



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

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**PAID**  
 COMMONWEALTH  
 OF  
 PENNSYLVANIA  
 DEPARTMENT OF  
 REVENUE



# PA-40 1997

**PENNSYLVANIA**

**INDIVIDUAL**

**INCOME TAX**

**FORM PA-40,**

**PAYMENT**

**VOUCHER AND**

**INSTRUCTIONS**

**FOR RESIDENTS**

**AND**

**NONRESIDENTS**

Dear Taxpayer:

It is a pleasure to present you with the New 1997 PA Personal Income Tax booklet with instructions and forms. Each year adjustments and improvements are made to the forms to help make filing your state taxes as easy and convenient as possible. Usually those changes are undetected. This year, however, the forms have a very different look; the forms have boxes for you to fill in and your information is reported on both sides of the form.

An initiative to improve our processing and data entry involves technology that will actually capture a picture, or image, of the information you report within the boxes on the return. By utilizing the new imaging technology, we will dramatically decrease our processing time (from four days to four hours) and therefore enable us to respond to your inquiries much faster. Other benefits of imaging include the savings we will realize in storing paper documents; images are stored on disks that can hold thousands of documents rather than moving the paper to a warehouse.

In addition to this technology, we are also encouraging taxpayers to file electronically. New for this year is the option to file by telephone. If someone in your household received a TeleFile return, they can simply complete the worksheet (and retain it for their records) and report their tax information toll-free by touch-tone phone.

Another electronic option for all taxpayers is the Federal/State Electronic Tax Filing (ETF) Program that provides fast and accurate service plus allows taxpayers the option of direct deposit for their tax refunds. Last year over 125,000 PA taxpayers filed electronically. Talk to your tax practitioner about this convenient way to file your state and federal returns at the same time.

Along with improving our processes, the Ridge Administration remains committed to helping those who are most in need. This year the Tax Forgiveness Program (Schedule SP) has been expanded to allow for more working families to be relieved of their state tax burden. The form has also been simplified to help those eligible for full or partial relief.

If you need assistance completing any portion of your 1997 PA Personal Income Tax return, visit the district office or special tax season satellite office nearest you for assistance.

*Robert A. Judge Sr.*  
 Robert A. Judge, Sr.  
 Secretary of Revenue

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**1997 PENNSYLVANIA INDIVIDUAL INCOME TAX FORMS AND INSTRUCTIONS**

**Taxpayers' Rights Advocate.** The Taxpayers' Rights Advocate was created directly by the Taxpayers' Bill of Rights which became law on December 20, 1996. It is the responsibility of the office to represent the individual taxpayers to insure that they are provided equitable treatment with dignity and respect. Furthermore, it is the

Taxpayers' Rights Advocate's obligation to serve as the Department's primary officer for the administration of the Taxpayers' Bill of Rights.

If you would like more information concerning your rights as a taxpayer, you may contact the Taxpayers' Rights Advocate:

- 1 Send E-mail to **advocate@revenue.state.pa.us**; or
- 1 Call (717) 772-9347, or Write to:  
PA Department of Revenue  
Taxpayers' Rights Advocate  
1st Flr. Strawberry Square  
Attention: Donald Sheridan  
Harrisburg, PA 17128

**NEW FOR 1997 RETURNS**

**PA-40 Long Form Tax Return.** The 1997 PA-40 requires you to enter information on both sides of the tax return.

**Taxpayer Identification Label.** The next page of this booklet is an insert with your preprinted label. Affix your label to the tax return you file. **DO NOT USE** your label unless it is completely correct. If your label is not completely correct, **do not use it. Do not make any corrections to your**

**label.** Please print all your information on your tax return and completely fill in the **SSN, Name or Address Change** oval to tell us that the information you entered is correct and/or new. See the instructions below for entering information.

**Electronic Data Imaging.** Beginning with 1997 tax returns, the Department of Revenue is using electronic data imaging to enter your tax return on our computer system. The Department's new equipment will take a picture of your tax return, and

store the information that you enter in the boxes on your tax return on our computer. Please follow these instructions for entering your Social Security Number(s), name(s), address, and amounts. Printing neatly will insure the new equipment correctly reads your information and amounts. **If you have a correct label, please use it. If any of the information on your label is wrong, do not use it. Please do not make any corrections on the label — destroy it.**

- 1 Please print all information on your tax return inside the boxes in black ink, if possible. Use capital letters.
- 1 Print one number or letter in each box when entering your Social Security Number(s), name(s), address, dollar amounts, and other information.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

I 2 3 4 5 6 7 8 9 0 Please print in black ink. Use capital letters.


If your name, address, or city begins with Mc, Van, O', etc., do not enter a space or a punctuation mark. Leave a blank box between words. Example: ➡

Z I M M E R M A N L A W R E N C E P  
P O B O X I 2 6 7 C H R I S T I N A L

If you and your spouse use different last names, please file separate returns for 1997. Next year, you may file together.

There are two areas to enter your address. Use the postal format of apartment number, suite, room number, rural route, box number, floor, etc. first, then your street address. If you only have a street address, you may enter it in either area. Example: ➡

P O B O X I 2 6 7 Remember: Use a blank box to separate words.  
I 5 6 8 V A L L E Y V I E W R O A D 7 I 7 - 5 5 5 - I 2 3 4  
H A R R I S B U R G P A I 7 I 2 9

- 1 Fill in all the appropriate ovals on your tax form completely. These ovals replace the check boxes on previous PA tax returns. ➡ 

**ASSEMBLING YOUR TAX RETURN.**

Please assemble your tax return, W-2 forms, schedules, and other attachments in the following sequence:

- 1 Federal extension, if you requested one
- 1 PA-40 or PA-40EZ
- 1 W-2 form(s) and/or other explanation of compensation earned.

Place the following forms after your tax return:

- 1 PA schedules you are filing from your booklet (UE-1, UE-2, A, B, C-F, D, E, G, J, or SP)
- 1 Other PA schedules and forms you are filing to support the amounts on your tax return (C, F, D-1, D-71, NRH, PA-19, RK-1, NRK-1, REV-459B, etc.)
- 1 Other documentation explaining information you entered on your tax return
- 1 Federal schedules, only if you did not receive a PA schedule.

**DO NOT STAPLE YOUR RETURN.** This will assist the Department with electronic data imaging. The Department can process your return through the new equipment faster if we do not have to pull staples. Also, without staples, we will not tear or damage your return and attachments.

(Continued on page 13)

**PA Schedule SP. NEW!** Married taxpayers file a **joint claim** for tax forgiveness. The **joint eligibility income** limit is \$12,600. Act 7 of 1997 defines married claimants and dependents and increases the allowance for each dependent child from \$3,000 to \$4,000. The allowance for a single claimant remains at \$6,300. The **new PA Schedule SP** includes the information from the old SP Worksheet, that, effective with 1997 returns, is no longer needed. Dependent children of an eligible claimant(s) may still claim tax forgiveness. **Important: Read the new PA Schedule SP instructions beginning on page 32.**

**Local Information.** PA residents enter the name of the county and city, town, borough, township, etc. where you lived on December 31, 1997. This information is in addition to the **School District Name and Code** that you enter every year. Enter this information even if you did not change your address or school district in 1997.

**New Lines:** As a result of changes to PA tax law, these lines are new:

- 1 **Line 10. Medical Savings Account Exclusion.** See page 27.
- 1 **Line 23. Jobs Creation Tax Credit.** See page 28.
- 1 **Line 24. Waste Tire Recycling Investment Tax Credit.** See page 28.
- 1 **Line 25. Research and Development Tax Credit.** See page 28.
- 1 **Line 33. Donation to the Organ Donor Awareness Trust Fund. (Line 16 on PA-40EZ).** See page 14.
- 1 **Line 34. Donation to the Korea/Vietnam Memorial Inc. (Line 17 on PA-40EZ).** See page 14.
- 1 **Line 35. Donation to the Breast and Cervical Cancer Research. (Line 18 on PA-40EZ).** See page 14.

### REMINDER FOR 1997 RETURNS

PA-40 is on pages 3 and 5. PA-40EZ is on page 7 and 39.

See page 15 and use the PA-40EZ if you can. **Do not file a photocopy of your PA tax return. We must have an original PA-40 or PA-40EZ.** The Department's new equipment cannot read photocopies of the PA tax returns in this booklet.

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

**SSN, Name, or Address Change.** Fill in the oval if :

- 1 The information you enter this year is **different** from your label; or
- 1 You **did not file a 1996 PA tax return.**

Do not make any corrections on your label — discard it. **If your label is correct, do not fill in this oval. Affix your label to your tax return in the space shown.**

**Federal/State Electronic Filing.** Last year, more than 125,000 PA taxpayers used electronic filing. The Department and the Internal Revenue Service are again offering this one-stop filing convenience. You may file your federal and PA tax returns electronically, whether you pay a tax preparer or prepare your own returns. However, you must submit **both** your federal and PA returns through an IRS approved transmitter or electronic return originator (ERO). Electronic filing provides these benefits to you and the Department:

- 1 **Accuracy.** Computer programs catch mistakes before they become problems.
- 1 **Acknowledgment.** The Department electronically notifies your preparer or ERO that your return was received and accepted.
- 1 **Refunds.** With electronic filing, you have the option to receive your refund through direct deposit. This service is not available when filing a paper return. If you wish to receive a check, your refund will be issued within four (4) weeks.
- 1 **File Now, Pay Later.** If you owe tax, you can file anytime before the due date. Use your 1997 PA-V, Payment Voucher, to pay by April 15, 1998.

**Supporting Documents.** The Department requires supporting schedules and forms for all amounts you report on your PA tax return. Follow the instructions for each class of income and type of credit.

**PA Returns and Schedules.** Pennsylvania rules are different from federal rules. Please read **all** the instructions for each line of your PA return and for each schedule.

**Unreimbursed Employee Business Expenses on PA Schedules UE-1 and UE-2.** The Department will continue to request verification and evidence for the expenses reported on these schedules. Keep your records.

**Payment Voucher.** Your form PA-V Payment Voucher is on the insert. If you owe tax, using your PA-V will save time and reduce processing costs. Follow the PA-V instructions on the back of the insert and the Mailing Instructions on page 28. When you file, place your PA-V and check in the same envelope with your PA return.

- 1 If you do not owe PA income tax, **do not use your PA-V.**
- 1 If any of the preprinted information on your PA-V is incorrect, **do not use your PA-V.**

**Important: The PA-V only shows one Social Security Number.**

- 1 If you and your spouse decide to file separately, do not use the PA-V unless it shows your SSN.
- 1 If your SSN is not on the PA-V and you owe tax, insert your check with your tax return, without the PA-V, in the appropriate envelope.
- 1 If your spouse's SSN is on the PA-V and he or she does not owe any tax, do not use the PA-V — **DISCARD IT.**

**School District Code.** Enter the code of the school district in which you lived on December 31, 1997. See the instructions for **Local Information** on page 20.

**Mailing Instructions.** See page 28 for the instructions for using the preaddressed mailing labels and envelopes. Read the U.S. Postal Service information about additional postage if your tax return has more than five pages.

**Language Service.** The Department of Revenue will be able to assist non-English speaking taxpayers through an interpretation service during the 1998 tax season. Assistance is available in 140 languages including Spanish, Italian and German, the most common languages, other than English, spoken in PA households.

El Departamento de Impuestos puede ayudar los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos 1998. La asistencia esta disponible en 140 idiomas incluyendo español, italiano y alemán, además de inglés, los idiomas más comunes en los hogares del estado.

### CUSTOMER SERVICES AND TAXPAYER ASSISTANCE

The Department offers a variety of ways to serve you.

- 1 **Toll-free FACT and Information.** 1-888-PATAXES (1-888-728-2937) is an automated, 24 hour a day service for taxpayers with touch-tone phone service. Taxpayers can get answers to the most commonly asked tax questions; check on estimated tax payments credited toward their accounts; check on the status of a filed PA Personal Income Tax return (or Property Tax or Rent Rebate claim); or order tax forms to be mailed or faxed. Within the local Harrisburg area, taxpayers call (717) 772-9739;
- 1 **Toll-free Forms Ordering Message Service** at 1-800-362-2050 serves taxpayers without touch-tone phone service. Within the local Harrisburg area, taxpayers call (717) 787-8094.
- 1 **Taxpayers can also request tax forms by writing:**  
**PA Department of Revenue**  
**Tax Forms Service Unit**  
**711 Gibson Boulevard**  
**Harrisburg, PA 17104-3200**
- 1 **Taxpayer Service and Information Center** at (717) 787-8201 offers personal tax help during normal business hours.
- 1 **Department's Internet home page** supplies forms and information at <http://www.revenue.state.pa.us> or e-mail us at [parev@epix.net](mailto:parev@epix.net).
- 1 **Assistance for the hearing impaired only —**  
**TDD # (717) 772-2252.**

**Temporary Offices.** Each year the Department establishes temporary offices to help taxpayers. Local newspapers may list office locations or you may call the Department district office nearest you. See below.

**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. Volunteers working through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs provide this assistance. Contact the Department 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.

## 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

Summer 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

Third Floor  
345 Main Street  
Johnstown, PA 15901-1614  
**(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 19073-4090  
**(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

Suite 239  
625 Cherry Street  
Reading, PA 19602-1186  
**(610) 378-4401**

### Scranton

Room 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 201  
Thomas C. Thomas Building  
100 East Union Street  
Wilkes-Barre, PA 18702  
**(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**

## Free Federal Tax Assistance from the Internal Revenue Service:

- 1 Federal tax account or technical information: 1-800-829-1040;
- 1 Recorded Tele-Tax Service on 150 federal tax topics or 1997 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 (information only.)

## DONATIONS

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 all or a portion of your state refund on Line 31 of your PA-40 or Line 14 of your PA-40EZ. This special nonprofit fund helps the state's resource agencies protect and restore these unique state treasures, our native wild plants, and nongame wildlife.

You can also send a direct contribution. Make your check or money order payable to:

Wild Resource Conservation Fund, P.O. Box 1467, Harrisburg, PA 17120-1467.



### U. S. OLYMPIC COMMITTEE, PA DIVISION

You have the opportunity to support American athletes in the Olympic Games by making a contribution of all or a portion of your state refund on Line 32 of your PA-40 or Line 15 of your PA-40EZ.

You can also send a direct contribution. Make your check or money order payable to:

U. S. Olympic Committee, PA Division, P.O. Box 1994, Colorado Springs, CO 80977-1994.



### ORGAN DONOR AWARENESS TRUST FUND

Donating an organ is truly giving the gift of life. Each year, many Pennsylvanians are fortunate to receive transplanted organs that save their lives. You can help this vital effort by contributing all or a portion of your state refund on Line 33 of your PA-40 or Line 16 of your PA-40EZ to the Organ Donor Awareness Trust Fund. Money from this fund will support educational programs that encourage people to sign organ donor cards.

You can also send a direct contribution. Make your check or money order payable to:

Organ Donor Awareness Trust Fund, P.O. Box 90, Harrisburg, PA 17108.



### KOREA/VIETNAM MEMORIAL, INC.

You have the opportunity to contribute to the Korea/Vietnam Memorial, Inc., a National Education Center. By making a contribution of all or a portion of your state refund on Line 34 of your PA-40 or Line 17 of your PA-40EZ you will assist future generations while honoring all who served our Nation. KVM is a non-profit organization.

You can also send a direct contribution. Make your check or money order payable to:

Korea/Vietnam Memorial, Inc., and mail to P.O. Box 416, Bethlehem, PA 18016-0416.



Korea Vietnam  
MEMORIAL

### BREAST AND CERVICAL CANCER RESEARCH FUND



You have the opportunity to contribute to the Breast and Cervical Cancer Research Fund. You may make a contribution of all or a portion of your state refund on Line 35 of your PA-40 or Line 18 of your PA-40EZ.

You can also send a direct contribution. Make your check or money order payable to: PA Department of Health, Breast and Cervical Cancer Research, and mail to Bureau of Financial Operations, P.O. Box 90, Harrisburg, PA 17108.

**YOUR USE TAX RESPONSIBILITIES**

An individual is responsible for reporting and paying the 6 percent PA Use Tax directly to the PA Department of Revenue for using any taxable tangible personal property and for using taxable services within Pennsylvania. An individual must pay Use Tax if such property and/or service is subject to the Sales Tax, and he or she did not pay an equivalent amount of Sales Tax to the seller. A 1 percent 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 Internet orders, mail orders, "800" or "888" number orders and other out-of-state purchases of taxable items when the seller does not have a license to collect PA Sales Tax or when the individual did not pay PA Sales Tax. If an individual does not pay the Sales, Use or Hotel Occupancy Tax, the Department may issue an assessment for a PA Use Tax liability, including both penalty and interest charges.

You report your 6 percent PA Use Tax liabilities, and the 1 percent local tax, if applicable, on a form PA-1, PA Use Tax Return. To obtain form PA-1, contact a Department district office or see Forms Ordering on page 13.

If you pay sales tax in another state on an item that is also subject to the PA Sales Tax, Pennsylvania will allow you a credit up to the amount of your PA Sales Tax liability.

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, clothing for everyday wear, and medicine are exempt from Sales and Use Tax. For more specific information on taxable items, you may contact one of the Department's district offices or write to the PA Department of Revenue, Office of Chief Counsel, Dept. 281061, Harrisburg, PA 17128-1061.

**GENERAL INSTRUCTIONS**

**Who Must File a Return?** You must complete and file a 1997 PA return if:

- 1 You received total PA gross taxable income in excess of **\$35** during 1997, even if no tax is due with your PA return; and/or
- 1 You incurred a loss from any transaction as an individual, sole proprietor, partner, or shareholder of a PA S corporation.

**Filing for a Deceased or Disabled Individual or a Minor Child.** Every person who is responsible for the care of the property of an individual who cannot prepare his or her own return must complete and file a PA return on behalf of that individual. This includes decedents who died in 1997, disabled individuals, and minor children. PA law does not have any exclusions or exemptions for minor children or any other individual who must file a PA tax return.

**Tax Rate.** For the calendar year 1997, and all fiscal years beginning in 1997, the tax rate is 2.8 percent (0.028).

**Taxable Income.** Pennsylvania taxes individuals at the flat rate of 2.8 percent on eight separate classes of income. See the instructions for each income class beginning on page 20.

**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. Only calendar year taxpayers who were residents of Pennsylvania for all of 1997 and who report these kinds of income and credits may use the PA-40EZ:

**Income:**

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

**Credits:**

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

**PA-40.** You must use a PA-40 if you qualify for the **Medical Savings Account Exclusion** or if you report one or more of the following:

**Income:**

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

**Credits:**

- 1 Total Credit for Taxes Paid to Other States or Countries;
- 1 PA Employment Incentive Payments Credit;
- 1 PA Jobs Creation Tax Credit;
- 1 PA Waste Tire Recycling Investment Tax Credit; and
- 1 PA Research and Development Tax Credit

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

**Joint Income-Joint Returns.** If you and your spouse qualify to file a joint claim for tax forgiveness, you must file a joint PA tax return. **Important:** On a joint return, both you and your spouse are each independently liable for the entire amount of state tax due. Otherwise, joint filing is for convenience.

If you and your spouse jointly own income-producing property, you must each report your share of any income or loss. Income-producing property includes savings accounts, businesses, stock, and real estate you own as joint tenants. Spouses usually evenly divide income from jointly owned property. However, you and your spouse may not offset your separate income, gain, or profit with each other's losses. You or your spouse may not offset income and losses when in different income classes. See the instructions for **Married, Filing Joint Return** on page 16.

**Costs, Expenses, and Deductions.** PA law does not allow personal expenses, itemized deductions, personal exemptions, or standard deductions. You may only deduct the PA allowable costs and expenses you directly incur 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. **NEW!** Beginning with 1997, taxpayers may exclude and deduct qualified contributions to **Medical Savings Accounts**, see page 17.

**PA Estimated Personal Income Tax Payments for 1998.** If you expect at least \$2,500 of 1998 taxable income, that will not be subject to withholding, you must file a declaration of PA Estimated Tax and make installment tax payments. **Example:** If you owed \$70 on your 1997 PA tax return and expect to receive the same income in 1998, you should make estimated tax payments. Your estimated installments are due April 15, June 15, September 15, and January 15. **Important:** If you are a PA resident working in a reciprocal state (see page 17) and your employer is not withholding PA tax, you must also make PA Estimated Tax payments. You should advise your employer to withhold PA tax or obtain PA estimated forms and make installment payments to avoid underpayment penalty.

You do not have to make your PA estimated installment tax payments by the above due dates if:

- 1 You expect to obtain at least two-thirds of your total 1998 estimated gross income from farming. You may pay your 1998 PA Estimated Tax at any time up to March 1, 1999.
- 1 Your total 1998 PA Estimated Tax will be \$100 or less. You have the option of filing your declaration and paying your PA Estimated Tax at any time up to January 15, 1999.

You must make your estimated tax payments on the PA-40ES form. The Department mails these forms to taxpayers who made 1997 estimated payments. If you do not receive your 1998 PA-40ES forms by April 1, 1998, contact the Department district office nearest you.

If you will be filing PA estimated taxes for the first time, request a PA-40ESR replacement form. See Forms Ordering on page 13. The specific instructions for estimating and paying your PA income tax are on form REV-4131.

**Important:** Married taxpayers can prevent delays in processing their 1997 annual PA tax returns by filing in the same manner as they made their estimated payments. See the **Filing Tip** for **LINE 19, TOTAL PAYMENTS AND CREDITS**, on page 27.

**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 December 31, 1997:

1. You never married; or
2. You divorced or are a widow or widower and not remarried.

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

**(J) Married, Filing Jointly.** You and your spouse, even if living apart, may file a joint return. To file a joint PA tax return, you must meet **ALL** of the following conditions:

1. Your taxable years begin on the same date and end on the same date; and
2. Neither of you is claiming any of the credits on Lines 22 through 25 on your PA-40; and
3. Your spouse was living on January 1, 1998.

**Filing Tip:** You, or your spouse, do not have to file a PA tax return if your total gross taxable income was \$35 or less. **Important:** If you do file jointly, you and your spouse **are both liable** for all PA tax owed, even if only one of you had taxable income. If you, or your spouse, have already paid your own PA tax due, through withholding or through estimated payments, you are still both liable on a joint PA return.

**(M) Married, Filing Separately.** You and your spouse always have the option to file separate returns. However, you and your spouse **must** file separate returns if:

1. Your taxable years begin on different dates or end on different dates; or
2. You, or your spouse, are claiming any of the credits on Lines 22 through 25 on your PA-40; or
3. You and your spouse use different last names.

**Married, When One Spouse is a Resident or Part-Year Resident and One Spouse is a Nonresident.** If this is your situation, you **must** file separate PA returns, unless you both elect to file as PA residents and meet all the other requirements for filing a joint return. See the instructions for **Married Filing Joint Return** above.

**(D) Deceased.** As the executor, administrator, or other responsible person, you must file a separate tax return for a deceased individual as **Deceased**. You must report all income that the decedent actually and constructively received during 1997. The surviving spouse may not file a joint return. If the decedent made estimated payments and you must divide the payments between the tax returns, order form REV-459B, Consent to Transfer, Adjust or Correct PA Estimated Personal Income Tax Account. See Forms Ordering on page 13.

**(F) Final Return.** You file as **Final** if you lived in Pennsylvania for all of 1997, but permanently moved from Pennsylvania and will not

have any taxable income from PA sources. You will not receive a 1998 booklet.

**Residency Status.** To determine if you are a resident, nonresident, or part-year resident for PA purposes, carefully read the definitions of **Domicile** and **Permanent Abode**. Then complete the residency test questions on this page by answering the four questions listed there.

**Domicile Defined.** Your domicile is your fixed and permanent home to which you always have the intention of returning although 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 "new" 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 you should consider when determining your place of domicile are:

- 1 Where are your usual living quarters?
- 1 Where do you spend most of your non-working hours?
- 1 Where did you register to operate a motor vehicle?
- 1 Where did you register to vote?
- 1 Where do you actually reside?
- 1 Where does your immediate family reside and where do your children attend school?
- 1 Where do you maintain your bank accounts and other property?
- 1 Where is your principal place of business or work?
- 1 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.

Question 1: Was Pennsylvania your domicile for any part of 1997?

Yes  No

Question 2: Did you spend in the aggregate more than 183 calendar days of 1997 in Pennsylvania?

Yes  No

Question 3: Did you maintain a permanent abode in Pennsylvania, in total, for more than 183 days of 1997?

Yes  No

Question 4: Did you spend in total more than 30 calendar days of 1997 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. For PA purposes, you must consider both where you maintained your domicile and where you maintained a permanent place of abode during 1997.

You are a **Resident** for 1997 if **any** of the following apply:

- 1 You can answer all four questions "Yes."
- 1 You can answer both Questions 2 and 3 "Yes."
- 1 Pennsylvania was your domicile for every part of 1997 and you can answer **any** of Questions 2, 3, or 4 "Yes."
- 1 Pennsylvania was your domicile for every part of 1997 and you did not maintain a permanent place of abode outside Pennsylvania throughout 1997.

You are a **Nonresident** for 1997 if:

- 1 You can answer all four questions "No."
- 1 You maintained a permanent place of abode outside Pennsylvania throughout 1997 and can answer both Questions 3 and 4 "No."
- 1 You can answer both Questions 1 and 2 "No."
- 1 You can answer both Questions 1 and 3 "No."
- 1 You can answer both Questions 1 and 4 "No."

If you are not a resident or nonresident under the above rules, you are a part-year resident for Personal Income Tax purposes.

**How Residents Are Taxed.** As a resident, you must report all income from **all** sources and pay PA tax on all taxable income received from any source, including any gain if you sold your home. **Important:** 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 may claim the PA Resident Credit. If the sale of the home or other real estate occurred before you established tax residency in Pennsylvania, your gain is not taxable on your PA-40, but you will not receive any credit for taxes paid to your former state.

**Reciprocal Agreements.** Pennsylvania has signed agreements with **Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia** under which one state will not tax employee compensation, subject to employer withholding, of the other state. These agreements apply to employee compensation only. Read the following instructions and also **Residents of Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia Working in Pennsylvania** on page 18.

**PA Residents Working in Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia.** If you are a PA resident and work in one of these reciprocal states, Pennsylvania taxes your compensation, not the reciprocal state. It is your responsibility to notify your employer that you are a resident of Pennsylvania and that your employer should withhold PA tax from your pay and not the income tax of the reciprocal state. Your employer should withhold PA tax and send it to the Department. If your employer does not withhold PA tax, you may need to make PA estimated payments. See the instructions on page 15.

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. If your employer withheld the other state's tax, you may file for a refund from the other state. You may not claim the PA Resident Credit for any tax you paid, or your employer withheld, to a reciprocal state. **Important:** The reciprocal agreements between Pennsylvania and these six states apply only to compensation and withholding and do not apply to any other class of income. **Example:** In 1997, Mike, a resident of Pennsylvania, commuted to his job in New Jersey. He also realized rental income from a New Jersey summer cottage. Mike must report as PA taxable income both his compensation and the rental income he realized. He must request a refund of the NJ income tax withheld from NJ wages. He may not claim a credit for the income tax paid to New Jersey on his compensation. Mike may complete a PA Schedule G, attach a signed copy of his NJ tax return and claim a Resident Credit for NJ income tax he paid on his rental income.

**Dual Residency: Special Rules for PA Residents Working in Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia.** If you are a PA resident and also a resident, for income tax purposes, of a reciprocal state, you may claim the PA Resident Credit only if **each** of the following is applicable:

1. The income on which the reciprocal state's tax is imposed is not only also subject to tax in the same taxable year by Pennsylvania, but also taxable under the reciprocal state's laws regardless of your place of residence or domicile; **and**
2. You are not entitled to claim any credit for Pennsylvania tax against the reciprocal state's tax.

The reciprocal agreements with these states are not applicable since you are subject to tax as a resident in both Pennsylvania and the other state.

To claim the credit for tax, you must file a PA Schedule G and attach a copy of the tax return you filed with the other state to show that the other state taxed you as a resident in that state and that you did not claim credit for Pennsylvania tax against that state's tax.

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

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

**Example:** Mary lived and worked in New York all her life. She started a new job in Pennsylvania. She sold her New York home on May 15 and moved to Pittsburgh on June 1. She opened a bank account and registered to vote from her Pittsburgh address. Mary is a part-year resident. Mary pays PA tax on all the income she earned and received for the last seven months of the year. She was a PA resident for that time. She does not pay PA tax on her compensation from New York.

**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 for that part of the year you were a PA resident. You are also subject to PA tax on all income earned, received, or credited from PA sources for that part of the year you were a nonresident. You are not subject to PA tax on ordinary interest, dividends, gains on intangible property, and gambling and lottery winnings from PA sources while a nonresident. If you moved to a reciprocal agreement state, any compensation you earn in Pennsylvania, after you move, is not subject to PA tax. See the instructions under **Residents of Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia Working in Pennsylvania** on page 18.

**How Nonresidents are Taxed.** If you are a nonresident, Pennsylvania taxes you on the following kinds of income **from PA sources:**

1. **Compensation.** Pennsylvania taxes nonresidents on compensation for services performed in Pennsylvania, unless a resident of Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia. See instructions on this page. Your employer is responsible for withholding PA tax on the exact amount of your compensation and reporting your PA earnings in the state box 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 apportion compensation for services performed both inside and outside Pennsylvania. See Forms Ordering on page 13.
2. **Net Income or Loss from the Operation of a Business, Profession, or Farm.** Pennsylvania taxes nonresident owners on all income from the operation of a business entity in Pennsylvania. See page 25 for determining PA source business income or loss. If you derive income from sources both inside and outside Pennsylvania, you should maintain separate accounts and records that clearly reflect your PA business activity. Otherwise, you must file a PA Schedule NRH to apportion your income.
3. **Net Income or Loss from the Sale, Exchange, or Disposition of Property.** Pennsylvania taxes nonresidents on the gain from the sale of any real or tangible personal property located in Pennsylvania. **Filing Tip:** Pennsylvania does not tax nonresidents on the gain from the disposition of intangible property nor allow the use of any loss from such a disposition to reduce other PA taxable gains. **Important:** If you sell your residence in your former state and then move into Pennsylvania, you are not subject to tax on the gain, if you finalized the sale before you established domicile in Pennsylvania. However, if you moved from Pennsylvania to another state and then sell your Pennsylvania residence (or any other tangible property in Pennsylvania), you must report the gain. You must report the gain even if your new state of residence follows the federal rollover or deferral of gain provisions.
4. **Net Income or Loss from Rents, Royalties, Patents, and Copyrights.** Pennsylvania taxes nonresidents on the net income from the use of property located in Pennsylvania or used in Pennsylvania. See the instructions on page 26.

5. **Estate and Trust Income.** Pennsylvania taxes nonresident beneficiaries on income from an estate or trust, only to the extent the PA source income to the beneficiaries is taxable to nonresidents.
6. **Gambling and Lottery Winnings.** Pennsylvania does not tax nonresidents on gambling and lottery winnings from PA sources.

**Important: Interest and Dividends.** Pennsylvania does not tax nonresidents on ordinary interest (from long term investments, savings accounts, personal checking accounts, etc.) and dividends. However, Pennsylvania does tax such income when directly related to activity within one of PA's net income classes. You report such income in that income class. Interest from a taxable installment sale of real property is taxable as gain on PA Schedule D-1. You include interest from a business checking account and interest and dividends from short term investments to generate working capital in determining net profit or loss. You include interest on security deposits received for the use of property in determining net rental income or loss.

**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 taxable for PA purposes. Your employer should not withhold PA tax. Give your employer a form REV-420, Employee's Statement of Nonresidence in Pennsylvania. **Important:** Reciprocal agreements apply to **compensation ONLY** and not to any other class of income. **Example:** In 1997, Joe, an Ohio resident commutes to his job in Pennsylvania. He also owns a rental property in Pennsylvania. Joe must report to Pennsylvania only the income he realized on the rental property. Under the reciprocal agreement with Ohio, he is not subject to PA tax on his compensation.

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 return to obtain a refund. **Filing Tip:** Report zero compensation on Lines 1a, 1b, and 1c. Claim credit for the PA tax withheld as shown on your W-2 form. Request a refund check. You must attach a copy of your W-2 form and a brief explanation. **File early to obtain your refund.**

**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 Pennsylvania. 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 on active duty 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. You may deduct such income if included in your W-2 form. Attach an explanation along with copies of your orders.

PA reservists and National Guard members ordered to active duty for training pursuant to Title 10 or Title 32 of the U.S. Code are on federal active duty. When performing active duty service outside Pennsylvania, such military pay received is not taxable. **Important:** A PA resident on active duty with the U.S. Public Health Service outside Pennsylvania is on federal active duty for PA purposes. His or her compensation is not taxable. The taxpayer must provide a written explanation, instead of copies of orders. A PA resident in the U.S. Foreign Service is not on federal active duty for PA purposes and his or her income is PA taxable compensation.

**Evidence of Active Duty.** Residents must provide proof that they earned the military income they excluded from taxable compensation 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. When the authority for reporting to active duty is a federal statute, such as 32 U.S.C. §§316, 502, 503, 504, or 505, the Department presumes federal active duty. However, military pay is taxable compensation if the authority for reporting to active duty is a PA statute, such as 51 P.S. §§508 or 3102. **Filing Tip:** Attach to your PA return copies of your orders and explain where you earned your active duty pay. Your W-2 form may indicate active

duty, but the Department will not process your return without the proof that you earned that pay outside Pennsylvania.

**Members of Partnerships and PA S Corporations.** 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 distributed or not**. You report your share of partnership or PA S corporation income in the same class in which the partnership or PA S corporation realized the income. **Important:** If you are a shareholder in another state's Subchapter S corporation and that corporation is not a PA S corporation, you must report the cash or property you actually received (your distributions) as dividend income on your PA 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.

Each resident partner and PA S corporation shareholder must attach to his or her PA-40 a copy of each PA Schedule RK-1 received from the partnership or PA S corporation.

If you are a nonresident partner or PA S corporation shareholder, you must report your share of any income or loss, **whether distributed 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.

Each nonresident partner and shareholder must attach to his or her PA-40 a copy of each PA Schedule NRK-1 received from the partnership or PA S corporation.

For both resident and nonresident partners, 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.

#### WHEN TO FILE?

**Calendar Year Taxpayer.** You must report all taxable income received or accrued from January 1, 1997, through December 31, 1997, and file before midnight, **Wednesday, April 15, 1998**. The U.S. Postal Service postmark date on your envelope is proof of timely filing. Don't be late! Late filing can result in your paying penalty and interest.

**Fiscal Year Taxpayer.** You may not file on a fiscal year basis for Pennsylvania unless you are a fiscal year filer for federal purposes. If you file on a fiscal year basis, your PA return is due on the same date as your federal tax return.

**Extension of Time to File.** An extension of time to file your PA return does not extend the time to pay your PA tax. An extension cannot exceed six (6) months, unless you are outside the United States. You must pay the full amount you reasonably estimate to be your tax due with your extension request. **Important:** Attach a copy of your federal extension form to the front of your PA return when you file. Placing your extension form behind your return may result in correspondence or a billing notice from the Department. It is not necessary to attach your PA extension form if you sent it separately to the Department. Your extension and payment, if any, was posted to your account when received.

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

1. If you have an extension for filing your federal tax return, you receive the same extension for filing your PA return. For an automatic four-month extension, attach a copy of the completed federal 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. You may request a PA extension with a form REV-276, Application for Extension of Time to File, see Forms Ordering on page 13. You must submit your application in sufficient time, before the due date, so the Department may consider and act upon it. Mail the extension application with 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 17 of your PA-40 or on Line 7 of your PA-40EZ when you file your return. The Department will not charge underpayment penalty if:

1. You paid at least 90 percent of the total tax actually due by the original due date, **and**



1 You pay the remaining balance with a timely filed return.

However, the Department will charge interest on the amount not paid by the original due date.

You will not receive an approval letter or acknowledgment that the Department accepted your extension. However, you may receive correspondence if the Department has a question concerning your extension request.

**Amended Returns.** It is not necessary to attach a complete copy of your original return. Use a PA return from the same tax year you are amending. **Example:** To amend for 1996 and 1997, use 1996 and 1997 PA tax returns.

Completely fill in the oval for an **Amended Return** at the top of a 1997 tax return or write **Amended Return** at the top of a tax return for another tax year. Then, follow these steps:

1. Enter the amounts from your original return that you are not amending.
2. Enter your amended amounts. Attach a statement explaining the reason(s) you are filing an amended return. 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. Be sure to complete the appropriate line(s) explaining how you want the Department to distribute your overpayment (refund/credit/donation).

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.** You must file an amended PA return within three years from the original due date of your return or within two years from the date of payment to receive a refund. The Department will accept amended returns filed within three years of the date of an approved extension. You may file an amended PA return if you overreported your income or are claiming allowable credits or deductions that you originally did not claim.

**Important:** You may not file an amended PA return after the Department issued an assessment, if the amendment relates to the same taxable year and item of income, gain, deduction, or loss that the Department assessed. In this instance, you must either file a timely petition for reassessment or pay the assessment and file a timely refund petition. For payments made on or after January 1, 1998, such refund petition must be filed not later than six months after the date shown on the billing notice, assessment or other Departmental document. To order the Petition, form REV-65, see Forms Ordering on page 13.

**Underreported Income.** If you discover that you did not report taxable income or erroneously claimed credits or deductions, you must correct the error within 30 days. You must file an amended PA 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. You must maintain your books and records for at least four (4) years after filing, as evidence of the information you reported on your PA returns.

**Penalties For Not Filing or for Filing a Late Return.** If you do not file your return on or before the due date, the Department will impose a 5 percent penalty for each month or fraction of a month your return is late. If you do not file your return by the approved extended due date, the Department will impose a 5 percent penalty for each month or fraction of a month your return is late. The Department will impose this penalty unless you can show reasonable cause for late filing. The maximum penalty is 25 percent. The

minimum penalty is \$5. The Department may prosecute any person who attempts to evade or defeat their PA tax responsibility.

**Interest for Nonpayment or for Late Payment of Your Tax.** If you do not pay the tax due on or before the due date, the Department will charge interest from the date the tax was due 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.

1. If you do not pay the full amount of your tax due with your return, the Department will impose a 5 percent underpayment penalty.
1. If you do not report taxable income that is more than 25 percent of the taxable income shown on your return, the Department will impose an additional penalty. This penalty is 25 percent of the tax due on your unreported income.

You are liable for these penalties if your 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, the Department will add an additional penalty of 50 percent of the underpayment.

**Important:** The Department may assess 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.** The Department may impose a \$500 penalty on any taxpayer who files a frivolous return. The Department may impose a \$500 penalty on any taxpayer who files in a manner to delay or impede the administration of the tax law. Such a return is one that does not contain sufficient information for the Department to determine the correct liability or one that contains information indicating the liability is significantly incorrect.

Any person who is required to furnish an information return is subject to a penalty of \$50 for each information return that is not filed or for each information return that is a false or fraudulent return.

**Entering Losses. NEW!** If you are entering a loss on your PA-40, fill in the oval next to the line on which you are entering the loss. Do not use brackets or a minus on your PA-40. 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 you received a PA Schedule RK-1 or NRK-1) 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. NEW!** Do not copy the PA-40, PA-40EZ, and/or PA-V to file with the Department. You may make copies for your records. The Department will electronically image these forms for data entry. A photocopy will not process on this new equipment. Using a photocopy will delay the processing of your tax return. You may make copies of the other forms and schedules in this booklet. See Forms Ordering on page 13 for additional PA-40 and PA-40EZ forms. If you cannot use your preprinted PA-V form, include your check with your PA tax return.

## SPECIFIC INSTRUCTIONS

Read all instructions carefully. This booklet contains two PA-40 forms and two PA-40EZ forms. Use the PA-40EZ if you can, see page 15.

**Social Security Number, Name and Address.** Review the preprinted information on your label. **NEW! If any of the information on the label is incorrect, please do not use it.** If your label is incorrect or you do not have a label, carefully and legibly print your Social Security Number, your spouse's SSN (if married, filing separately), your complete name(s), last name first, and your complete address including ZIP Code. Be sure to completely fill in the **SSN, Name or Address Change** oval. **If you and your spouse do**

**not use the same last name, please file separate PA tax returns for 1997.** If married and filing separately, do not enter your spouse's name, but enter his or her Social Security Number. **Filing Tip:** If divorced or separated, and filing a separate return, or your spouse is deceased, do not enter your spouse's Social Security Number or name.

**SSN, Name or Address Change.** Please fill in this oval completely if the information you enter at the top of your tax return, Social Security Number(s), name(s), or address, is different from your 1996 PA return or if you did not file a PA tax return in 1996.

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

**Type Filer.** See page 16. Fill in this oval completely for your filing status:

- S**  Single
- M**  Married, Filing a Separate Return
- J**  Married, Filing a Joint Return
- F**  Final Return. File as **FINAL** if you permanently moved from Pennsylvania.
- D**  Deceased. If filing for a **Deceased** individual, enter the date of death.

**Residency Status.** Fill in this oval completely for your residency status:

- R**  Resident
- NR**  Nonresident
- P**  Part-Year Resident. Enter the months during 1997 when you were a resident of Pennsylvania.

**Local Information.** PA residents enter the names of the county and municipality and the **School District Name and Code** where you lived on December 31, 1997. Do not enter the school district where you work. The Department of Revenue only provides school district information, using your school district code, to the PA Department of Education. Using a wrong or incorrect school district code may affect your school district's funding. The school codes are on pages 35 and 36.

Part-year residents who moved from Pennsylvania after December 31, 1997, and nonresidents, must complete the school district code. If you were not a PA resident on December 31, 1997, enter 99999.

**Option Not To Receive a 1998 PA Tax Booklet.** If you do not use the forms mailed to you or you paid a preparer who does not use the Department's forms, fill in this oval completely. Ask your preparer if he or she elected this option for you. Next year, you will only receive a letter and a personalized PA-V, not a booklet.

### LINE INSTRUCTIONS FOR REPORTING INCOME AND LOSSES

If you were a PA resident for all of 1997, you may be able to use the short form PA-40EZ. See page 15.

The line instructions for the PA-40EZ are in a box, like this.

**Miscellaneous or Other Income.** PA law does not define a miscellaneous or other class. You must classify and report your income on the appropriate line(s) of your PA return. Include this income on the appropriate line of your PA return and attach your Form 1099, statement, schedule, or other explanation of the income.

You must report as compensation:

- 1 Damage awards and settlements other than in personal injury cases to the extent the payments represent back wages or other uncollected entitlement to taxable income;
- 1 Honorariums;
- 1 Fees received by executors unless in the business of being an executor;
- 1 Fees received by directors of corporations unless in the business of being a director;

- 1 Severance pay received as consideration for terminating employment before reaching normal retirement age;
- 1 Covenant not to compete or for refraining from the performance of services;
- 1 Jury fees; and
- 1 Expert witness fees.

**Important:** Nonresidents are subject to PA tax on compensation from PA sources. Part-year residents are subject to PA tax as residents while domiciled in Pennsylvania and as nonresidents after moving from Pennsylvania. See the instructions for taxing residents, nonresidents and part-year residents, beginning on page 17.

#### LINE 1A. GROSS COMPENSATION.

For both PA-40 and PA-40EZ.

Enter your total taxable compensation from the PA or state box of your W-2 forms (**box 17**) and other statements. Do not use federal wages (**box 1**).

**W-2 Wage and Tax Statement.** A copy of your W-2 form from each employer must accompany your PA 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. Include this explanation with your return. **Filing Tip:** Statutory employees must enter income on Line 1a, not as business income on Line 4. See the instructions on page 22.

Use only the wages reported in box 17 of your W-2 form. If you do not have a W-2 form or a federal substitute W-2, Form 4852, provide copies of evidence of your compensation and PA taxes withheld, such as pay stubs and a statement identifying your employer and 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 and includes:

- 1 Salaries, wages, tips, and gratuities;
- 1 Commissions, bonuses, and incentive payments;
- 1 Vacation and holiday pay;
- 1 Termination and severance pay;
- 1 Sick leave payments (unless excludable);
- 1 Allowances and reimbursements in excess of allowable employee business expenses;
- 1 Payments realized in the form of property, and
- 1 A discharge of indebtedness, unless specifically excludable from compensation.

Compensation paid in any medium other than cash must be reported 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. When sick pay represents regular wages or sick leave pay, the payments are taxable as compensation.

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

- 1 The expenses are allowable employee business expenses (see page 23); 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 22 for the instructions for reporting your employee business expenses.

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

**Exclusions from Compensation.** Do not report as compensation:

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. This includes payments for injuries received while working and damages received (whether by suit or otherwise) for personal injuries or sickness. If the payments you received for on-the-job injuries are included in your W-2 form, provide a statement from your employer verifying the amount of these payments.
4. All premiums for group term life insurance policies purchased for employees;
5. Prizes and awards are not taxable unless the winner is required to render substantial services as a condition to receiving the prize or award.

**Gifts.** Gifts, made from detached or disinterested generosity, are generally 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 and 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 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 your W-2 form(s), PA taxable compensation will usually be higher than your federal taxable wages. **Report only your PA Compensation from your W-2 form.** Following are some of the more common reasons that federal and PA wages are different on your W-2 form.

**Deferred Compensation Programs: Employer Retirement, Pension and Other Plans.** A qualifying retirement program for PA purposes is an employer sponsored deferred payment program that meets **EACH** of the following conditions:

1. The plan is reduced to writing and communicated to the participants;
2. The plan establishes eligibility requirements for separation from service by retirement. The basis for retirement is 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 the income or gains thereon, in the case of a contributory retirement benefit plan.

The following are also qualified retirement benefit programs for PA purposes — the State Employees Retirement Fund, the State School Teachers and Employees Retirement Fund, and the U.S. Civil Service Commission Retirement Disability Plan.

**Employee Contributions and Payments.** You may not exclude or deduct from gross PA taxable compensation your payments into your employer sponsored retirement program, whether voluntary or mandatory and whether direct or through withholding. This is true even if your contributions are not taxable for federal purposes. You may not exclude or deduct any payments you make into any retirement program. You may not exclude or deduct any elective contributions you make into a 401(k) plan under a cafeteria plan.

**Employer Contributions and Payments** Your employer's contributions to these programs are not includable in your gross PA taxable compensation.

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

1. Payments from a PA qualifying retirement benefit program or old age benefit program by reason of retirement; or
2. Payments paid to the estate or designated beneficiary by reason of the employee's death; or
3. Payments received from a PA qualifying retirement benefit program or old age benefit program which you rollover 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 you receive as an inducement for early retirement are taxable compensation. Such payments are not part of a PA qualifying retirement program. Your employer should include these incentive payments on your W-2 form and withhold PA tax. Even when you move out of Pennsylvania, these incentive payments remain taxable to Pennsylvania.

**Other Deferred Payment Plans.** PA qualifying old age benefit programs include — Simplified Employee Plans (SEP), federally qualified tax sheltered annuity programs, and tax deferred custodial accounts established by federally tax exempt educational, charitable, or religious organizations. Other deferred payment programs are also PA qualifying old age programs only when meeting EACH of the following conditions:

1. The plan is in writing and communicated to the participants;
2. The plan provides for payments at, but not before, retirement, disability, separation from service, unforeseeable emergency, or the attainment of age 59½ or death. If program benefits are payable before retirement, disability, separation from service, unforeseeable emergency, or the attainment of age 59½ or death, the benefits are subject to substantial penalty when so paid;
3. The plan makes provisions for payments at regularly recurring intervals to participants and the payments 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.** You invest in a retirement annuity that is not employer sponsored or part of an employer's program, as described above. You may not exclude or deduct your investment contributions into an annuity, even if you intend it for retirement. When you begin receiv-

ing annuity payments, you must report the difference between the amount you receive and your previously taxed investment as taxable **gain** on a **PA Schedule D**. If you receive periodic payments, you may use a cost recovery method to report the taxable gain.

**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 includes sick or disability pay in your PA taxable compensation, and withholds PA tax, you must provide an explanation from your employer. Your employer should describe the number of days and amount of nontaxable sick or disability pay included in your W-2 form. **Exception:** Sick leave pay and payments that are equal to your full regular wages are taxable for PA purposes.

**Employee Welfare Benefit Plans.** Employee welfare benefit plans are maintained in order to provide to eligible employees or their beneficiaries wage or salary supplements such as medical, surgical or hospital care or benefits in the event of sickness, accident, or disability, death benefits, vacation benefits, scholarships, tuition reductions, or educational assistance, professional services or assistance, food, housing, or food or housing allowances, dependent care assistance, or recreational facilities or services.

Generally, the taxable compensation of an eligible plan participant includes the cost of employer-provided coverage under employee welfare benefit plans. Likewise, generally, no deduction from compensation is allowed for the cost of employee-provided coverage. Taxable items include:

1. Amounts paid by an employer for day care facilities furnished to an employee's child or for child or dependent care.
2. Amounts paid by an employer for non-job-related legal, accounting or other professional services or educational assistance provided to the employer's employees or their dependents.
3. Amounts paid by an employer to reimburse employees for expenses incurred for medical care, unless paid under a qualifying self-insured medical reimbursement account, or adoptions.

Allowable exclusions are limited to:

1. Payments made by an employer or elective contributions made pursuant to a cafeteria plan qualifying under Internal Revenue Code section 125 for a nondiscriminatory employee welfare benefit plan covering hospitalization, sickness, disability or death.
1. Payments made by an employer for a collectively bargained for or non-discriminatory supplemental unemployment benefit or strike benefit plan.
1. Payments to reimburse expenses allowable as an ordinary, reasonable, and necessary business expense.
1. Federally excludable no-additional-cost services, employee discounts, working condition fringes, qualified transportation fringes, and de minimis fringes.
1. Benefits realized from an employee's personal use, before January 1, 1998, of his employer's property or services.

**Self-Insured Medical Reimbursement Accounts: Taxability.** Employer payments to reimburse employees for uninsured medical or dental expenses are taxable as compensation if the employee is assured of receiving (in cash or any other benefit) amounts available but unused for covered reimbursement during the year without regard to whether he incurred covered expenses or not. However, if the amounts available for covered reimbursement cannot be cashed out or used for any other purpose during the taxable year or be carried over to any other taxable year, normal cash compensation that is forgone by an employee under a spending account or otherwise, and credited to a self-insured medical reimbursement account and drawn upon to reimburse the employee for uninsured medical or dental expenses to which Internal Revenue Code section 105(b) applies is excludable from tax.

#### Employer Welfare Benefit Program Distributions.

Benefits you receive or realize from such benefit programs are taxable, in the year you receive them. Your benefits are taxable to the extent they do not represent contributions on which you already paid PA tax. Your benefits are also taxable if attributable to your

employer's direct contributions. The following are the exceptions to the above rule:

1. 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
1. Amounts other than regular wages or sick leave pay that are computed with regard to the period that the employee is absent from work due to sickness or disability; or
1. Strike benefits; or
1. Supplemental Unemployment Compensation (SUB) payments made periodically during the period of actual unemployment and that continue only for the period of actual unemployment; or
1. Amounts paid to beneficiaries or to the estate of an employee by reason of the death of the employee; or
1. For 1997, the fair market value of employer-provided dependent care facilities and the use of other employer property, unless provided as a disguised form of compensation.

**Clergy and Statutory Employees.** Pennsylvania has no special rules for clergy, statutory employees, or any other specific employees. Nor are churches, congregations or other entities required to withhold PA income tax, unless required to withhold Federal Income Tax. All employees must report compensation on Line 1a and allowable expenses on a PA Schedule UE. Housing allowances are always taxable compensation for PA purposes. However, the fair market value of the use of employer owned property (car and housing) is not PA taxable compensation, when provided for the convenience of the employer. PA law does not make any exception for any specific type of employee or job situation. Clergy must make estimated payments unless their employers will voluntarily withhold the tax.

**Individual Retirement Account Contributions.** PA law does not allow any exclusion for contributions to an IRA except:

1. Direct employer contributions; and/or
1. Amounts rolled over from another IRA or from a PA 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 PA taxable income.

**Withdrawals from IRA's.** Amounts you withdraw from an IRA are includable in PA taxable compensation to the extent that you did not previously pay PA tax on the contributions and the income earned on such contributions. However, these withdrawals are not taxable if the payments are:

1. Received, including lump sum distributions, on or after retirement after reaching the age of 59 1/2;
2. Received at regularly recurring intervals during periods of disability by reason of disability;
3. Paid to the estate, or designated beneficiary, of the participant by reason of the participant's death; and/or
4. Rolled into another IRA or into another PA qualifying old age or retirement benefit program and the transferred amounts are also not taxable for federal purposes.

#### LINE 1b. UNREIMBURSED EMPLOYEE BUSINESS EXPENSES.

For both PA-40 and PA-40EZ

**Important: The Department of Revenue may request evidence that the expenses you claim on your PA Schedule UE-1 or UE-2 are allowable for PA income tax purposes.**

The specific instructions for PA Schedules UE begin on page 29. **NEW!** Only one copy of PA Schedule UE-1 is in this booklet. Enter your unreimbursed employee business expenses from your PA Schedule(s) UE on Line 1b. If your employer does not reimburse you for your allowable business expense, you may reduce your taxable compensation by your unreimbursed expenses. You **must** use a PA Schedule UE.

If 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 salesperson. He earns gross

compensation of \$30,000. He incurred allowable business expenses of \$3,000. He received reimbursement from his employer of \$3,500. Dave must report the excess reimbursement of \$500 as compensation. His total taxable compensation is \$30,500. If Dave's reimbursement was only \$2,000, his taxable compensation would be \$29,000. 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. See Forms Ordering on page 13.

**What Are Allowable Employee Business Expenses?** Allowable expenses on PA Schedules UE are different from allowable business expenses for federal purposes. For PA purposes, an allowable employee business 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:

- 1 Received a fixed mileage allowance or a per diem expense allowance and neither you nor your employer included the allowance in income;
- 1 Accounted for your expenses to your employer and your employer reimbursed you in the exact amount of your expenses.

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

#### What Expenses Are Not Allowable Employee Business Expenses?

- 1 Personal, living, or family expenses;
- 1 Dues to fraternal organizations or professional societies, Chambers of Commerce, or recreational club memberships;
- 1 Dues and subscriptions to publications, including trade and professional publications;
- 1 Political candidate or campaign contributions;
- 1 Charitable contributions;
- 1 Commuting expenses;
- 1 Cost of meals while working late, unless while traveling away from home overnight on business;
- 1 Occupational privilege taxes or assessments and other local, county, state, federal, and foreign taxes;
- 1 Child care or elderly care expenses;
- 1 Life, disability income, and health insurance premiums;
- 1 Contributions to deferred compensation plans or other pension plans;
- 1 Legal fees (except to recover back wages), fines, penalties, and bad debts;
- 1 Bribes, kickbacks, or other illegal payments;
- 1 Job hunting or other pursuit of employment expenses;
- 1 Malpractice insurance premiums, except when required by law or by the employer as a condition of employment. See PA Schedule UE-1;
- 1 Moving expenses, except when moving for the convenience of the employer. See PA Schedule UE-1;
- 1 Educational expenses, except when required by law or by the employer. See PA Schedule UE-1;
- 1 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.

**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. For additional copies of this schedule, see Forms Ordering on page 13.

**PA Schedule UE-2.** You may use PA Schedule UE-2 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 your federal Form 2106. You must attach a copy of Form 2106 if using it for PA purposes.

Even when filing jointly, you and your spouse must submit a separate PA Schedule UE for each employer and you may not combine expenses. You and your spouse must each file separate PA Schedules UE if:

- 1 You both incur unreimbursed allowable business expenses, even if you both work for the same employer; or
- 1 You each incur expenses for different employers; or
- 1 You each incur expenses in more than one specific occupation.

Sole proprietors, partners, shareholders, or other self-employed individuals do not use PA Schedules UE to claim expenses. Nonresidents who earn compensation and incur allowable employee business expenses both within and outside Pennsylvania may need to complete and file a PA Schedule NRH. See Forms Ordering on page 13.

#### 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.

**PA TAXABLE INTEREST AND DIVIDEND INCOME. Important:** PA does not tax nonresidents on ordinary interest and dividend income. Pennsylvania taxes part-year residents only on interest and dividends received and credited while a PA resident. See the instructions for taxing residents, nonresidents, and part-year residents, beginning on page 17.

#### LINE 2. PA TAXABLE INTEREST.

For both PA-40 and PA-40EZ.

Include all PA taxable interest received during the taxable year. Include interest from savings and loan associations; credit unions; bank deposits; bonds; certificates of deposit; interest-bearing checking accounts; PA, federal, and local tax refunds; and other obligations on Line 2 of your return. Generally, Form 1099, issued by financial institutions, will indicate the amount of your interest from such institutions. Interest from GNMA and FNMA certificates is taxable for PA purposes.

**PA Tax Exempt Interest.** Interest from direct obligations of the United States Government, the Commonwealth of Pennsylvania, and political subdivisions of Pennsylvania is not taxable for PA purposes. The interest from U. S. Treasury Bonds, Notes, Bills, Certificates, and Savings Bonds is not taxable. The interest you receive from obligations of other states or countries is taxable income.

For a complete list of exempt obligations, request form REV-1643, Tax Exempt Obligations For Pennsylvania Personal Income Tax Purposes. See Forms Ordering on page 13. **Important:** You must include PA tax exempt interest in Eligibility Income for tax forgiveness purposes.

**Distributions from Money Market and Mutual Funds and Other Investment Companies.** You report distributions from the earnings and profits of money market or mutual funds and investment trusts and companies as dividend income on Line 3 and not as 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 your total penalty exceeds your interest on an account or certificate, you may report the excess as a loss on PA Schedule D.

**Line 2. PA Taxable Interest.** Residents report all PA taxable interest income on Line 2. When your interest income exceeds \$1,000, you must complete and file a PA Schedule A. You do not need to attach your Form(s) 1099-INT.

### LINE 3. PA TAXABLE DIVIDENDS.

For both PA-40 and PA-40EZ.

You report all dividend income on Line 3 in the taxable year in which received or credited. Dividends are distributions of money or property out of earnings and profits made by corporations, S corporations, and business associations. For PA purposes, a business association is an unincorporated business enterprise 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. **Important:** If you are a shareholder in another state's Subchapter S corporation and that corporation is NOT a PA S corporation, you must report the cash or property you actually received (your distributions) as dividend income on your PA 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 New York Subchapter S corporation, distributes all its earnings and profits for the year to Carolyn, its sole stockholder, and PA resident. The corporation's earnings and profits were 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 year received.

**Dividend Reinvestment Plans.** Pursuant to a stock dividend reinvestment plan, you choose to receive a dividend in the form of stock, rather than cash or other property. You must report the stock's fair market value as of the date paid as dividend income.

#### Dividend Income Does Not Include:

1. Dividends distributed by a corporation to its stockholders as stock, if the distribution is not 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 distributions reduce your basis to zero, any further distributions are taxable as gain from the sale or disposition of property. See the instructions on Taxable Return of Capital Distributions on page 32.
3. Dividends from deposits or withdrawals from accounts, paid by savings and loan associations; mutual savings banks; cooperative banks and credit unions. You report these payments 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 that the fund or company designates as from exempt PA and exempt federal obligations. **Important:** The amount designated as capital gain 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. You need not 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 17 for taxing nonresidents and part-year residents.

Include on Line 4 your total net profits from 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 a PA Schedule C-F, include your federal ordinary 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 net income together and report that total. If you each realize a net loss, add your losses together and report that total. If one spouse has a net income and the other a net loss, enter only the income on Line 4. A spouse may not offset his or her net loss against the net income of his or her spouse.

If you have income or loss from a business or profession, you must complete and attach a PA Schedule C. If you have income or loss from a farm, you must complete and attach a PA Schedule F. If you have income, whether distributed or not, from a partnership or PA S corporation, you must attach the PA Schedule RK-1 you received. **Note:** If you are a shareholder in another state's federal S corporation, and that corporation is NOT a PA S corporation, you only report cash or property you actually received (distributions) as dividends on Line 3. However, you may not claim any credit for tax paid on your distributed and 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. 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. You must attach each federal Schedule C, F, or K-1 that you are using.

**What is a Business or Profession?** Not every income-producing activity constitutes a business or profession. A business or profession has certain common characteristics. You realize income from the operation of 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; and
4. You compute your net income or loss solely from those items of revenue, cost, expense, or liability that you receive from or incur in:
  - a) The ordinary course and operation of your business, profession, or farm; or
  - b) Securities employed as working capital in the ordinary operation of your business, profession, or farm; or
  - c) Accounts and notes receivable from the sales of products and/or services in the ordinary operation of your business, profession, or farm; or
  - d) Assets that serve an operational function in the ordinary operation of your business, profession, or farm; and
5. Your allowable business expenses are those direct, ordinary, necessary, and reasonable expenses you currently paid or incurred during the taxable year. Expenses are allowable when directly related to and necessary for and actually paid in the production and marketing of your products, goods, and services. Only your business expenses are allowable. Your 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.

Paying any tax imposed on, or measured by, gross or net earned or unearned income is not a business transaction nor an allowable business expense under PA law.

**Allocation of Net Profits.** Whether nonresidents report net income or loss from the operation of a business or farm depends on where the operation of the business activity is located. Follow the rules that follow.

**Operation Wholly Within Pennsylvania.** Nonresidents report all net profit or loss from business activity if its operation is wholly within Pennsylvania. The operation of a business 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 you systematically and regularly conducted or managed your business.

Do not take into account business activity when your representative operated as an independent contractor.

**Operation Wholly Outside Pennsylvania.** Nonresidents do not report any net profit or loss from business activity if its operation is wholly outside Pennsylvania. The operation of a business is wholly outside Pennsylvania if during the taxable year you or your representative:

1. Did not transact, in the ordinary course of business, 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:
  1. Soliciting orders or selling 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
  1. 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 above.

**Operation Partly Within Pennsylvania.** If your business is not wholly within or outside Pennsylvania, as described above, you allocate your PA business activity by separate accounting if:

1. Your business or farm operations within and outside Pennsylvania constitute independent profit centers. This means that there are no transfers of finished goods, raw materials, supplies, services, or operational assets between themselves; each is free to buy outside and, because of geographical location, neither is in competition with the other; and
2. You keep your books so as to properly disclose the amounts of revenues, costs, expenses, and liabilities attributable to PA operations.

Nonresidents must apportion net profit or loss within and outside Pennsylvania using either books and records, as described above, or using the three factor (Property, Payroll, and Sales) formula on a PA Schedule NRH.

**PA Schedule C-F Reconciliation.** The specific instructions are on page 31. 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 you determine net income or loss under generally accepted principles and practices. Use PA Schedule C-F for the allowable and required adjustments to your federal amounts. Attach your federal schedule.

**PA Income or Loss from PA Schedules RK-1 and NRK-1.** If you are a partner or a PA S corporation shareholder, you will receive a PA Schedule RK-1 or NRK-1 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 business operations, you generally must add those payments to your share of income or loss as shown on your PA Schedule RK-1 or NRK-1. The partnership or PA S corporation should deduct all allowable expenses and make all other allowable adjustments. However, if under the partnership or PA S corporation

agreement, you must incur direct business expenses for which you do not receive reimbursement, 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 or PA S corporation. Personal expenses, expenses incurred for your own convenience, and expenses that are not allowable for PA purposes 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. If you realize a net loss, fill in the oval, do not use brackets, next to Line 4 on your PA-40.

**LINE 5. NET GAIN OR LOSS FROM THE SALE, EXCHANGE, OR DISPOSITION OF PROPERTY.** Include, on Line 5, the total of your PA Schedule(s) D. The specific instructions begin on page 31. Also include gains and losses from other PA schedules showing amounts reportable in this income class. **PA law does not permit the installment sale method for reporting gain from the sale of intangible property.**

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 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 and annuities; contracts of insurance with refundable accumulated refundable reserves payable upon lapse or surrender; and any other intangible personal property.

**Important for Nonresidents:** If you are a nonresident, you pay PA tax on the gain from the sale, exchange or disposition of real or tangible property in Pennsylvania. You do not pay PA tax on the gain from the disposition of stocks, bonds, ownership interests, and other intangible property. You may not use your intangible losses against your taxable gains.

**Allocating Gains and Losses.** Whether your property is within or outside Pennsylvania generally determines from where you derive the revenue and incur the costs, expenses, and liabilities from the sale, exchange or other disposition of real estate or tangible personal property. If your real or tangible property is within Pennsylvania, you must report the gain or loss realized from its disposition on PA Schedule D, unless the property is:

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

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

**Sale of a Home.** You must report the sale of a home for PA purposes, even if you qualify for the federal rollover of gain on that sale. PA law does not provide the same exclusion for deferring the gain from the sale of a residence as federal tax law. You must complete and attach a PA Schedule PA-19. See Forms Ordering on page 13.

If you move into Pennsylvania and then sell your home, you are subject to PA tax on any **gain realized from the sale of your former residence in another state.** 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 may claim the PA Resident Credit. If you completed (settled) the sale before you established your domicile in Pennsylvania, your gain is not taxable on your PA-40 and you will not receive any credit for taxes paid to your former state.

**Gain on the Disposition of Property.** You recognize gain 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.** You recognize a loss only in the year in which some identifiable event closes and completes the transaction and fixes the amount of the loss so there is no possibility of any eventual recovery. You recognize a loss only on transactions you 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, you may not offset your other gains with that loss.

**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.** You do not report the gain or loss realized on the sale, exchange, or disposition of the following obligations if the original issue date was before February 1, 1994.

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.

**Important:** You may not use any loss realized on the disposition of the above obligations to offset any other gains.

**Exempt Obligations - Originally Issued On or After February 1, 1994.** You must report the gain or loss realized on the sale, exchange, or disposition of the above obligations if the original issue date was on or after February 1, 1994. You must report all such gains as taxable and may use any losses you realize to offset other gains. **Important:** Net gains and losses from the disposition of obligations of other states and countries are subject to PA tax.

**Line 5. Net Gain or Loss from the Sale, Exchange, or Disposition of Property.** PA Schedule D is on page 44 and 46. Total your net income or loss from your schedule(s). You may offset net income and losses in determining this line. Spouses may not offset each other's income and losses in this class. If you realize a net loss, fill in the oval, do not use brackets, next to Line 5 on your PA-40.

**Line 5a. Amount of Gain Excluded from PA Schedule PA-19.** Use this line only if claiming the age 55 and over exclusion from the sale of a personal residence. 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.**

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, only if you do not receive the correct PA schedule. 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. **Remember:** Married taxpayers may not offset income and loss from separately owned property.

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.

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.** Your allowable expenses are those you paid or incurred during the taxable year that are ordinary 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.

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 deductions for PA purposes. You may not deduct expenses for your own labor, capital investment, or capital improvements. **You may not deduct personal expenses or that part of an allowable deduction that is personal.**

**Important for Nonresidents:** Pennsylvania taxes nonresidents on net rental, royalty, patent, or copyright income from property located and/or used within Pennsylvania. See the instructions on page 17.

**Allocating Rents and Royalties.** Rents received from real estate and tangible personal property, that you do not employ in the operation of a business, is allocable to Pennsylvania only if the property is within Pennsylvania. The costs, expenses, and liabilities incurred in producing and collecting such rents are allocable to Pennsylvania only if the property is within Pennsylvania. If you use the property both within and outside Pennsylvania, you must calculate your net income allocable to Pennsylvania. You multiply the net rental income by a fraction. The numerator is the number of days your property was in Pennsylvania, during the rental period, and the denominator is the total number of days in the rental period.

Royalties from the extraction of minerals, and the related costs, expenses, and liabilities, are allocable to Pennsylvania when the property is within Pennsylvania and such income is not from operating a business.

Royalties from patents and copyrights, and the related costs, expenses, and liabilities, are allocable to Pennsylvania when, and to the extent that:

1. The patent or copyrighted material is employed by the payer in production, fabrication, manufacture, or other processing in Pennsylvania; and/or
1. The payer produces the patented products in Pennsylvania or the printing or publication by the payer originates in Pennsylvania.

If you receive royalties in the operation of a business, you report such income on Line 4 of your PA-40.

**Rents vs. Net Profits.** The leasing of tangible property is the operation of a 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:
  1. The average period of customer use is 30 days or less; or
  1. Your property is customarily made available for use only during defined business hours; or
  1. In addition to the property you also provide significant services to your lessee; or
  1. You incur significant operating expenses in making the property available for lease; or
  1. The leasing activity is incidental to a real estate sales business; **and**
  2. You offer the use of your property intending to realize a profit; **and**
  3. The leasing of your property is a regular and continuous activity.

Providing housekeeping service, room service, valet parking, decorating assistance, delivery services, transportation services, and concierge services are significant services. However, providing heat, lighting, electric service, elevators, cleaning public access and exit areas, collecting trash, and maintaining the property in a usable rentable condition are not usually significant services.

**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 also reportable as net gains on a PA Schedule D.

**Line 6. Net Income or Loss from Rents, Royalties, Patents, and Copyrights.** Use PA Schedule E on page 43 and 45. The schedule is self-explanatory. If making PA adjustments to your federal rent, royalty, patent, or copyright income, attach an explanation. Total your net income or loss from your schedule(s). You may offset net income and losses in determining this line. If you realize a net loss, fill in the oval, do not use brackets, next to Line 6 on your PA-40. Spouses may not offset each other's income and losses in this class.

**LINE 7. ESTATE AND TRUST INCOME.** Cash and property you acquire from an estate or trust by gift, bequest, devise, or inheritance is not taxable. Income received by the estate or trust, on its assets, that is currently distributable or 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.

**Important for Nonresidents:** Pennsylvania taxes nonresident beneficiaries on income from PA sources passing through estates and trusts. Nonresidents must enter on PA Schedule J the amount reported as PA taxable income on the PA Schedule L that you received from the estate or trust.

**Line 7. Estate and Trust Income.** Use PA Schedule J on page 44 and 46. The schedule is self-explanatory. Do not use a federal Schedule K-1. Total the distributed income received or the income credited to you from the PA Schedule(s) L you received. If you received a federal Schedule K-1, you must add and report only the positive income, not taking into account any losses shown on the federal Schedule K-1.

**LINE 8. GAMBLING AND LOTTERY WINNINGS.** Residents must report all gambling and lottery winnings and may offset gambling and lottery losses, but no expenses, to determine Line 8. **Important for Nonresidents:** Nonresidents are not subject to PA tax on gambling and lottery winnings from PA sources.

**Expenses.** You may not deduct any expenses, such as travel, meals, lodging, etc., incurred in realizing your net income or loss in this class.

**Pennsylvania Lottery Winnings.** Do not report your winnings and do not use your losses from the PA State Lottery if won on or after July 21, 1983.

**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 gambling and lottery winnings and losses.

**LINE 9. TOTAL GROSS PA TAXABLE INCOME.**

Enter on Line 4 if filing a PA-40EZ.

Total all income amounts. Do not include losses. You may not use a loss in one class of income to reduce income in the other classes.

**LINE 10. CONTRIBUTIONS TO YOUR MEDICAL SAVINGS ACCOUNT.** Pennsylvania follows federal rules for this deduction. If single, your deduction may not exceed 65 percent of your deductible, as defined for federal tax purposes. If married filing jointly, your deduction may not exceed 75 percent of your deductible, as defined for federal purposes. If married filing separate returns, only one spouse may take this deduction. Pennsylvania also follows federal rules concerning withdrawals from these accounts. The amount you report on Line 10 should be the same amount you report on your Federal Income Tax return. **Important:** PA law does not impose an additional 15 percent tax for non-medical withdrawals.

**LINE 11. NET PA TAXABLE INCOME.** Subtract Line 10 from Line 9.

**Line 12. PA TAX LIABILITY.** Also enter on Line 13 on side 2.

Enter on Line 5 if filing a PA-40EZ.

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

**LINE INSTRUCTIONS FOR PAYMENTS AND CREDITS**

**LINE 14. TOTAL PA TAX WITHHELD FROM W-2 FORMS.**

Enter on Line 6 if filing a PA-40EZ.

Enter the total of PA tax withheld as shown in the box 17 (PA or state income tax) of your W-2 form(s). Include, but **do not staple**, your W-2 form(s) with your PA return. **Important:** If your employer withheld more than 2.8 percent from your wages, attach an explanation from your employer.

Enter the TOTAL of your 1997 PA estimated installments, your credit from your 1996 PA return, and any payment you made with a 1997 extension request on Line 7 if filing a PA-40EZ.

**LINE 15. CREDIT FROM YOUR 1996 PA RETURN.** Enter your credit from your 1996 PA tax return.

**LINE 16. 1997 ESTIMATED INSTALLMENT PAYMENTS.** Enter the total of your 1997 estimated payments. Include your spouse's 1997 estimated installment payments if filing jointly. **Important:** Do not include on Line 15 or 16, any payment of tax due that you (or your spouse) made with a 1996 PA tax return.

**LINE 17. 1997 EXTENSION PAYMENT.** If you filed an extension request for filing your 1997 PA tax return, enter the payment you made.

**LINE 18. NONRESIDENTS TAX WITHHELD SHOWN ON YOUR PA SCHEDULE(S) NRK-1.** Enter the PA tax withheld by your partnership or PA S corporation.

**LINE 19. TOTAL ESTIMATED PAYMENTS AND CREDITS.** Add Lines 15 through 18. **Filing Tip:** If you and your spouse made separate estimated installment payments, you should each file separate returns each claiming only 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. **Filing Tip:** If you file differently and want to insure that the Department applies your estimated payments correctly, file form REV-459B, Consent To Transfer, Adjust Or Correct Pa Estimated Personal Income Tax Account. See Forms Ordering on page 13. You and your spouse can tell the Department which payments to post under each name and Social Security Number. Both spouses must sign this form. **Note:** For married couples with a joint estimated account but filing separately, the Department may delay processing until we receive and process both tax returns.

**LINE 20. TAX FORGIVENESS CREDIT FROM PA SCHEDULE SP.**

Enter on Line 8 if filing a PA-40EZ.

You must complete the PA Schedule SP on page 10 or 12. The specific instructions for claiming Special Tax Forgiveness begin on page 32.

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

**LINE 20a. DEPENDENT CHILDREN FROM PART B, LINE 2 OF PA SCHEDULE SP. See the instructions on page 33.**

Enter on Line 8a if filing a PA-40EZ.

**LINE 20b. ELIGIBILITY INCOME FROM PART C, LINE 11, OF PA SCHEDULE SP. See the instructions on page 33.**

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

**LINE 20c. TAX FORGIVENESS CREDIT FROM PART D, LINE 16, OF PA SCHEDULE SP. See the instructions on page 33.**

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

**LINE 21. TOTAL CREDIT FOR TAXES PAID TO OTHER STATES OR COUNTRIES.** **Important:** Nonresidents are not eligible for this credit. Residents earning compensation in reciprocal states, see page 17, may not claim 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. PA Schedule G with instructions is on

page 32 or 47. You may make copies of this schedule as needed. If you are a PA resident and also a resident, for income tax purposes, of another state, you may claim the PA Resident Credit only if each of the following are applicable:

1. The income on which the other state's tax is imposed is not only also subject to tax in the same taxable year by Pennsylvania but also taxable under the other state's laws regardless of your place of residence or domicile; **and**
2. You are not entitled to claim any credit for Pennsylvania tax against the other state's tax.

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 22. PA EMPLOYMENT INCENTIVE PAYMENTS CREDIT.** Persons and businesses employing welfare recipients may be eligible for the Employment Incentive Payments Credit. You must submit a complete PA Schedule W, with copies of the Certification Form from the Department of Labor and Industry for each employee, to claim this credit. See Forms Ordering on page 13.

**LINE 23. PA JOBS CREATION TAX CREDIT.** Enter the amount of your approved credit from the PA Department of Community and Economic Development certification form you received. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

**LINE 24. PA WASTE TIRE RECYCLING INVESTMENT TAX CREDIT.** Enter the amount of your approved credit from the PA Department of Environmental Protection certification form you received. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

**LINE 25. PA RESEARCH AND DEVELOPMENT TAX CREDIT.** Enter the amount from the PA Department of Revenue certificate of credit you received in December 1997. Partners and PA S corporation shareholders enter the credit amount from your PA Schedules RK-1 or NRK-1.

**LINE 26. TOTAL PAYMENTS AND CREDITS.**

Enter on Line 9 if filing a PA-40EZ.

Add all your payment and credit lines and enter the result on this line.

**TAX DUE OR OVERPAYMENT**

**LINE 27. 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, 1998.

**LINE 28. 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 29 THROUGH 35. APPLICATION OF OVERPAYMENT.** If you do not enter any amounts on Lines 29 through 35, or the total of Lines 29 through 35 do not equal Line 28, you will receive a refund check, less any credit to 1998 you requested. If you have an overpayment of \$1 or more, you may apply all or part of your overpayments:

**Line 29.** Enter the amount you want as a **Refund** check mailed to you.

Line 12 if filing a PA-40EZ.

**Line 30.** Enter the amount you want as a **Credit** to your 1998 estimated tax account.

Line 13 if filing a PA-40EZ.

**Line 31.** Enter the amount you want to **Donate** to the Wild Resource Conservation Fund.

Line 14 if filing a PA-40EZ.

**Line 32.** Enter the amount you want to **Donate** to the U.S. Olympic Committee, PA Division.

Line 15 if filing a PA-40EZ.

**Line 33.** Enter the amount you want to **Donate** to the Organ Donor Awareness Trust Fund.

Line 16 if filing a PA-40EZ.

**Line 34.** Enter the amount you want to **Donate** to the Korea/Vietnam Memorial Inc.

Line 17 if filing a PA-40EZ.

**Line 35.** Enter the amount you want to **Donate** to Breast and Cervical Cancer Research.

Line 18 if filing a PA-40EZ.

See page 14 for additional information regarding the funds to which you may donate all or part of your overpayment.

**The total of Lines 29 through 35 must equal Line 28.**

**The total of Lines 12 through 18 must equal Line 11 on the PA-40EZ.**

**Review Your Return.** Errors delay the processing of your tax return. Carefully check your return. Did you:

- 1 Report your Social Security Number(s), name(s) and address correctly?
- 1 Report all your taxable income and claimed all your allowable credits?
- 1 Check all the entries from W-2 forms and schedules?
- 1 Check your math?
- 1 Attach all necessary and appropriate supporting forms and schedules?
- 1 Completely fill in the **SSN, Name or Address Change** oval, if any of the information on your label was incorrect and you did not use it?
- 1 Review the oval for the **Option for a 1998 Booklet?** Fill in this oval only if you **do not want** a booklet for 1998?
- 1 Remember to file your **original** PA-40 or PA-40EZ forms? **Do not send copies.** Keep the copies for your files.

**Taxpayer's Signature and Verification.** You must sign and date your return. Spouses who choose to file a joint return must both sign the return. You have not filed a valid tax return unless you (both) sign it. Read the oath before you sign. Include the area code and telephone number where the Department may call you between the hours of 8:30 a.m. and 4:00 p.m.

**Occupation.** Provide your occupation, and if married and filing jointly, your spouse's occupation.

**Preparer's Name and Telephone Number.** If you paid someone to prepare your tax return, the preparer should, but is not required to, enter his or her name or business name and telephone number on your return.

**You Have Now Completed Your 1997 PA Tax Return.** Be sure your name and Social Security Number are on all the forms and schedules that accompany your return. See the instructions for **Assembling Your Tax Return** on page 2. Do not staple 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, 1998. 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 for using your form PA-V, Payment Voucher, on the insert.

**Bad Check. NEW!** If your bank or financial institution returns your check to the Department unpaid, you will be subject to an additional charge equal to 10 percent of the amount of your payment. The minimum charge is \$25 and the maximum charge is \$500. This charge is an addition to tax and subject to applicable penalty and interest. Taxpayers may also face possible criminal prosecution.

**Mailing Instructions.** Follow these mailing instructions to insure the proper processing of your PA return:

1. Remove all six labels along perforation from envelope flap; and

- Choose the correct label that applies to your return. See the descriptions below; and
- Moisten and affix only the correct label on the front of the return envelope enclosed for your convenience.

**If you are filing a PA-40 and owe Tax Due, Line 27.**

PA DEPT OF REVENUE  
PAYMENT ENCLOSED  
4 REVENUE PLACE  
HARRISBURG PA 17129-0004

**If you are filing a PA-40 EZ and owe Tax Due, Line 10.**

PA DEPT OF REVENUE  
PAYMENT ENCLOSED  
1 REVENUE PLACE  
HARRISBURG PA 17129-0001

**If you are filing a PA-40 and Overpaid, Line 28.**

PA DEPT OF REVENUE  
REFUND/CREDIT REQUESTED  
6 REVENUE PLACE  
HARRISBURG PA 17129-0006

**If you are filing a PA-40EZ and Overpaid, Line 11.**

PA DEPT OF REVENUE  
REFUND/CREDIT REQUESTED  
3 REVENUE PLACE  
HARRISBURG PA 17129-0003

**If you are filing a PA-40 and neither owe nor overpaid, zeros on Lines 27 and 28.**

PA DEPT OF REVENUE  
NO PAYMENT/REFUND/CREDIT DUE  
5 REVENUE PLACE  
HARRISBURG PA 17129-0005

**If you are filing a PA-40EZ and neither owe nor overpaid, zeros on Lines 10 and 11.**

PA DEPT OF REVENUE  
NO PAYMENT/REFUND/CREDIT DUE  
2 REVENUE PLACE  
HARRISBURG PA 17129-0002

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.

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

**PA SCHEDULE A.** List and total all PA taxable interest received or credited during 1997 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. Enter payer name and the PA taxable interest from each payer on your PA Schedule A. Enter the total on Line 2 of your PA 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 return.**

**PA SCHEDULE B.** List and total all dividends received or credited during 1997 from your Form(s) 1099 and all other statements. Include dividend income passed through from partnerships and PA S corporations. Enter payer name and the PA taxable dividend from each payer on your PA Schedule B. Enter your total taxable dividend income on Line 3 of your PA return. **Important:** You may not deduct any expenses paid or incurred in earning or receiving dividend income. **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 return.**

### PA SCHEDULE UE-1 AND PA SCHEDULE UE-2.

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

- Such payments are a condition of continued membership in the union and membership is related directly to your present job; or
- Such payments are a required wage deduction 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:

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

**Part C. Small Tools and Supplies.** Expenditures for small tools and supplies that you must have to perform the duties of your job, but that your employer does not provide, are allowable business expenses. If any of these required tools or supplies have a useful life of more than one year, you depreciate or amortize the cost, unless you may currently expense the item under IRC Section 179. You must complete Part I of your PA Schedule UE-1 to claim depreciation.

**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 that you incurred in performing the duties of your job are allowable business expenses. Transportation expenses you incurred in performing the duties of your job are allowable business expenses. Business expenses incurred by outside salespersons are also allowable. **Commuting costs to and from any job are not allowable for PA purposes.**

You may always claim your allowable actual expenses for PA purposes on PA Schedule UE-1 by using federal Form 2106 and adjusting for PA purposes. Check the "Actual Vehicle Expenses" box and attach a Form 2106. PA law does not have the federal limitations on allowable expenses. Expenses, such as business meals and entertainment; away from home overnight expenses; any allowable depreciation method, etc., are either 100 percent allowable or not allowable at all. PA determines income and expenses under generally accepted principles and practices. Report your actual travel and mileage expenses and reimbursements received from your employer and claim the difference.

You may use the PA Schedule UE-2 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 attach an itemized schedule of those expenses or complete a PA Schedule UE-1, Part J.** If you are claiming your actual expenses, you must complete a PA Schedule UE-1. The Department will not accept the Federal 1040 PC Format Return.

**PA Schedule UE-2 only. Total Unreimbursed Employee Business Expenses.** Add the expenses you are claiming in each part of your PA Schedule UE-2. Enter the total on Line 1b.

You must include in gross compensation on Line 1a of your PA-40EZ all reimbursements or payments for any business expenses you incurred, including your reimbursements for the expenses you are claiming on your PA Schedule UE-2. If your employer included

your reimbursements in the amount of PA taxable compensation on your W-2 form, you do not again enter that reimbursement.

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

**Part F. Office or Work Area Expenses.** You must answer each question in this part. If you answer **all** the 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. You use your work area regularly to perform the duties of your employment.

**Part G. Moving Expenses.** You must answer each question in this part. 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 the cost of transportation to the new home. You may use actual out-of-pocket costs or the federal per mile allowance. The expenses for the storage of household goods, for meals and lodging on the way, including such costs on the day you arrive, and parking fees and tolls are also allowable.

Moving expenses incurred in starting a new job are personal and not allowable. Taxable compensation includes reimbursements for such personal expenses. Other personal expenses that are not allowable include the costs you incur in selling or purchasing a home, and the costs for breaking a lease. You may not deduct pre-move house hunting expenses, temporary lodging prior to moving, and any costs or expenses not directly related to moving. **Example 1:** Mary works for XYZ Corp. in York. In 1997, her employer assigns her to Erie. Mary incurs \$2,500 in moving expenses. XYZ Corp. reimburses Mary for \$1,900 of her costs. Mary's salary in 1997 was \$35,000. Mary's W-2 form for 1997 shows \$36,900 of PA taxable compensation. Mary may deduct \$2,500 on her PA Schedule UE-1. She will then report PA taxable compensation of \$34,400. **Example 2:** Theresa accepts a position with a new employer in Harrisburg. She incurs \$900 in moving expenses in starting her new job. Her new employer reimburses her in full. Theresa's salary is \$35,000. Theresa's 1997 W-2 form must show PA taxable compensation of \$35,900. She may not claim any moving expenses because she incurred her moving expenses for a new employer.

**Distance Test.** Your new workplace must be at least 50 miles farther from your old residence than your old workplace was.

**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 the 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 the new duty station from different locations, you may claim all the allowable expenses.

**Part H. Education Expenses.** You must answer each question in this part. Follow the instructions for the questions and, if your expenses are allowable, complete Part H. The exclusion from federal gross income for educational expenses reimbursed by an employer is different from the PA test for allowable education expenses. For PA purposes, costs for education expenses that you pay or incur are allowable only 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 that 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. By law, Helen must take courses on the proper use of a firearm every five years. If she fails to take the courses, Helen will lose her license to carry a weapon and, therefore, lose her job. Helen may claim the costs of the courses in Part H of her PA Schedule UE-1. **Example 2:** Anthony is a pharmacist. The law requires every pharmacist to obtain a specific number of continuing education credits every other year to retain their license as a pharmacist. If Anthony fails to obtain these education 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:** You may not claim that travel costs are an educational expense if you claim such expenses on the grounds that the travel itself constitutes a form of education.

**Part I. Depreciation.** Do not report depreciation for vehicles and office or work areas 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
1. Is required to be regularly and predominantly used to perform the duties of employment; and
1. 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 you use it consistently. Once you have selected a depreciation method, you may not change it.

**Part J. Miscellaneous Expenses.** Include in this part those expenses that you 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 that you may claim in this part include:

1. Breakage fees or cash shortages required to be paid to your employer;
1. 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;
1. Costs incurred by blind employees to pay readers who assist them in performing their job duties;
1. Business gifts that are ordinary, necessary, reasonable and actually incurred for business purposes. Pennsylvania does not follow federal percentage limits on such expenses.

**Important:** You may be a statutory employee for federal purposes. Pennsylvania does not have a similar provision. If you are an employee, for PA purposes, you must claim your expenses on PA Schedule UE-1. If you are self-employed, you must report your business activity on Line 4 of your PA-40 and attach the necessary schedules.

**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. 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, see Forms Ordering on page 13.

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

**Line K3. Net Amount.** If your reimbursement is more than your expenses, you must report the difference as PA taxable compensation on Line 1a of your PA Income Tax Return. If your reimbursement is less than your expenses, claim the difference on Line 1b of your PA Income Tax Return.

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

.....  
**You have completed your PA Schedule UE-1 or UE-2.**  
**Double check all your calculations before filing your PA**  
**Income Tax Return.**  
 .....

**PA SCHEDULE C-F RECONCILIATION.** You use this schedule to account for differences between Pennsylvania and IRS rules for determining net taxable income or loss for PA purposes. You must attach your federal schedule if using PA Schedule C-F Reconciliation. If you choose to report the gain or loss from federal business schedules, you must make the adjustments, if applicable, identified with \* in Part D.

**Part A.** Enter your Social Security Number and Federal Employer Identification Number, if applicable.

**Part B. Lines 1a, 1b, 1c, 1d, 2 and 3.** Copy the gross income information from your federal Schedule C or F. **Note:** PA law does not allow the federal elections to defer income to another taxable year or to report income that you will receive in a future year. On **Line 1d** list any income that you must report as business or farm income for PA purposes that you reported elsewhere on your federal tax return. **Example 1:** Add interest from short term investments to generate working capital and the net gain or loss from the sale of assets in the ordinary course of business. **Example 2:** Deduct income that is not reportable for PA purposes, such as Subpart F income or income you may elect to defer for federal purposes.

**Gross profits.** Subtract Line 2 from the total of Lines 1c plus 1d less Line 2.

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

**Part D. Lines 5a through 7.** Make the necessary adjustments to your federal business expenses. If reducing an expense item, please indicate by using a negative sign - or brackets [ ]. If increasing an expense amount, enter the difference between the federal amount and the PA allowable amount. The list below includes the most common differences between PA and federal expenses. **Important: You must make adjustments for those lines marked with \*.** Personal expenses are never allowable. For PA purposes, expenses must be:

- 1 **Ordinary** to the business or farm activity; and
- 1 **Necessary** to operate the business or farm; and
- 1 **Actually incurred** in operating the business or farm; and
- 1 **Reasonable** in amount and not excessive; and
- 1 **Directly related** to the business or farm activity.

If making any of these PA adjustments to your federal schedule(s), complete and attach the PA Schedule C-F Reconciliation on page 38.

- 5a. The federal percentage limitation on business meals and entertainment does not apply. You may deduct 100 percent of these expenses.
- 5b. Sales tax on depreciable business assets may be a current expense for PA purposes. On disposition, your PA basis and federal basis will be different.
- 5c. Charitable contributions you make from your business account that the recipient publicly acknowledges are allowable deductions. Personal charitable contributions are never 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. Once elected, this method must be consistently used.
- 5e. You may use any generally recognized and accepted depreciation method for your business or farm activity, including IRC Section 179 current expensing. Once you elect a method, 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, you must add back these deductions to your wage expense.
- \*5g. If you are claiming the PA Employment Incentive Payments (EIP) Credit and/or the PA Jobs Creation Tax Credit, you must reduce your total wages expense by the amount of your credit.
- \*5h. Contributions you make as a self-employed individual to your own IRA or Keogh or other pension plan are not allowable expenses. Contributions you make to your employees' retirement plans and welfare benefits plans are allowable business expenses.
- \*5i. Federal, state, and local taxes are allowable deductions. You may not deduct taxes based on gross or net income, federal income taxes, and one-half of the self-employment taxes that the IRS allows. You may not deduct taxes paid to other states or foreign countries based on income. You may not deduct estate taxes and inheritance, legacy, succession, and gift taxes. Assessments for betterments and improvements are not allowable. The Philadelphia Business Privilege Tax is an allowable deduction on this schedule, if not already deducted on your federal schedule.
- \*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. If you are claiming the PA Research and Development Tax Credit and/or the PA Waste Tire Recycling Investment Tax Credit, you must reduce your direct business expenses by the amount of expenses you incurred in the activities that qualified your claim for the credit(s).
- 5l. **Other.** Itemize expenses that are allowable under GAAP or FASB rules but are not allowable or limited under federal rules.
6. **Total adjustments.** Total Lines 8 through 19 and enter the net amount. If negative, fill in the oval.
7. **Total allowable PA business expenses** Total Lines 6 and 20 and enter the net amount. If negative, fill in the oval.

**Part E. Line 8.** Subtract Line 7 from Line 3. If you realize a net loss, fill in the oval, do not use brackets, next to Line 8. 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 your calculations before filing your PA return.**  
 .....

**PA SCHEDULE D.** Unless the specific instructions require a different PA schedule, use PA Schedule D. Report each sale, exchange, or disposition of property on PA Schedule D, Line 1. Report the total net gain or loss from each transaction on Line 2. Spouses should complete separate PA Schedules D, unless selling jointly owned property.

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

- a. List and describe the property sold or otherwise disposed of for cash or other property. **Example:** 50 acres of land in Dauphin County or 100 shares of ABC Inc. common stock.
- b. Enter the month, day, and year you sold the property.
- c. Enter the month, day, and year you acquired the property.
- d. Enter the gross sales price or fair market value of cash and/or property you received less applicable expenses of sale.
- e. Enter the Adjusted Basis of the property sold.

- f. Subtract Column e from Column d and enter either the gain or the loss or zero in Column f; if
1. You acquired the property as an income-producing investment, such as capital stock; an ownership interest in a partnership or other business; a rental property; a patent or copyright; or
  2. You held the property in connection with a business, profession, or occupation when you disposed of it and it was not inventory or an operational asset.

If your property was other than income-producing property, then

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 a gain or a loss. Enter zero in Column f.

**Line 2. Net Gain or Loss.** Total 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, form REV-1689, Computation of Installment Sale Income. For a PA Schedule D-1, see Forms Ordering on page 13.

**Important:** You may not elect the installment sales method for:

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

**Line 4. Taxable Return of Capital Distributions.** As a shareholder in a C corporation, 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 that a business corporation makes that is not from its earnings and profits. You must decrease the basis of your stock or shares (but not below zero) by any distribution that is not taxable as a dividend on Line 3 of your PA 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 a taxable dividend on Line 3 of her PA return. Karen must, however, reduce her basis in her stock by \$75,000 to zero. Karen must report the remaining \$25,000 of the \$100,000 return of capital distribution as a taxable gain on her PA Schedule D.

Also report on this line, taxable return of capital distributions from partnerships, business trusts and other organizations.

**Calculating Line 4.** From the total return of capital distributions, subtract your previously unrecovered basis. Enter the difference as taxable gain on Line 4.

**Line 5. Sale of Property Acquired Before June 1, 1971, PA Schedule D-71.** You determine your gain or loss on the sale of property that you bought or acquired before June 1, 1971, on PA Schedule D-71, form REV-1742. See Forms Ordering on page 13.

**Line 6. Sale of Personal Residence. 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. 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.

**Age 55 and Over Exclusion of Gain on the Sale of a Home.** PA law allows a one-time election to exclude, up to \$100,000, the gain realized 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 this exclusion. **Important:** If you sell your residence at a loss, report zero (0) on Line 6 of PA Schedule D. For a PA Schedule PA-19, see Forms Ordering on page 13.

**Line 7. Net Gain or Loss from PA Schedule RK-1 or NRK-1.** As a partner or PA S corporation shareholder, you will receive a PA Schedule RK-1 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.

**You have completed your PA Schedule D.**

**Double check all your calculations before filing your PA return.**

**PA SCHEDULE SP. General Information.** Act 7 of 1997 allows a joint claim for married persons and defines a dependent for tax forgiveness purposes as a dependent child for federal purposes. You do not have to calculate support income or complete an SP Worksheet. The allowance for each dependent child changes to \$4,000. For qualifying married claimants, eligibility income begins at \$12,600. For qualifying single claimants, eligibility income remains at \$6,300. You must file a PA Schedule SP to claim tax forgiveness. **Important: Read all the new instructions before you begin.**

**What is Tax Forgiveness?** Special Tax Forgiveness is a credit against PA tax that allows eligible taxpayers to reduce all or part of their PA tax liability. To qualify for this credit, you must calculate your own taxable income and nontaxable income. If married, you and your spouse must each calculate and report these kinds of income.

**Who Is An Eligible Claimant For Tax Forgiveness?** An eligible claimant is a person who:

1. **IS SUBJECT** to PA Personal Income Tax — has PA taxable income; and
2. **IS NOT** a dependent on another person's federal tax return — Section 151 of the 1986 IRC, (except that, for 1997, a dependent child who otherwise meets the eligibility test may claim tax forgiveness on a PA Schedule SP on a separately filed PA tax return); and
3. **DOES MEET** the Eligibility Income test.

If single, you must meet all three requirements. If married and living together, you may claim tax forgiveness jointly if at least one spouse meets all three requirements. You may file jointly if you each meet the eligibility requirements.

Married persons are not dependents of one another for federal tax purposes or PA tax forgiveness purposes. A full time student, claimed on his or her parents' federal return, as a dependent under IRC Section 151 may not be a claimant for tax forgiveness, unless his or her parents are also eligible for tax forgiveness.

If married, you **must** file separate PA returns if you and your spouse are:

1. Living apart at all times during the last six months of the year; or
1. Separated pursuant to a written separation agreement.

For tax forgiveness purposes, you and your spouse may elect to file separately. If you have dependent children, only one parent may claim the children on a PA Schedule SP. The parent who claims the children on his or her separate federal tax return also claims the children on his or her PA Schedule SP. **Important: A dependent may not be claimed on two PA Schedules SP.**

**Who is a Dependent for Tax Forgiveness?** A dependent means a child who is a dependent of a claimant(s) for the purposes of IRC Section 151. If you are a dependent child, you may claim tax forgiveness if your parent(s) is (are) eligible for tax forgiveness. You file your PA tax return and PA Schedule SP as Single. The eligibility income limits also apply to you.

**Joint or Separate Returns.** If you and your spouse are living together, you should file a joint return to claim tax forgiveness. If one of you is a dependent of someone other than your spouse, then you each **must** file separate returns. The eligible spouse may file a PA Schedule SP but may not claim his or her spouse.

If you have dependent children, the spouse, if otherwise eligible for tax forgiveness, who claims the children for Federal Income Tax purposes may claim the children on PA Schedule SP.

**General Instructions for PA Schedule SP.** This schedule is on page 10 or 12. To receive tax forgiveness, you must complete a PA Schedule SP and file it with your PA return. Complete ALL the information for yourself in **YOUR** column. If married, your husband or wife should complete the information in the **SPOUSE** column. Married spouses add the columns and use the total in the **JOINT** column. Married taxpayers living together should file a joint PA Schedule SP. There is no longer an advantage to filing separate claims. **Important:** You do not need a worksheet to determine who is a dependent. You make all calculations on the PA Schedule SP.

**Specific Instructions for PA Schedule SP.**

**Part A. Certification of Eligibility.** Fill in the appropriate oval.

- Single.** Fill in this oval if you are single or divorced at the end of 1997 or a dependent of an eligible claimant(s).
- Married, Filing Jointly.** Fill in this oval if you are married and living together at the end of 1997. Use this certification if you and your spouse both have eligibility income. Also use this certification if only one of you has eligibility income.
- Married, Filing Separately.** Fill in this oval if:
  - You are separated and live apart from your spouse. You must provide the name and Social Security Number of your spouse at the top of PA Schedule SP.
  - Your spouse is being claimed on the federal tax return of another person. You must also provide the name and Social Security Number of the person claiming your spouse. Answer whether your spouse has PA taxable income and is filing his or her own PA return. **Note: You must use the M, Married, Filing Separately status on your PA-40 or PA-40EZ. You will use Eligibility Income Table 1 because you are not filing a joint claim for tax forgiveness.**
- Deceased.** Fill in this oval if you are filing for a person who died during 1997. Under Act 7 of 1997, you must annualize the income of a decedent before determining if he or she is eligible for tax forgiveness.

**Part B. Dependent Children.** List only the dependent children that you claimed as dependents on your 1997 federal tax return. If you cannot claim a child on your federal tax return, you cannot claim that child for tax forgiveness purposes. Married persons are never dependents of each other on PA Schedule SP, even when one spouse has no Eligibility Income. You need this number to determine your percentage of tax forgiveness. **If you do not have any dependents, go to PART C.**

- Provide all the requested information for each child listed.
- Number of Dependent Children.** Enter here the number of dependent children you are claiming for tax forgiveness purposes.

**Part C. Eligibility Income.** Enter zero if you have no income to report on a line. For Lines 2 through 10, compute and enter the total income received in each category. Nontaxable income includes income that is not taxable under PA law or regulations and may or may not be taxable for federal purposes. Read each description carefully.

If filing as Single or for a Deceased person, use only **YOUR** column.

If filing as Married, Filing Separately, because your spouse is a dependent on another person's federal tax return or you and your spouse are separated and living apart, use only **YOUR** column to calculate your tax forgiveness credit. You must still provide the information in the **SPOUSE'S** column.

If Married, Filing Jointly, you complete **YOUR** column and your spouse completes the **SPOUSE** column. Add the columns and use the amounts in the **JOINT** column.

- PA Taxable Income.** Enter your total PA Taxable Income amount(s) from your PA tax return.
- Nontaxable Interest, Dividends, and Gains.** Include income from investments in direct obligations of the Federal Govern-

ment, Pennsylvania and political subdivisions of Pennsylvania, even if received through a mutual fund or other regulated investment company. If originally issued on or after 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.

- Alimony.** This is the amount of federally taxable alimony received.
- 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.
- 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 and winnings from the PA State Lottery.
- Nonresident Income.** Enter the total of all income received while residing outside Pennsylvania. This includes income that would otherwise be taxable if earned and received in Pennsylvania.
- Nontaxable Military Income.** This amount represents the difference between your total military income earned and the amount you reported to Pennsylvania as taxable on your PA tax return. **Do not include combat pay.**
- Gain Excluded on the Sale of a Personal Residence.** Enter the amount from Line 5a of PA-40. This line does not apply for PA-40EZ.
- Nontaxable Educational Assistance.** Include the total value of nontaxable scholarships, fellowships, and stipends you received.
- Cash Payments Received from persons outside your house hold.** 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 paid pursuant to a cost sharing arrangement.
- Total Eligibility Income.** Add Lines 1 through 10 in each column and enter the total. Eligibility Income is the total amount of your PA taxable and nontaxable income. Eligibility Income is the amount used to determine your percentage of tax forgiveness.

**Part D. Calculating Your Tax Forgiveness Credit. Lines 12 through 16.**

- PA Tax Liability.** Enter the amount of your Tax Due from Line 13 of your PA-40. This is your tax due BEFORE any credits.

Line 5 of your PA-40EZ.

- Less Resident Credit from PA-40.** Enter your credit from Line 21.

Enter zero on this Line if filing a PA-40EZ.

- Net PA Tax Liability.** Subtract Line 13 from Line 12.

- Percentage of Tax Forgiveness.** If filing as **Single** or **Married, Filing Separately** or for a **Deceased** claimant, use **Eligibility Income Table 1**. If filing as **Married, Filing Jointly**, use **Eligibility Income Table 2**. Use the number of your dependents from Part B, Line 2 and your Eligibility Income from Part C, Line 11 on the appropriate Eligibility Income Table to find your percentage of tax forgiveness. Enter the percentage of forgiveness as a decimal on Line 15.

- Tax Forgiveness Credit.** Multiply Line 14 by the decimal on Line 15. This is your tax forgiveness credit.

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

**ELIGIBILITY INCOME TABLE 1**

TAXPAYERS FILING AS SINGLE — S; MARRIED, FILING SEPARATELY — M OR DECEASED — D

IF YOUR TOTAL ELIGIBILITY INCOME FROM PA SCHEDULE SP, PART C, LINE 11, DOES NOT EXCEED:

You ▾	\$6,300	\$6,400	\$6,500	\$6,600	\$6,700	\$6,800	\$6,900	\$7,000	\$7,100	\$7,200
Dependent Children										
1	<b>\$10,300</b>	\$10,400	<b>\$10,500</b>	\$10,600	<b>\$10,700</b>	\$10,800	<b>\$10,900</b>	\$11,000	<b>\$11,100</b>	\$11,200
2	<b>\$14,300</b>	\$14,400	<b>\$14,500</b>	\$14,600	<b>\$14,700</b>	\$14,800	<b>\$14,900</b>	\$15,000	<b>\$15,100</b>	\$15,200
3	<b>\$18,300</b>	\$18,400	<b>\$18,500</b>	\$18,600	<b>\$18,700</b>	\$18,800	<b>\$18,900</b>	\$19,000	<b>\$19,100</b>	\$19,200
4	<b>\$22,300</b>	\$22,400	<b>\$22,500</b>	\$22,600	<b>\$22,700</b>	\$22,800	<b>\$22,900</b>	\$23,000	<b>\$23,100</b>	\$23,200
5	<b>\$26,300</b>	\$26,400	<b>\$26,500</b>	\$26,600	<b>\$26,700</b>	\$26,800	<b>\$26,900</b>	\$27,000	<b>\$27,100</b>	\$27,200
6	<b>\$30,300</b>	\$30,400	<b>\$30,500</b>	\$30,600	<b>\$30,700</b>	\$30,800	<b>\$30,900</b>	\$31,000	<b>\$31,100</b>	\$31,200
7	<b>\$34,300</b>	\$34,400	<b>\$34,500</b>	\$34,600	<b>\$34,700</b>	\$34,800	<b>\$34,900</b>	\$35,000	<b>\$35,100</b>	\$35,200
8	<b>\$38,300</b>	\$38,400	<b>\$38,500</b>	\$38,600	<b>\$38,700</b>	\$38,800	<b>\$38,900</b>	\$39,000	<b>\$39,100</b>	\$39,200
9	<b>\$42,300</b>	\$42,400	<b>\$42,500</b>	\$42,600	<b>\$42,700</b>	\$42,800	<b>\$42,900</b>	\$43,000	<b>\$43,100</b>	\$43,200
10	<b>\$46,300</b>	\$46,400	<b>\$46,500</b>	\$46,600	<b>\$46,700</b>	\$46,800	<b>\$46,900</b>	\$47,000	<b>\$47,100</b>	\$47,200

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

**ELIGIBILITY INCOME TABLE 2**

TAXPAYERS FILING AS MARRIED, FILING JOINTLY — J

IF YOUR TOTAL ELIGIBILITY INCOME FROM PA SCHEDULE SP, PART C, LINE 11, DOES NOT EXCEED:

You ▾	\$12,600	\$12,700	\$12,800	\$12,900	\$13,000	\$13,100	\$13,200	\$13,300	\$13,400	\$13,500
Dependent Children										
1	<b>\$16,600</b>	\$16,700	<b>\$16,800</b>	\$16,900	<b>\$17,000</b>	\$17,100	<b>\$17,200</b>	\$17,300	<b>\$17,400</b>	\$17,500
2	<b>\$20,600</b>	\$20,700	<b>\$20,800</b>	\$20,900	<b>\$21,000</b>	\$21,100	<b>\$21,200</b>	\$21,300	<b>\$22,400</b>	\$21,500
3	<b>\$24,600</b>	\$24,700	<b>\$24,800</b>	\$24,900	<b>\$25,000</b>	\$25,100	<b>\$25,200</b>	\$25,300	<b>\$25,400</b>	\$25,500
4	<b>\$28,600</b>	\$28,700	<b>\$28,800</b>	\$28,900	<b>\$29,000</b>	\$29,100	<b>\$29,200</b>	\$29,300	<b>\$29,400</b>	\$29,500
5	<b>\$32,600</b>	\$32,700	<b>\$32,800</b>	\$32,900	<b>\$33,000</b>	\$33,100	<b>\$33,200</b>	\$33,300	<b>\$33,400</b>	\$33,500
6	<b>\$36,600</b>	\$36,700	<b>\$36,800</b>	\$36,900	<b>\$37,000</b>	\$37,100	<b>\$37,200</b>	\$37,300	<b>\$37,400</b>	\$37,500
7	<b>\$40,600</b>	\$40,700	<b>\$40,800</b>	\$40,900	<b>\$41,000</b>	\$41,100	<b>\$41,200</b>	\$41,300	<b>\$41,400</b>	\$41,500
8	<b>\$44,600</b>	\$44,700	<b>\$44,800</b>	\$44,900	<b>\$45,000</b>	\$45,100	<b>\$45,200</b>	\$45,300	<b>\$45,400</b>	\$45,500
9	<b>\$48,600</b>	\$48,700	<b>\$48,800</b>	\$48,900	<b>\$49,000</b>	\$49,100	<b>\$49,200</b>	\$49,300	<b>\$49,400</b>	\$49,500
10	<b>\$52,600</b>	\$52,700	<b>\$52,800</b>	\$52,900	<b>\$53,000</b>	\$53,100	<b>\$53,200</b>	\$53,300	<b>\$53,400</b>	\$53,500

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



# PENNSYLVANIA SCHOOL DISTRICTS AND CODES BY COUNTY Page 35

SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE	SCHOOL DISTRICT	CODE
<b>ADAMS</b>		<b>BERKS</b>		<b>CENTRE</b>		<b>DELAWARE</b>	
Bermudian Springs	.01110	Antietam	.06050	Palmerton Area	.13650	Middletown Area	.22600
Conewago Valley	.01160	Boyerstown Area	.06075	Panther Valley	.13660	Millersburg Area	.22610
Fairfield Area	.01305	Brandywine Heights Area	.06085	Weatherly Area	.13900	Steeleton Highspire	.22800
Gettysburg Area	.01375	Conrad Weiser Area	.06110	<b>CHESTER</b>		Susquehanna Township	.22830
Littlestown Area	.01520	Daniel Boone Area	.06150	Bald Eagle Area	.14100	Susquenita	.50600
Upper Adams	.01852	Exeter Township	.06200	Bellefonte Area	.14110	Upper Dauphin Area	.22900
<b>ALLEGHENY</b>		Fleetwood Area	.06250	Keystone Central	.18360	Williams Valley	.54880
Allegheny Valley	.02060	Governor Mifflin	.06300	Penns Valley Area	.14700	<b>DELAWARE</b>	
Avonworth	.02075	Hamburg Area	.06350	Philipsburg-Osceola Area	.17700	Chester Upland	.23123
Baldwin Whitehall	.02110	Kutztown Area	.06400	State College Area	.14800	Chichester	.23130
Bethel Park	.02125	Muhlenberg Township	.06550	Tyrone Area	.07800	Garnet Valley	.23410
Brentwood Borough	.02145	Oley Valley	.06650	<b>CHESTER</b>		Haverford Township	.23450
Carlynton	.02160	Reading	.06700	Avon Grove	.15050	Interboro	.23510
Chartiers Valley	.02175	Schuylkill Valley	.06750	Coatesville Area	.15190	Marple Newtown	.23550
Clairton	.02190	Tulpehocken Area	.06800	Downingtown Area	.15200	Penn Delco	.23690
Cornell	.02210	Twin Valley	.06810	Great Valley	.15350	Radnor Township	.23760
Deer Lakes	.02225	Upper Perkiomen	.46860	Kennett Consolidated	.15400	Ridley	.23770
Duquesne City	.02250	Wilson	.06910	Octorara Area	.15650	Rose Tree Media	.23790
East Allegheny	.02280	Wyomissing	.06935	Owen J. Roberts	.15660	Southeast Delco	.23840
Elizabeth Forward	.02315	<b>BLAIR</b>		Oxford Area	.15670	Springfield	.23850
Fort Cherry	.63240	Altoona Area	.07050	Phoenixville Area	.15720	Unionville-Chadds Ford	.15850
Fox Chapel Area	.02391	Bellwood Antis	.07100	Spring Ford Area	.46730	Upper Darby	.23945
Gateway	.02410	Claysburg-Kimmel	.07150	Tredyffrin Easttown	.15780	Wallingford Swarthmore	.23960
Hampton Township	.02460	Holidaysburg Area	.07350	Twin Valley	.06810	West Chester Area	.15900
Highlands	.02475	Spring Cove	.07750	Unionville-Chadds Ford	.15850	William Penn	.23965
Keystone Oaks	.02500	Tyrone Area	.07800	West Chester Area	.15900	<b>ELK</b>	
McKeesport Area	.02600	Williamsburg Community	.07900	<b>CLARION</b>		Brockway Area	.33070
Montour	.02630	<b>BRADFORD</b>		Allegheny Clarion Valley	.16030	Forest Area	.27200
Moon Area	.02634	Athens Area	.08050	Armstrong	.03085	Johnsonburg Area	.24350
Mount Lebanon	.02640	Canton Area	.08100	Clarion Area	.16120	Kane Area	.42230
North Allegheny	.02685	Northwest Bradford County	.08300	Clarion-Limestone Area	.16170	Ridgway Area	.24600
Northgate	.02687	Sayre Area	.08600	Keystone	.16650	Saint Marys Area	.24800
North Hills	.02690	Towanda Area	.08650	North Clarion County	.16750	<b>ERIE</b>	
Penn Hills	.02735	Troy Area	.08665	Redbank Valley	.16800	Corry Area	.25145
Penn-Trafford	.65710	Wyalusing Area	.08900	Union	.16900	Erie City	.25260
Pine-Richland	.02100	<b>BUCKS</b>		<b>CLEARFIELD</b>		Fairview	.25330
Pittsburgh	.02745	Bensalem Township	.09100	Clearfield Area	.17100	Fort Leboeuf	.25355
Plum Borough	.02750	Bristol Borough	.09130	Curwensville Area	.17180	General McLane	.25390
Quaker Valley	.02775	Bristol Township	.09135	Dubois Area	.17200	Girard	.25405
Riverview	.02820	Centennial	.09200	Glendale	.17300	Harbor Creek	.25435
Shaler Area	.02830	Central Bucks	.09210	Harmony Area	.17350	Iroquois	.25655
South Allegheny	.02865	Council Rock	.09235	Moshannon Valley	.17500	Millcreek Township	.25760
South Fayette Township	.02870	Easton Area	.48330	Philipsburg-Osceola Area	.17700	North East	.25830
South Park	.02875	Morrisville Borough	.09720	Purchase Line	.32730	Northwestern	.25850
Steel Valley	.02883	Neshaminy	.09750	West Branch Area	.17900	Union City Area	.25910
Sto Rox	.02885	New Hope Solebury	.09760	<b>CLINTON</b>		Wattsburg Area	.25970
Upper Saint Clair Township	.02920	North Penn	.46570	Jersey Shore Area	.41400	<b>FAYETTE</b>	
West Allegheny	.02940	Palisades	.09800	Keystone Central	.18360	Albert Gallatin Area	.26030
West Jefferson Hills	.02955	Pennridge	.09810	West Branch Area	.17900	Belle Vernon Area	.65060
West Mifflin Area	.02960	Pennsbury	.09820	<b>COLUMBIA</b>		Brownsville Area	.26080
Wilkinsburg Borough	.02980	Quakertown Community	.09840	Benton Area	.19100	Cornellsville Area	.26130
Woodland Hills	.02990	Soudertown Area	.46710	Berwick Area	.19110	Frazier	.26290
<b>ARMSTRONG</b>		<b>BUTLER</b>		Bloomsburg Area	.19120	Laurel Highlands	.26400
Allegheny Clarion Valley	.16030	Allegheny Clarion Valley	.16030	Central Columbia	.19150	Southmoreland	.65750
Apollo-Ridge	.03060	Butler Area	.10125	Millville Area	.19500	Uniontown Area	.26800
Armstrong	.03085	Freeport Area	.03305	Mount Carmel Area	.49510	<b>FOREST</b>	
Freeport Area	.03305	Karns City Area	.10360	North Schuylkill	.54500	Forest Area	.27200
Karns City Area	.10360	Mars Area	.10500	Southern Columbia Area	.19750	<b>FRANKLIN</b>	
Kiski Area	.65440	Moniteau	.10535	<b>CRAWFORD</b>		Chambersburg Area	.28130
Leechburg Area	.03450	Seneca Valley	.10790	Conneaut	.20103	Fannett-Metal	.28200
Redbank Valley	.16800	Slippery Rock Area	.10750	Corry Area	.25145	Greencastle-Antrim	.28300
<b>BEAVER</b>		South Butler County	.10780	Crawford Central	.20135	Shippensburg Area	.21800
Aliquippa Borough	.04050	<b>CAMBRIA</b>		Jamestown Area	.43360	Tuscarora	.28600
Ambridge Area	.04070	Blacklick Valley	.11060	Penncrest	.20470	Waysboro Area	.28900
Beaver Area	.04120	Cambria Heights	.11120	Titusville Area	.61720	<b>FULTON</b>	
Big Beaver Falls Area	.04150	Central Cambria	.11130	Union City Area	.25910	Central Fulton	.29130
Blackhawk	.04160	Conemaugh Valley	.11140	<b>CUMBERLAND</b>		Forbes Road	.29230
Center Area	.04190	Ferndale Area	.11200	Big Spring	.21050	South Fulton	.29750
Ellwood City Area	.37200	Forest Hills	.11220	Camp Hill	.21100	<b>GREENE</b>	
Freedom Area	.04285	Glendale	.17300	Carlisle Area	.21110	Carmichaels Area	.30130
Hopewell Area	.04410	Greater Johnstown	.11250	Cumberland Valley	.21160	Central Greene	.30140
Midland Borough	.04530	Northern Cambria	.11450	East Pennsboro Area	.21250	Jefferson-Morgan	.30350
Monaca	.04545	Penn Cambria	.11600	Mechanicsburg Area	.21650	Southeastern Greene	.30650
New Brighton Area	.04565	Portage Area	.11630	Shippensburg Area	.21800	West Greene	.30850
Riverside Beaver County	.04585	Richland	.11650	South Middleton	.21830	<b>HUNTINGDON</b>	
Rochester Area	.04690	Westmont Hilltop	.11850	West Shore	.21900	Huntingdon Area	.31250
Southside Area	.04740	Windber Area	.56910	<b>DAUPHIN</b>		Juniata Valley	.31280
Western Beaver County	.04930	<b>CAMERON</b>		Central Dauphin	.22140	Mount Union Area	.31600
<b>BEDFORD</b>		Cameron County	.12270	Derry Township	.22175	South Huntingdon County	.31750
Bedford Area	.05100	<b>CARBON</b>		Halifax Area	.22250	Tussey Mountain	.05800
Chestnut Ridge	.05150	Hazleton Area	.40330	Harrisburg City	.22275	Tyrone Area	.07800
Claysburg-Kimmel	.07150	Jim Thorpe Area	.13500	Lower Dauphin	.22400		
Everett Area	.05300	Lehigh Area	.13550				
Northern Bedford County	.05600						
Tussey Mountain	.05800						

Part-Year Residents who moved out of Pennsylvania during 1997 use code 99999.

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

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