with your spouse), you must file separate returns to claim this exclusion.

**Important:** PA law does not permit the postponement of gain when you use the proceeds from the sale of your residence to purchase another residence. If you sell your residence, you must report the gain on your PA-40.

**Age 55 and Over Exclusion of Gain on the Sale of a Principal Residence.** PA law allows a one-time elective exclusion of gain on the sale of a residence by an individual age 55 or over. PA rules are similar to, but not exactly the same as the federal exclusion. Use PA Schedule PA-19 to determine if you qualify for an elective exclusion of up to \$100,000 of the gain you realized.

**Line 7. Net Gain or [Loss] from PA Schedule RK-1 or NRK-1.** As a partner or shareholder in a PA S corporation you will receive a PA Schedule RK-1 and/or a PA Schedule NRK-1 (or a federal Schedule K-1). These schedules show your share of any gain or [loss] realized by your partnership or PA S corporation from its sale, exchange or disposition of property. Add the gain(s) and [losses] from each PA Schedule RK-1 and/or NRK-1 and enter the net gain or [loss] on line 7 of PA Schedule D.

**Line 8. Net PA Taxable Gain or [Loss].** Total all amounts from the above lines. You may offset gains and [losses] on PA Schedule D. Enter the result on line 5 of your PA-40.

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You have completed your PA Schedule D. Double check all your calculations before filing your PA tax return.

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#### Specific Instructions for Claiming Tax Forgiveness on PA Schedule SP.

**General Information.** Read **ALL** the following instructions.

**What is Tax Forgiveness?** Special Tax Forgiveness is a credit against your PA tax which allows eligible taxpayers to reduce all or a part of their PA tax liability. To qualify for this credit, you must calculate your own taxable income, nontaxable income, exempt income

and total support income. If married, your spouse must also determine these kinds of incomes.

**Who Is Eligible For Tax Forgiveness?** A claimant must meet the following requirements to qualify for tax forgiveness. You must:

1. Have PA Taxable Income; and
2. Have personally provided at least one-half of your own Total Support in 1996; and
3. Meet the Eligibility Income limitations.

If you do not have any PA Taxable Income, you still qualify if you meet 2 and 3 above. Your dependent spouse may claim tax forgiveness if he or she meets **ALL** three requirements.

**Example:** John and Sue are married without any dependent children. John is retired with a \$15,000 pension and \$5,000 of PA exempt interest. Sue earns \$6,000 of PA taxable wages. Sue is John's dependent for tax forgiveness. John has no tax to forgive and does not have to file a PA tax return. John is otherwise eligible for tax forgiveness. Sue must file a PA tax return. As a dependent of a person eligible for tax forgiveness, Sue may also file a PA Schedule SP.

If you meet **ALL** the requirements, then your Eligibility Income and the number of your dependents, if any, will determine your tax forgiveness credit. If you are eligible, your dependent family members may also qualify for tax forgiveness. See **Who is a Dependent for Tax Forgiveness?** below.

**Important:** If you do not qualify for tax forgiveness, your dependents do not qualify for tax forgiveness.

**Who is a Dependent for Tax Forgiveness?** A dependent is a spouse, natural child, stepchild, adopted child, grandchild or foster child, who lived in your household for all of 1996, and who received at least one-half of his or her support from an eligible claimant for tax forgiveness. A full time student is a dependent if a dependent for federal purposes.

To determine who is a dependent, use the SP Worksheet on page 32.

**Joint or Separate Returns.** If both you and your spouse each qualify for tax forgiveness, you have the option of filing together or separately. If one of you is a dependent of the other and you both have taxable income, you **must** file separate returns. Your dependent children who have Taxable Income must also file separate PA tax returns to obtain tax forgiveness.

**General Instructions for the SP Worksheet.** You must complete the SP Worksheet on page 32. Complete **ALL** information for yourself (YOUR Column) and, if married, your husband or wife (SPOUSE Column), even if filing separately. If married, you must always complete the JOINT Column.

**Filing Tip:** You do not need to submit your **SP Worksheet** when you file your PA tax return. The Department may request it if you do not properly complete your PA Schedule SP or if there is a question concerning your income or eligibility.

For the purpose of claiming tax forgiveness, family members include you, your spouse and your dependent children.

PA law does not exempt a child from filing a PA tax return and paying any tax due. However, if a child is a dependent of a person eligible for tax forgiveness, that child is also eligible. Generally, the income received by a child is not included in determining Total Income.

**Remember:** If a child has income and is a dependent of a person eligible for tax forgiveness, that child must file a separate PA tax return and his or her own PA Schedule SP.

**Line Instructions for the SP Worksheet.** Enter your amounts and your spouse's amounts, even if filing separately and even if only one of you is claiming tax forgiveness. Enter zero if no income to report.

**Step 1. Taxable Income.** Enter your PA Taxable Income amount(s) on line 1.

**Step 2. Nontaxable Income.** For each line, compute and enter the total income received in each category. Nontaxable income includes income that is not taxable under PA law or regulations. Nontaxable income may or may not be income that is taxable for federal purposes. Read each description carefully.

**Line 2. Cash Payments and Support Received.** This amount includes nontaxable cash or property received for personal use. Include direct contributions from spouses, children, parents and others, such as cash received from a parent to buy clothing. This amount

does not include monies exchanged to pay household expenses, such as deposits to joint accounts or rental-like payments from children living at home.

**Line 3. Nontaxable Interest, Dividends and Gains.** Include income from investments in direct obligations of the Federal Government, Pennsylvania and political subdivisions of Pennsylvania, even if received through a mutual fund or other regulated investment company. If originally issued before February 1, 1994, enter any gains realized from sales of these obligations. Include the nontaxable portion of gain on property acquired before June 1, 1971. Also include nontaxable income received as a beneficiary of an estate or trust.

**Line 4. Alimony.** This is the amount of federally taxable alimony received.

**Line 5. Insurance Proceeds and Inheritances.** This amount includes the total proceeds received from life or other insurance policies. Also include inherited cash or the value of property received.

**Line 6. Gifts, Awards and Prizes.** Include the total amount of nontaxable cash or property received as gifts from others. Also include awards given in recognition of civic and social achievements. Add winnings from the PA State Lottery here.

**Line 7. Nonresident Income.** Enter the total of all income received while residing outside Pennsylvania. This amount includes income that would otherwise be taxable if earned and received in Pennsylvania.

**Line 8. Nontaxable Military Income.** This amount represents the difference between total military income earned and the amount reported as taxable to Pennsylvania on your PA tax return, except combat pay which is reported as Exempt SP Income.

**Line 9. Gain Excluded on Sale of a Personal Residence.** Enter the amount from line 5a of PA-40.

**Line 10. Educational Assistance.** Include the total value of nontaxable scholarships, fellowships and stipends received.

**Line 11. Total Nontaxable Income.** Add lines 2 through 10 in each Column and enter the total.

**Step 3. Eligibility Income.** Eligibility Income is the total amount of your PA taxable and certain nontaxable income. Eligibility Income does not include the kinds of income described in Exempt Income below. Eligibility Income is the amount used to determine your percentage of tax forgiveness.

**Line 12. Eligibility Income.** Add lines 1 and 11 in each column and enter the total. Follow the instructions on the SP Worksheet.

**Step 4. Exempt SP Income.** Exempt SP Income includes all other nontaxable cash or property received and used in providing support to the household. These kinds of income may or may not be taxable for federal purposes. In each column, enter the amounts received by you and your spouse, even if filing separately.

**Line 13. Social Security and Railroad Retirement Benefits**

**Line 14. Retirement, Pension, IRA and Annuity Benefits, when meeting the requirements for retiring.**

**Line 15. Welfare Benefits**

**Line 16. Workers Compensation Benefits**

**Line 17. Unemployment Compensation Benefits**

**Line 18. Child Support Payments**

**Line 19. Cash or Property From Other Household Members** Include monies exchanged to pay household expenses, such as deposits to joint accounts and rental-like payments from children living at home.

**Line 20. Total Exempt SP Income.** Add lines 13 through 19 in each column.

**Step 5. Total Income.** Add Eligibility Income and Exempt SP Income. If you did not have enough Total Income to provide at least one-half of your own support, you are a dependent. The same applies to your spouse. A dependent child usually does not provide at least one-half of his or her own support.

**Line 21. Total Income.** Add lines 12 and 20 in each column.

**Step 6. Average Support Cost.** In order to determine whether you provide more than one-half of your own support, it is necessary to calculate the Average Support Cost for each family member. This is a mathematical calculation that presumes your income and expenses to support yourself, your spouse and dependent children were equally distributed during 1996. Complete each line in Step 6. Comparing line 21 to line 24 determines whether you (your spouse) are (is) a dependent or not.

**Line 22. Number of Household Members.** Enter the number of family members including yourself, your spouse and all dependent children. Do not include any other persons who may live in your household. Tax forgiveness rules exclude other persons, even if you may claim those other persons as dependents for federal purposes.

**Line 23. Average Support Cost.** Divide line 21, JOINT Column, by line 22. Round the result to the nearest whole dollar. This amount represents each family member's share of the income available for support.

**Line 24. Minimum Support Cost.** Multiply line 23 by 50% (0.5). Round the result to the nearest whole dollar. This is the amount that you compare to line 21 to determine who is a claimant or a dependent.

**Step 7. Determining Claimant and/or Dependent Status.** A claimant is eligible for tax forgiveness depending on Eligibility Income and allowable dependents, if any. Answer the questions for lines 25 and 26 on your SP Worksheet. Follow the instructions for each applicable question.

A dependent is not eligible for tax forgiveness unless he or she is a dependent of a claimant eligible for tax forgiveness.

**Specific Instructions for the PA Schedule SP.** After completing your SP Worksheet, you will know who in your household is a claimant and who is a dependent. You must now certify how you are filing your PA tax return and claiming tax forgiveness.

#### Part 1. Certification of Eligibility

**Section A: Filing as S, Single or M, Married Filing Separate Returns.** Check either Box 1 (Claimant) or Box 2 (Dependent). The box you check depends on your answer to question 25 on your SP Worksheet.

**Box 1.** If you are a claimant, check Box 1 and enter your spouse's name and Social Security Number in the space provided, even if filing separately. Compare your Eligibility Income from **YOUR Column**, line 12 of your SP Worksheet to the Eligibility Income Table on page 31.

**Example 1:** You are single with no dependents (only 1 family member). Compare your Eligibility Income to the first (1) line of the Eligibility Income Table. If your Eligibility Income is \$6,300 or less, you receive 100% tax forgiveness. If your Eligibility Income is more than \$7,200, you do not qualify for any tax forgiveness.

**Example 2:** You are married and your spouse is your dependent (2 family members). Your spouse has no Eligibility Income. Compare your Eligibility Income to the second (2) line of the Eligibility Income Table. If your Eligibility Income is \$9,300 or less, you receive 100% tax forgiveness. If your Eligibility Income is more than \$10,200, you do not qualify for any tax forgiveness. As a dependent of an eligible claimant, your spouse also qualifies for tax forgiveness. But since your spouse had no Eligibility Income, there is no need for your spouse to file separately. You should file jointly and complete Section B of PA Schedule SP.

**Remember:** A dependent spouse may not claim any other dependents.

**Example 3:** You are single with a dependent child. You use the second (2) line of the Eligibility Income Table because there are 2 members in your household.

**Example 4:** You are married with a dependent spouse and 2 dependent children. You have all the income in the household. You use the fourth (4) line of the Eligibility Income Table because there are 4 members in your household. With Eligibility Income of \$15,300 or less, you receive 100% tax forgiveness. With more than \$16,200, you receive no tax forgiveness.

**Box 2.** If you are a dependent of a person eligible for tax forgiveness, check Box 2. Enter the name and Social Security Number of the person claiming you on his or her PA Schedule SP. In order for you to qualify for tax forgiveness, the person claiming you as a dependent

must be eligible for tax forgiveness. If that person cannot file a PA Schedule SP, neither can you.

**Compare your Eligibility Income to the Eligibility Income Table.** As a dependent, you will ALWAYS use the first (1) line. If your Eligibility Income is within the limitations of the Eligibility Income Table, continue completing PA Schedule SP.

**Example 5:** You are an eligible dependent. If your Eligibility Income is \$6,300 or less, you receive 100% tax forgiveness. If your Eligibility Income is more than \$7,200, you do not qualify for any tax forgiveness.

**Important.** As a dependent, you may not claim any other dependents.

**Section B: Filing as J, Married Filing a Joint Return.** Check Box 3 if **BOTH** you and your spouse are claimants based on your SP Worksheet **AND** you both elect to file a joint claim for convenience.

To determine whether you and your spouse should file jointly or separately for tax forgiveness, compare your total and individual Eligibility Income amounts to the Eligibility Income Table.

Also use this filing status if one of you is a claimant and the other is a dependent with no taxable income. The dependent spouse would otherwise not have to file a PA tax return since he or she has no tax to pay (or forgive). Since the other spouse must file to claim tax forgiveness, this JOINT status may be used.

If you and your spouse have no dependent children, compare your JOINT Eligibility Income to the second line (2 members of the household) of the Eligibility Income Table.

**Example 6:** If your combined income is \$9,300 or less, on a joint claim you and your spouse receive 100% tax forgiveness. If your combined Eligibility Income is more than \$9,300, you should consider filing separate returns. Filing separately provides the maximum amount of tax forgiveness allowable.

**Example 7:** You have \$6,750 of Eligibility Income. Your spouse has \$5,900. You have no dependent children. On separate returns, you receive tax forgiveness of 50% and your spouse receives 100%. On a joint claim with \$12,650 of Eligibility Income, you receive no tax forgiveness.

If you and your spouse are filing jointly and have dependent children, you use the line on the Eligibility Income Table that equals the number of allowable members in your household.

**Example 8:** You and your spouse have 2 children. Compare your Joint Eligibility Income to the fourth line (4 members of the household) of the Eligibility Income Table. If your combined amount is \$15,300 or less, on a joint claim you and your spouse receive 100% tax forgiveness.

**Filing Tip:** To receive the most tax forgiveness allowable, you may wish to file separate returns.

**How Many Dependents May Be Claimed?** In order to claim a dependent child, you must provide at least one-half of their support. Divide your Total Support Income amount (line 21 of your SP Worksheet) by the Average Support Cost (line 23 of your SP Worksheet). Round the result to the nearest whole number. This represents the number of persons you support with your income, including yourself.

**Example 9:** You have income of \$10,800 and your wife has \$8,800. You have 3 dependent children. Together, you do not qualify for any tax forgiveness since \$19,600 exceeds the maximum income for a family of 5 (\$19,200). Your Average Support Cost is \$3,920 (\$19,600 ÷ 5). You can support yourself and 2 children (\$10,800 ÷ \$3,920 = 2.7, rounded to 3). Your spouse can support herself and 1 child (\$8,800 ÷ \$3,920 = 2.2 rounded to 2). On separate returns, you each receive 100% tax forgiveness.

**Example 10:** You have \$8,500 of Eligibility Income. Your spouse has \$9,650 of Eligibility Income. You have 2 dependent children. On separate returns, you can claim only 1 child and you receive 100% tax forgiveness. Using the second (2) line of the Table, \$8,500 is less than \$9,300. Your spouse can only claim the other child and receives 60% tax forgiveness, also using the second (2) line of the Table. Your spouse cannot claim both children since her income is sufficient to support only 2 persons. If you elected to file a joint claim, your combined Eligibility Income of \$18,150 would not allow any tax forgiveness. \$18,150 with 4 household members exceeds the Table maximum amount of \$16,200.

**Example 11:** You have income of \$13,300 and your spouse has \$6,300. You have 3 children. Together, you do not qualify for any tax forgiveness since \$19,600 exceeds the maximum income for a family of 5 (\$19,200). Your Average Support Cost is \$3,920 (\$19,600 ÷ 5).

You can support yourself and 2 children (\$13,300 ÷ \$3,920 = 3.4, rounded to 3). Your spouse can support himself and 1 child (\$6,300 ÷ \$3,920 = 1.6, rounded to 2). On separate returns, you receive no tax forgiveness, because \$13,300 exceeds the maximum allowance for 3 household members (you and 2 children) of \$13,200. You cannot claim a third child because your income does not permit you to support yourself and 3 children. Your spouse receives 100% tax forgiveness because \$6,300 is less than the minimum allowance for 2 household members of \$9,300.

Once you and your spouse have decided how to file, check either Box 2 on your separate returns or Box 3 for a joint claim.

**Section C: Filing as F, the Final PA Return for a Deceased Individual.** Check Box 4 if the person for whom you are filing was not a dependent. For the purpose of eligibility, use all the income earned, received or credited to the decedent through the date of death. The same calculations apply to a decedent as to others in determining eligibility for tax forgiveness. Usually, a decedent is not a dependent unless he or she lived most of the year and received more than one-half of his or her support from another person. A decedent does not claim any dependents unless he or she lived most of the year.

**PART II. Number of Household Members for Tax Forgiveness Purposes.**

**Line 1.** Enter all the information requested and check if you are claiming your spouse as your dependent.

**Line 2.** Enter the information requested for your spouse and check if your spouse is filing separately.

**Important.** If you do not complete all the information requested, the Department will write for a copy of your SP Worksheet.

**Line 3.** For each dependent child, as defined on page 29, enter the information requested and check whether you or your spouse is claiming the child. If your spouse is **not** your dependent and may claim one or more dependent children, check the children that your spouse is claiming. **Important.** If your spouse is your dependent and filing a separate return, your spouse **may not** claim any dependents.

**Line 4.** Enter the total number of Household Members for tax forgiveness purposes. Include yourself, your spouse, if your dependent and each child you may claim. **Important.** A dependent child **may not** be claimed on more than one PA Schedule SP.

**PART III. Calculating Your Tax Forgiveness Credit.** You will need your SP Worksheet and the Eligibility Income Table to complete this part.

**Line 1. Total Income.** Enter the amount from the JOINT Column, line 21, of your SP Worksheet, even if filing separately.

**Line 2. Your Eligibility Income from SP Worksheet.** If filing jointly, enter the amount from line 12, JOINT Column. If filing separately, enter the amount from line 12, YOUR Column.

**Line 3. Tax Liability.** Enter the amount of your Tax Due from your PA tax return. This is your tax due BEFORE any credits.

**Line 4. Less Resident Credit.** Enter the credit from line 14 of your PA-40 — **this credit does not apply to a PA-40EZ.**

**Line 5. Net Tax Liability.** Subtract line 4 from line 3.

**Line 6. Percentage Of Tax Forgiveness.** Find your Number of Household Members (Part II, line 4) on the Eligibility Income Table. Find your Eligibility Income (line 1 in this Part) on the Eligibility Income Table. Find your percentage of tax forgiveness. Enter the percentage of forgiveness in the space provided and as a decimal on line 6.

**Example 12:** With 4 Family Members and Eligibility Income of \$15,547, the percentage of tax forgiveness is 70% or 0.70.

**Line 7. Amount Of Tax Forgiveness Credit.** Multiply line 5 by the decimal on line 6. Round to the nearest dollar. Enter the result here. This is the tax forgiveness credit you may take on your PA tax return.

You have completed your PA Schedule SP. Double check all your calculations before filing your PA tax return.

ELIGIBILITY INCOME TABLE										
PART II, LINE 4: YOUR NUMBER OF HOUSEHOLD MEMBERS	TOTAL ELIGIBILITY INCOME									
	PART III, LINE 2: IF YOUR ELIGIBILITY INCOME DOES NOT EXCEED:									
1	6,300	6,400	6,500	6,600	6,700	6,800	6,900	7,000	7,100	7,200
2	9,300	9,400	9,500	9,600	9,700	9,800	9,900	10,000	10,100	10,200
3	12,300	12,400	12,500	12,600	12,700	12,800	12,900	13,000	13,100	13,200
4	15,300	15,400	15,500	15,600	15,700	15,800	15,900	16,000	16,100	16,200
5	18,300	18,400	18,500	18,600	18,700	18,800	18,900	19,000	19,100	19,200
6	21,300	21,400	21,500	21,600	21,700	21,800	21,900	22,000	22,100	22,200
7	24,300	24,400	24,500	24,600	24,700	24,800	24,900	25,000	25,100	25,200
8	27,300	27,400	27,500	27,600	27,700	27,800	27,900	28,000	28,100	28,200
9	30,300	30,400	30,500	30,600	30,700	30,800	30,900	31,000	31,100	31,200
10	33,300	33,400	33,500	33,600	33,700	33,800	33,900	34,000	34,100	34,200
THEN YOUR PERCENTAGE OF TAX FORGIVENESS AND THE DECIMAL EQUIVALENT IS:										
PERCENTAGE	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
DECIMAL	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

# SP WORKSHEET

# 1996

This worksheet **MUST** be completed before you can claim tax forgiveness on PA Schedule SP  
You do not need to submit this worksheet with your 1996 PA tax return. If the Department has any questions, however, we may request it at a later date.

Name(s) as shown on your PA tax return:	Social Security Number:
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**CAREFULLY READ ALL THE INSTRUCTIONS FOR COMPLETING THIS WORKSHEET**

**DO NOT USE CENTS – ROUND TO WHOLE DOLLARS**

**STEP 1. PA TAXABLE INCOME**

	A. YOUR Column	B. SPOUSE Column	C. JOINT Column
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1. From your PA tax return: .....	1. \$	1. \$	1. \$
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**STEP 2. NONTAXABLE INCOME**

	A. YOUR Column	B. SPOUSE Column	C. JOINT Column
--	----------------	------------------	-----------------

2. Cash Payments and Support Received .....	2. \$	2. \$	2. \$
3. Nontaxable Interest, Dividends and Gains .....	3. \$	3. \$	3. \$
4. Alimony .....	4. \$	4. \$	4. \$
5. Insurance Proceeds and Inheritances .....	5. \$	5. \$	5. \$
6. Gifts, Awards and Prizes .....	6. \$	6. \$	6. \$
7. Nonresident Income .....	7. \$	7. \$	7. \$
8. Nontaxable Military Income .....	8. \$	8. \$	8. \$
9. Gain Excluded on Sale of a Personal Residence (Not applicable for PA-40EZ Filers)	9. \$	9. \$	9. \$
10. Nontaxable Educational Assistance .....	10. \$	10. \$	10. \$
11. TOTAL NONTAXABLE INCOME. Add lines 2 through 10. ....	11. \$	11. \$	11. \$

**STEP 3. ELIGIBILITY INCOME**

	A. YOUR Column	B. SPOUSE Column	C. JOINT Column
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12. Add line 1 and line 11. Enter the total here and on PA Schedule SP. Also enter the total on PA tax return .....	12. \$	12. \$	12. \$
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**STEP 4. EXEMPT SP INCOME**

	A. YOUR Column	B. SPOUSE Column	C. JOINT Column
--	----------------	------------------	-----------------

13. Social Security and Railroad Retirement Benefits .....	13. \$	13. \$	13. \$
14. Retirement, Pension, IRA and Annuity Benefits .....	14. \$	14. \$	14. \$
15. Welfare Benefits .....	15. \$	15. \$	15. \$
16. Workers' Compensation Benefits .....	16. \$	16. \$	16. \$
17. Unemployment Compensation Benefits .....	17. \$	17. \$	17. \$
18. Child Support Payments .....	18. \$	18. \$	18. \$
19. Cash or Property from Other Household Members .....	19. \$	19. \$	19. \$
20. TOTAL EXEMPT SP INCOME. Add lines 13 through 19. ....	20. \$	20. \$	20. \$

**STEP 5. TOTAL INCOME**

	A. YOUR Column	B. SPOUSE Column	C. JOINT Column
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21. Add line 12 and line 20. ....	21. \$	21. \$	21. \$
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Enter the TOTAL INCOME from the JOINT Column on line 1, PART III of PA Schedule SP.

**STEP 6. AVERAGE SUPPORT COST**

**DO NOT USE CENTS – ROUND TO WHOLE DOLLARS**

22. Number of Household Members. (You, your spouse and dependent children) .....	22.	
23. Average Support Cost. Divide line 21 JOINT Column by line 22. ....	23.	\$
24. Minimum Support Cost. Multiply line 23 by 50% (0.5) .....	24.	\$

**STEP 7. DETERMINING CLAIMANT AND/OR DEPENDENT STATUS**

25. IS **YOUR** line 21 equal to or more than line 24?     **YES**     **NO**

If **YES**, you are a claimant, not a dependent. Complete PA Schedule SP to determine if you qualify for tax forgiveness.

If **NO**, you are a dependent of another person. If that person is eligible for tax forgiveness, you are also eligible. You must file a separate PA tax return and PA Schedule SP. **You may not claim any dependents.** You must complete Section A, Box 2 on your PA Schedule SP.

26. IS **SPOUSE** line 21 equal to or more than line 24?     **YES**     **NO**

If **YES**, your spouse is a claimant, not a dependent. Your spouse should complete PA Schedule SP to determine if he or she qualifies for tax forgiveness.

If **NO**, your spouse is a dependent. If you answered line 25 **YES**, your spouse is your dependent. Your spouse may still be eligible for tax forgiveness **if you are eligible.** Your spouse must complete a separate PA tax return and PA Schedule SP.

**IMPORTANT: Your dependent spouse may not claim any dependents.**

**NOTE:** If **BOTH** you and your spouse answered **YES**, you are **BOTH** claimants and may elect to file separately or jointly.  
Read the instructions to determine which filing method is best for you and your spouse.



SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
<b>ADAMS</b>		<b>BERKS</b>		Palmerton Area . . . . .13650		Middletown Area . . . . .22600	
Bermudian Springs . . . . .	.01110	Antietam . . . . .	.06050	Panther Valley . . . . .	.13660	Millersburg Area . . . . .	.22610
Conewago Valley . . . . .	.01160	Boyertown Area . . . . .	.06075	Weatherly Area . . . . .	.13900	Steeleton Highspire . . . . .	.22800
Fairfield Area . . . . .	.01305	Brandywine Heights Area . . . . .	.06085	<b>CENTRE</b>		Susquehanna Township . . . . .	.22830
Gettysburg Area . . . . .	.01375	Conrad Weiser Area . . . . .	.06110	Bald Eagle Area . . . . .	.14100	Susquenita . . . . .	.50600
Littlestown Area . . . . .	.01520	Daniel Boone Area . . . . .	.06150	Bellefonte Area . . . . .	.14110	Upper Dauphin Area . . . . .	.22900
Upper Adams . . . . .	.01852	Exeter Township . . . . .	.06200	Keystone Central . . . . .	.18360	Williams Valley . . . . .	.54880
<b>ALLEGHENY</b>		Fleetwood Area . . . . .	.06250	<b>CHESTER</b>		<b>DELAWARE</b>	
Allegheny Valley . . . . .	.02060	Governor Mifflin . . . . .	.06300	Avon Grove . . . . .	.15050	Chester Upland . . . . .	.23123
Avonworth . . . . .	.02075	Hamburg Area . . . . .	.06350	Coatesville Area . . . . .	.15190	Chichester . . . . .	.23130
Baldwin Whitehall . . . . .	.02110	Kutztown Area . . . . .	.06400	Downingtown Area . . . . .	.15200	Garnet Valley . . . . .	.23410
Bethel Park . . . . .	.02125	Muhlenberg Township . . . . .	.06550	Great Valley . . . . .	.15350	Haverford Township . . . . .	.23450
Brentwood Borough . . . . .	.02145	Oley Valley . . . . .	.06650	Kennett Consolidated . . . . .	.15400	Interboro . . . . .	.23510
Carlynton . . . . .	.02160	Reading . . . . .	.06700	Octorara Area . . . . .	.15650	Marple Newtown . . . . .	.23550
Chartiers Valley . . . . .	.02175	Schuylkill Valley . . . . .	.06750	Owen J. Roberts . . . . .	.15660	Penn Delco . . . . .	.23690
Clairton . . . . .	.02190	Tulpehocken Area . . . . .	.06800	Oxford Area . . . . .	.15670	Radnor Township . . . . .	.23760
Cornell . . . . .	.02210	Twin Valley . . . . .	.06810	Phoenixville Area . . . . .	.15720	Ridley . . . . .	.23770
Deer Lakes . . . . .	.02225	Upper Perkiomen . . . . .	.46860	Spring Ford Area . . . . .	.46730	Rose Tree Media . . . . .	.23790
Duquesne City . . . . .	.02250	Wilson . . . . .	.06910	Tredyffrin Easttown . . . . .	.15780	Southeast Delco . . . . .	.23840
East Allegheny . . . . .	.02280	Wyomissing . . . . .	.06935	Twin Valley . . . . .	.06810	Springfield . . . . .	.23850
Elizabeth Forward . . . . .	.02315	<b>BLAIR</b>		Unionville-Chadds Ford . . . . .	.15850	Unionville-Chadds Ford . . . . .	.15850
Fort Cherry . . . . .	.63240	Altoona Area . . . . .	.07050	West Chester Area . . . . .	.15900	Upper Darby . . . . .	.23945
Fox Chapel Area . . . . .	.02391	Bellwood Antis . . . . .	.07100	<b>CLARION</b>		Wallingford Swarthmore . . . . .	.23960
Gateway . . . . .	.02410	Claysburg-Kimmel . . . . .	.07150	Allegheny Clarion Valley . . . . .	.16030	West Chester Area . . . . .	.15900
Hampton Township . . . . .	.02460	Hollidaysburg Area . . . . .	.07350	Armstrong . . . . .	.03085	<b>ELK</b>	
Highlands . . . . .	.02475	Spring Cove . . . . .	.07750	Clarion Area . . . . .	.16120	Brockway Area . . . . .	.33070
Keystone Oaks . . . . .	.02500	Tyrone Area . . . . .	.07800	Clarion-Limestone Area . . . . .	.16170	Forest Area . . . . .	.27200
McKeesport Area . . . . .	.02600	Williamsburg Community . . . . .	.07900	Keystone . . . . .	.16650	Johnsonburg Area . . . . .	.24350
Montour . . . . .	.02630	<b>BRADFORD</b>		North Clarion County . . . . .	.16750	Kane Area . . . . .	.42230
Moon Area . . . . .	.02634	Athens Area . . . . .	.08050	Redbank Valley . . . . .	.16800	Ridgway Area . . . . .	.24600
Mount Lebanon . . . . .	.02640	Canton Area . . . . .	.08100	Union . . . . .	.16900	Saint Marys Area . . . . .	.24800
North Allegheny . . . . .	.02685	Central Area . . . . .	.08300	<b>CLEARFIELD</b>		<b>ERIE</b>	
Northgate . . . . .	.02687	Northeast Bradford County . . . . .	.08300	Clearfield Area . . . . .	.17100	Corry Area . . . . .	.25145
North Hills . . . . .	.02690	Sayre Area . . . . .	.08600	Curwensville Area . . . . .	.17180	Erie City . . . . .	.25260
Penn Hills . . . . .	.02735	Towanda Area . . . . .	.08650	Dubois Area . . . . .	.17200	Fairview . . . . .	.25330
Penn-Trafford . . . . .	.65710	Troy Area . . . . .	.08665	Glendale . . . . .	.17300	Fort Leboeuf . . . . .	.25355
Pine-Richland . . . . .	.02100	Wyalusing Area . . . . .	.08900	Harmony Area . . . . .	.17350	General McLane . . . . .	.25390
Pittsburgh . . . . .	.02745	<b>BUCKS</b>		Moshannon Valley . . . . .	.17500	Girard . . . . .	.25405
Plum Borough . . . . .	.02750	Bensalem Township . . . . .	.09100	Phillipsburg-Osceola Area . . . . .	.17700	Harbor Creek . . . . .	.25435
Quaker Valley . . . . .	.02775	Bristol Borough . . . . .	.09130	Purchase Line . . . . .	.32730	Iroquois . . . . .	.25655
Riverview . . . . .	.02820	Bristol Township . . . . .	.09135	West Branch Area . . . . .	.17900	Millcreek Township . . . . .	.25760
Shaler Area . . . . .	.02830	Centennial . . . . .	.09200	<b>CLINTON</b>		North East . . . . .	.25830
South Allegheny . . . . .	.02865	Central Bucks . . . . .	.09210	Jersey Shore Area . . . . .	.41400	Northwestern . . . . .	.25850
South Fayette Township . . . . .	.02870	Council Rock . . . . .	.09235	Keystone Central . . . . .	.18360	Union City Area . . . . .	.25910
South Park . . . . .	.02875	Easton Area . . . . .	.48330	West Branch Area . . . . .	.17900	Wattsburg Area . . . . .	.25970
Steel Valley . . . . .	.02883	Morrisville Borough . . . . .	.09720	<b>COLUMBIA</b>		<b>FAYETTE</b>	
Sto Rox . . . . .	.02885	Neshaminy . . . . .	.09750	Benton Area . . . . .	.19100	Albert Gallatin Area . . . . .	.26030
Upper Saint Clair Township . . . . .	.02920	New Hope Solebury . . . . .	.09760	Berwick Area . . . . .	.19110	Belle Vernon Area . . . . .	.65060
West Allegheny . . . . .	.02940	North Penn . . . . .	.46570	Bloomsburg Area . . . . .	.19120	Brownsville Area . . . . .	.26080
West Jefferson Hills . . . . .	.02955	Palisades . . . . .	.09800	Central Columbia . . . . .	.19150	Connellsville Area . . . . .	.26130
West Mifflin Area . . . . .	.02960	Pennridge . . . . .	.09810	Millville Area . . . . .	.19500	Frazier . . . . .	.26290
Wilkesburg Borough . . . . .	.02980	Pennsbury . . . . .	.09820	Mount Carmel Area . . . . .	.49510	Laurel Highlands . . . . .	.26400
Woodland Hills . . . . .	.02990	Quakertown Community . . . . .	.09840	North Schuylkill . . . . .	.54500	Southmoreland . . . . .	.65750
<b>ARMSTRONG</b>		Soudertown Area . . . . .	.46710	Southern Columbia Area . . . . .	.19750	Uniontown Area . . . . .	.26800
Allegheny Clarion Valley . . . . .	.16030	<b>BUTLER</b>		<b>CLINTON</b>		<b>FOREST</b>	
Apollo-Ridge . . . . .	.03060	Allegheny Clarion Valley . . . . .	.16030	Jersey Shore Area . . . . .	.41400	Forest Area . . . . .	.27200
Armstrong . . . . .	.03085	Butler Area . . . . .	.10125	Keystone Central . . . . .	.18360	<b>FRANKLIN</b>	
Freeport Area . . . . .	.03305	Freeport Area . . . . .	.03305	West Branch Area . . . . .	.17900	Chambersburg Area . . . . .	.28130
Karns City Area . . . . .	.10360	Karns City Area . . . . .	.10360	<b>COLUMBIA</b>		Fannett-Metal . . . . .	.28200
Kiski Area . . . . .	.65440	Mars Area . . . . .	.10500	Benton Area . . . . .	.19100	Greencastle-Antrim . . . . .	.28300
Leechburg Area . . . . .	.03450	Moniteau . . . . .	.10535	Berwick Area . . . . .	.19110	Shippensburg Area . . . . .	.21800
Redbank Valley . . . . .	.16800	Seneca Valley . . . . .	.10790	Bloomsburg Area . . . . .	.19120	Tuscarora . . . . .	.28600
<b>BEAVER</b>		Slippery Rock Area . . . . .	.10750	Central Columbia . . . . .	.19150	Waynesboro Area . . . . .	.28900
Aliquippa Borough . . . . .	.04050	South Butler County . . . . .	.10780	Millville Area . . . . .	.19500	<b>FULTON</b>	
Ambridge Area . . . . .	.04070	<b>CAMBRIA</b>		Mount Carmel Area . . . . .	.49510	Central Fulton . . . . .	.29130
Beaver Area . . . . .	.04120	Blacklick Valley . . . . .	.11060	North Schuylkill . . . . .	.54500	Forbes Road . . . . .	.29230
Big Beaver Falls Area . . . . .	.04150	Cambria Heights . . . . .	.11120	Southern Columbia Area . . . . .	.19750	Southern Fulton . . . . .	.29750
Blackhawk . . . . .	.04160	Central Cambria . . . . .	.11130	<b>CRAWFORD</b>		<b>GREENE</b>	
Center Area . . . . .	.04190	Conemaugh Valley . . . . .	.11140	Conneaut . . . . .	.20103	Carmichaels Area . . . . .	.30130
Ellwood City Area . . . . .	.37200	Ferndale Area . . . . .	.11200	Corry Area . . . . .	.25145	Central Greene . . . . .	.30140
Freedom Area . . . . .	.04285	Forest Hills . . . . .	.11220	Crawford Central . . . . .	.20135	Jefferson-Morgan . . . . .	.30350
Hopewell Area . . . . .	.04410	Glendale . . . . .	.17300	Jamestown Area . . . . .	.43360	Southeastern Greene . . . . .	.30650
Midland Borough . . . . .	.04530	Greater Johnstown . . . . .	.11250	Penncrest . . . . .	.20470	West Greene . . . . .	.30850
Monaca . . . . .	.04545	Northern Cambria . . . . .	.11450	Titusville Area . . . . .	.61720	<b>HUNTINGDON</b>	
New Brighton Area . . . . .	.04565	Penn Cambria . . . . .	.11600	Union City Area . . . . .	.25910	Huntingdon Area . . . . .	.31250
Riverside Beaver County . . . . .	.04585	Portage Area . . . . .	.11630	<b>CUMBERLAND</b>		Juniata Valley . . . . .	.31280
Rochester Area . . . . .	.04690	Richland . . . . .	.11650	Big Spring . . . . .	.21050	Mount Union Area . . . . .	.31600
Southside Area . . . . .	.04740	Westmont Hilltop . . . . .	.11850	Camp Hill . . . . .	.21100	South Huntingdon County . . . . .	.31750
Western Beaver County . . . . .	.04930	Windber Area . . . . .	.56910	Carlisle Area . . . . .	.21110	Tussey Mountain . . . . .	.05800
<b>BEDFORD</b>		<b>CAMERON</b>		Cumberland Valley . . . . .	.21160	Tyrone Area . . . . .	.07800
Bedford Area . . . . .	.05100	Cameron County . . . . .	.12270	East Pennsboro Area . . . . .	.21250	<b>DAUPHIN</b>	
Chestnut Ridge . . . . .	.05150	<b>CARBON</b>		Mechanicsburg Area . . . . .	.21650	Central Dauphin . . . . .	.22140
Claysburg-Kimmel . . . . .	.07150	Hazleton Area . . . . .	.40330	Shippensburg Area . . . . .	.21800	Derry Township . . . . .	.22175
Everett Area . . . . .	.05300	Jim Thorpe Area . . . . .	.13500	South Middleton . . . . .	.21830	Halifax Area . . . . .	.22250
Northern Bedford County . . . . .	.05600	Lehighton Area . . . . .	.13550	West Shore . . . . .	.21900	Harrisburg City . . . . .	.22275
Tussey Mountain . . . . .	.05800	<b>DAUPHIN</b>		<b>DAUPHIN</b>		Lower Dauphin . . . . .	.22400

Part-Year Residents who moved out of Pennsylvania during 1996 use code 99999.

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
<b>INDIANA</b>		Dallas	40160	Easton Area	48330	<b>UNION</b>	
Apollo-Ridge	03060	Greater Nanticoke Area	40260	Nazareth Area	48480	Lewisburg Area	60400
Armstrong	03085	Hanover Area	40300	Northampton Area	48490	Mifflinburg Area	60500
Blairsville-Saltsburg	32110	Hazleton Area	40330	Northern Lehigh	39450	Milton Area	49500
Harmony	17350	Lake-Lehman	40390	Pen Argyl Area	48560	Warrior Run	49800
Homer Center	32330	Northwest Area	40600	Saucon Valley	48600		
Indiana Area	32370	Pittston Area	40660	Wilson Area	48860	<b>VENANGO</b>	
Marion Center Area	32520	Wilkes-Barre Area	40885			Allegheny Clarion Valley	16030
Penns Manor Area	32630	Wyoming Area	40920	<b>NORTHUMBERLAND</b>		Cranberry Area	61130
Punxsutawney Area	33800	Wyoming Valley West	40930	Danville Area	47180	Forest Area	27200
Purchase Line	32730			Line Mountain	49350	Franklin Area	61220
United	32800			Milton Area	49500	Oil City Area	61620
		<b>LYCOMING</b>		Mount Carmel Area	49510	Penncrest	20470
<b>JEFFERSON</b>		Canton Area	08100	Shamokin Area	49650	Titusville Area	61720
Brockway Area	33070	East Lycoming	41200	Shikellamy	49660	Valley Grove	61860
Brookville Area	33080	Jersey Shore Area	41400	Southern Columbia Area	19750		
Clarion-Limestone Area	16170	Loyalsock Township	41420	Warrior Run	49800	<b>WARREN</b>	
Dubois Area	17200	Montgomery Area	41500			Corry Area	25145
Punxsutawney Area	33800	Montoursville Area	41510	<b>PERRY</b>		Titusville Area	61720
		Muncy	41530	Fannett-Metal	28200	Warren County	62830
<b>JUNIATA</b>		South Williamsport Area	41610	Greenwood	50300		
Greenwood	50300	Southern Tioga	59700	Newport	50400	<b>WASHINGTON</b>	
Juniata County	34360	Wellsboro Area	59850	Susquenita	50600	Avella Area	63050
		Williamsport Area	41720	West Perry	50800	Bentworth	63090
						Bethlehem Center	63100
<b>LACKAWANNA</b>		<b>MCKEAN</b>		<b>PHILADELPHIA</b>		Brownsville Area	26080
Abington Heights	35030	Bradford Area	42080	Philadelphia City	51500	Burgettstown Area	63120
Carbondale Area	35130	Kane Area	42230			California Area	63150
Dunmore	35220	Oswayo Valley	53750	<b>PIKE</b>		Canon McMillan	63170
Forest City Regional	58300	Otto Eldred	42600	Delaware Valley	52200	Charleroi	63180
Lackawanna Trail	66500	Port Allegany	42630	East Stroudsburg Area	45200	Chartiers Houston	63190
Lakeland	35460	Smethport Area	42750	Wallenpaupack Area	64830	Fort Cherry	63240
Mid Valley	35550					McGuffey	63390
North Pocono	35650	<b>MERCER</b>		<b>POTTER</b>		Peters Township	63650
Old Forge	35660	Commodore Perry	43130	Austin Area	53030	Ringgold	63700
Riverside	35700	Crawford Central	20135	Coudersport Area	53130	Trinity Area	63800
Scranton City	35740	Farrell Area	43250	Galeton Area	53280	Washington	63880
Valley View	35840	Greenville Area	43280	Keystone Central	18360		
		Grove City Area	43290	Northern Potter	53550	<b>WAYNE</b>	
<b>LANCASTER</b>		Hermitage	43330	Oswayo Valley	53750	Forest City Regional	58300
Cocalico	36130	Jamestown Area	43360	Port Allegany	42630	North Pocono	35650
Columbia Borough	36150	Lakeview	43390			Susquehanna Community	58650
Conestoga Valley	36170	Mercer Area	43500	<b>SCHUYLKILL</b>		Wallenpaupack Area	64830
Donegal	36220	Reynolds	43530	Blue Mountain	54080	Wayne Highlands	64870
Eastern Lancaster County	36230	Sharon City	43560	Hazleton Area	40330	Western Wayne	64890
Elizabethtown Area	36240	Sharpville Area	43570	Mahanoy Area	54450		
Ephrata Area	36260	West Middlesex Area	43750	Minersville Area	54470	<b>WESTMORELAND</b>	
Hempfield	36310	Wilmington Area	37800	North Schuylkill	54500	Belle Vernon Area	65060
Lampeter-Strasburg	36360			Panther Valley	13660	Blairsville-Saltsburg	32110
Lancaster	36400	<b>MIFFLIN</b>		Pine Grove Area	54600	Burrell	65070
Manheim Central	36440	Mifflin County	44460	Pottsville Area	54610	Derry Area	65160
Manheim Township	36450	Mount Union Area	31600	Saint Clair Area	54680	Franklin Regional	65260
Octorara Area	15650			Shenandoah Valley	54720	Greater Latrobe	65310
Penn Manor	36520	<b>MONROE</b>		Schuylkill Haven Area	54730	Greensburg Salem	65320
Pequea Valley	36530	East Stroudsburg Area	45200	Tamaqua Area	54760	Hempfield Area	65380
Solanco	36700	Pleasant Valley	45520	Tri Valley	54780	Jeannette City	65410
Warwick	36900	Pocono Mountain	45540	Williams Valley	54880	Kiski Area	65440
		Stroudsburg Area	45600			Leechburg Area	03450
				<b>SNYDER</b>		Ligonier Valley	65490
<b>LAWRENCE</b>		<b>MONTGOMERY</b>		Mid-West	55500	Monessen City	65580
Blackhawk	04160	Abington	46030	Selinsgrove	55710	Mount Pleasant Area	65590
Ellwood City Area	37200	Boyetown Area	06075			New Kensington Arnold	65630
Laurel	37400	Bryn Athyn Borough	46050	<b>SOMERSET</b>		Norwin	65650
Mohawk Area	37500	Cheltenham Township	46130	Berlin Brothersvalley	56100	Penn-Trafford	65710
Neshannock Township	37520	Colonial	46160	Conemaugh Township Area	56180	Southmoreland	65750
New Castle Area	37530	Hatboro-Horsham	46360	Meyersdale Area	56520	Yough	65890
Shenango Area	37620	Jenkintown	46380	North Star	56550		
Union Area	37700	Lower Merion	46450	Rockwood Area	56630	<b>WYOMING</b>	
Wilmington Area	37800	Lower Moreland Township	46460	Salisbury Elk Lick	56700	Elk Lake	58250
		Methacton	46530	Shade-Central City	56720	Lackawanna Trail	66500
<b>LEBANON</b>		Norristown Area	46560	Shanksville-Stonycreek	56740	Lake-Lehman	40390
Annville Cleona	38030	North Penn	46570	Somerset Area	56770	Tunkhannock Area	66750
Cornwall Lebanon	38130	Perkiomen Valley	46610	Turkeyfoot Valley Area	56840	Wyalusing Area	08900
Eastern Lebanon County	38230	Pottsgrove	46630	Windber Area	56910	Wyoming Area	40920
Lebanon	38460	Pottstown	46640				
Northern Lebanon	38500	Souderton Area	46710	<b>SULLIVAN</b>		<b>YORK</b>	
Palmyra Area	38530	Springfield Township	46720	Sullivan County	57630	Central York	67130
		Spring Ford Area	46730			Dallastown Area	67160
<b>LEHIGH</b>		Upper Dublin	46830	<b>SUSQUEHANNA</b>		Dover Area	67180
Allentown City	39030	Upper Merion Area	46840	Blue Ridge	58100	Eastern York	67220
Bethlehem Area	48100	Upper Moreland Township	46850	Elk Lake	58250	Hanover Public	67280
Catasauqua Area	39130	Upper Perkiomen	46860	Forest City Regional	58300	Northeastern York	67440
East Penn	39230	Wissahickon	46930	Montrose Area	58450	Northern York County	67460
Northern Lehigh	39450			Mountain View	58460	Red Lion Area	67550
Northwestern Lehigh	39460	<b>MONTOUR</b>		Susquehanna Community	58650	South Eastern	67620
Parkland	39510	Danville Area	47180			South Western	67640
Salisbury Township	39560	Warrior Run	49800	<b>TIOGA</b>		Southern York County	67650
Southern Lehigh	39570			Canton Area	08100	Spring Grove Area	67670
Whitehall Coplay	39780	<b>NORTHAMPTON</b>		Galeton Area	53280	West Shore	21900
		Bangor Area	48080	Northern Tioga	59600	West York Area	67850
<b>LUZERNE</b>		Bethlehem Area	48100	Southern Tioga	59700	York City	67900
Berwick Area	19110	Catasauqua Area	39130	Wellsboro Area	59850	York Suburban	67940
Crestwood	40140						

	PAGE
Allocating Income By Nonresidents For:	
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