

PA-41 - 2016 (08-16) (FI)
PA Fiduciary Income Tax Return
PLEASE PRINT IN BLACK INK

OFFICIAL USE ONLY

Federal Employer Identification Number

Decedent's Social Security Number

Fiduciary's Daytime Telephone Number

[Empty box for Federal Employer Identification Number]

[Empty box for Decedent's Social Security Number]

[Empty box for Fiduciary's Daytime Telephone Number]

PLEASE WRITE IN THE FEIN & SOCIAL SECURITY NUMBER ABOVE

Name of Estate or Trust (See Online Detailed Instructions)

[Empty box for Name of Estate or Trust]

Name and Title of Fiduciary

[Empty box for Name and Title of Fiduciary]

Address of Fiduciary (Street Number and Name, etc.)

[Empty box for Address of Fiduciary]

City or Post Office

[Empty box for City or Post Office]

State

[Empty box for State]

ZIP Code

[Empty box for ZIP Code]

Extension Requested

Amended PA-41

Fiscal-Year Filer

FY beginning \_\_\_\_\_

and ending \_\_\_\_\_

Residency Status. Fill in only one oval.

R Pennsylvania Resident

N Nonresident

If "N", Name of State \_\_\_\_\_

Final Return

F Enter Ending Date: \_\_\_\_\_

Submit all required Pennsylvania supporting schedules. If Line 3, 4 or 5 is a LOSS, fill in the oval next to the amount.

Dollars Cents

- 1. INTEREST INCOME and GAMBLING and LOTTERY WINNINGS.
2. DIVIDEND AND CAPITAL GAINS DISTRIBUTIONS INCOME.
3. NET INCOME or LOSS from the Operation of a Business, Profession or Farm.
4. NET GAIN or LOSS from the Sale, Exchange or Disposition of Property.
5. NET INCOME or LOSS from Rents, Royalties, Patents or Copyrights.
6. ESTATE or TRUST INCOME.
7. TOTAL INCOME. Add only the positive income amounts from Lines 1, 2, 3, 4, 5 and 6. Do not add losses.
8. DEDUCTIONS from PA SCHEDULE DD.
9. NET PA-TAXABLE INCOME. Subtract Line 8 from Line 7.
10. PA TAX LIABILITY. Multiply Line 9 by the tax rate 3.07 percent (0.0307).
11. TAX WITHHELD FOR NONRESIDENT BENEFICIARIES. See the instructions.
12. TOTAL PA TAX LIABILITY. Add Lines 10 and 11.
13. 2016 ESTIMATED PAYMENTS and CREDITS.
14. NONRESIDENT TAX WITHHELD from PA SCHEDULE(S) NRK-1.
15. TOTAL CREDIT for TAXES PAID by PA RESIDENT ESTATES or TRUSTS to OTHER STATES
16. TOTAL OTHER CREDITS from PA SCHEDULE OC.
17. PA INCOME TAX WITHHELD.
18. TOTAL PAYMENTS and CREDITS. Add Lines 13, 14, 15, 16 and 17.
19. USE TAX. See the instructions.

Table with 2 columns: Dollars, Cents. Rows 1-19 for tax calculation.



EC

[Empty boxes for EC and FC]

FC

**PA-41 - 2016** (08-16) (FI)  
PA Fiduciary Income Tax Return  
**PLEASE PRINT IN BLACK INK**

Name as shown on PA-41 \_\_\_\_\_ Federal EIN or Decedent's Social Security Number \_\_\_\_\_

**20. TAX DUE.** If the total of Line 12 and Line 19 is more than Line 18, enter the difference here. .... 20.

**21. PENALTIES AND INTEREST.** See the instructions for additional information. If including REV-1630F, fill in oval. .... 21.

**22. TOTAL PAYMENT – Add Lines 20 and 21.** Make check or money order payable to PA DEPT. OF REVENUE. See the instructions on HOW TO PAY. .... 22.

**23. OVERPAYMENT.** If Line 18 is more than the total of Lines 12, 19 and 21, enter the difference here. **The total of Lines 24 and 25 must equal Line 23.** .... 23.

**24. REFUND – Amount of Line 23 you want as a check mailed to the estate or trust.** ..... **REFUND** 24.

**25. CREDIT – Amount of Line 23 you want as a credit to the 2017 estimated tax account of the estate or trust.** ..... 25.

Signature(s). Under penalties of perjury, I have examined this return, including all accompanying schedules and statements, and to the best of my belief, it is true, correct and complete.  
Signature of Fiduciary \_\_\_\_\_ Date \_\_\_\_\_

Name of preparer or his or her company name, based on all information on this return of which the preparer has any knowledge.  
Preparer's Name and Telephone Number \_\_\_\_\_ Firm FEIN \_\_\_\_\_ Preparer's PTIN \_\_\_\_\_

PA-41 Other Information (08-16) (FI) **PA SCHEDULE OI - Other Information** **2016**

	YES	NO
1. Is this a revocable trust?	<input type="radio"/>	<input type="radio"/>
2. Is this an irrevocable trust?	<input type="radio"/>	<input type="radio"/>
3. Does the estate/trust receive income from or pay income to a foreign entity? If "Yes," include a statement with this return. See the PA-41 Schedule OI instructions for what to include with that statement.	<input type="radio"/>	<input type="radio"/>
4. Has the federal government made an additional assessment on the income of this estate/trust in the last four years? If "Yes," include a statement with this return explaining such adjustments. See the PA-41 Schedule OI instructions.	<input type="radio"/>	<input type="radio"/>
5. Did this estate/trust receive income from a partnership, S corporation, LLC, or another estate/trust? If "Yes," list below all such partnerships, S corporations, LLCs, estates/trusts, showing the FEIN, name and address of each. If additional space is necessary, include a supplemental statement (in the same format) with this return.	<input type="radio"/>	<input type="radio"/>
<b>FEIN</b>	<b>Name</b>	<b>Address</b>
a.		
b.		
c.		
d.		
e.		
f.		
6. If this return is for a trust, state the name and address of the grantor below.		
<b>Name of Grantor:</b>	<b>Address of Grantor:</b>	



## WHAT'S NEW

With the passage of Act 84 of 2016, cash prize payments received on or after Jan. 1, 2016 from the Pennsylvania Lottery are now taxable for PA personal income tax purposes. PA personal income tax is also required to be withheld on cash prizes paid after July 12, 2016. See PA-41 Schedule A's instructions, Page 23 of these instructions and the department's website for more information.

The sale, exchange or disposition of property resulting from an involuntary conversion under IRC Section 1033 are not required to be reported for PA personal income tax purposes if the contributory event occurred after Sept. 11, 2016. See Page 20 for more information.

## GENERAL INFORMATION

### PURPOSE OF FORM

The fiduciary of a resident estate or trust uses the PA-41, Fiduciary Income Tax Return, to report:

- The income, deductions, gains, losses, etc., of the estate or trust;
- The income that is either accumulated or held for future distribution or distributed currently to the beneficiaries; and
- Any income tax liability of the estate or trust.

The fiduciary of a nonresident estate or trust uses the PA-41 Fiduciary Income Tax Return to report:

- Pennsylvania-source income when there are no resident beneficiaries;
- Worldwide income when the estate or trust has Pennsylvania-source income and resident beneficiaries; or
- Any income tax liability of the estate or trust.

### TAX CREDITS

Estates and trusts cannot pass through any tax credits to its beneficiaries.

## PRIVACY NOTIFICATION

By law (42 U.S.C. §405(c)(2)(C)(i); 61 Pa. Code §117.16), the department has

the authority to use the Social Security number (SSN) to administer the Pennsylvania personal income tax and other Commonwealth of Pennsylvania tax laws.

The department uses the SSN to identify individual taxpayers and verify their incomes. The department also uses the SSN to administer a number of tax-offset and child-support programs that federal and Pennsylvania laws require.

The commonwealth may also use the SSN in exchange-of-tax information agreements with governmental authorities. Except for official purposes, Pennsylvania law prohibits the commonwealth from disclosing information that individuals provide on income tax returns, including the SSN(s).

## WHO MUST FILE

An estate or trust must file the PA-41, Fiduciary Income Tax Return, if any of the following apply:

- The fiduciary of an irrevocable electing small business trust received or realized more than \$33 of Pennsylvania-taxable income or records a loss in any class of income;
- An estate or trust earned, received or realized more than \$33 of Pennsylvania-taxable income or records a loss in any class of income;
- The estate is a taxable bankruptcy estate of a Chapter 7 or 11 bankruptcy debtor created under Section 1398 of the Internal Revenue Code of 1986;
- The fiduciary of a resident estate or taxable trust received taxable income/loss during its taxable year;
- The fiduciary of a nonresident estate or trust received taxable income and the estate or trust has a Pennsylvania resident beneficiary;
- The fiduciary of a grantor trust including a Grantor Retained Annuity Trust (GRAT) or Grantor Retained Unitrust (GRUT) received taxable income during its taxable year regardless of whether it is required to file a federal income tax return or

not, unless the grantor trust is a settlor-revocable trust;

- The fiduciary of a charitable trust including a Charitable Remainder Annuity Trust (CRAT) and Charitable Remainder Unitrust (CRUT) received taxable income during its taxable year, regardless of whether it is required to file a federal income tax return or not, when any private individual benefits from the earnings of the trust;
- The fiduciary of a nonresident estate or taxable trust received Pennsylvania-source income/loss during its taxable year;
- The fiduciary of a nonresident taxable trust including grantor trusts, GRATS, GRUTS, CRATS and CRUTS received Pennsylvania-source income/loss;
- The fiduciary of a revocable trust that becomes an irrevocable trust (settlor of a revocable trust dies or the terms of trust are altered to make the trust irrevocable) received taxable income; or
- The fiduciary of a qualified subchapter S trust (QSST) received income from an S corporation that must flow through to resident or nonresident income beneficiaries.

## WHO DOES NOT FILE A PA-41 FIDUCIARY INCOME TAX RETURN

An estate or trust does not file the PA-41, Fiduciary Income Tax Return, if it is one of the following:

- A charitable trust exclusively for religious, charitable, scientific, literary or educational purposes;
- A revocable trust-any revocable trust (grantor or settlor-revocable);
- A nonresident estate or trust with no Pennsylvania-source income/loss AND no Pennsylvania resident beneficiaries;
- A funeral trust;
- A resulting or constructive trust created by operation of law;

- A trust created exclusively for the benefit of creditors except a taxable bankruptcy estate of a Chapter 7 or 11 bankruptcy debtor created under Section 1398 of the Internal Revenue Code of 1986;
- A principal and agent relationship;
- A business trust or real estate investment trust;
- A trust created exclusively for the benefit of employees, their families, or appointees under an employee-benefit plan;
- A pension trust or profit-sharing trust;
- A trust that is a common trust fund for federal income tax purposes; or
- A trust created by an entity or enterprise other than a Pennsylvania personal income tax taxpayer:
  - For which no part of the income or corpus may possibly benefit any beneficiary who is a Pennsylvania personal income tax taxpayer; and
  - For which no part of the property consists of property transferred to it (or another trust) by any Pennsylvania personal income tax taxpayer.



**NOTE:** For purposes of the last item above, a Pennsylvania personal income tax taxpayer means any individual, estate, trust, partnership, PA S corporation or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes.

## SPECIAL RULES

Before preparation of the PA-41, Fiduciary Income Tax Return, determine all of the following under the terms of the governing instrument and the laws applicable to the administration of estates or trusts:

- Whether an item of receipt or expense is allocable to corpus or income;
- What part, if any, of the undistributed net income of a trust (for administrative purposes) is required to be added to corpus;
- Whether property distributed in kind is distributed as a gift or bequest of specific property;
- Whether an amount is properly paid out of corpus as a gift or bequest of a specific amount of money;
- Whether payment of a distribution is directed without reference to the existence or absence of income; and

- Whether the estate or trust must distribute an amount, and whether it pays such amount out of income or corpus, or it may pay such amount out of either income or corpus.

When the governing instrument specifically provides the source from which amounts are to be permanently set aside or used, the provisions of the governing instrument control the distribution and calculation of income.

The governing instrument determines when amounts, including particular items of income received by the estate or trust, are set aside or when those amounts are used for specific purposes. In the absence of specific provisions in the governing instrument, the amount shall be deemed to consist of the same proportion of each class of the items of income of the estate or trust as the total of each class bears to the total of all classes.

In determining whether income derived from a partnership, PA S corporation, estate or trust is required to be distributed currently, or is distributed or credited to a beneficiary, the excess of the Pennsylvania-taxable income derived through such partnership, PA S corporation, estate or trust over the amount of distributions or withdrawals therefrom shall be considered to be income that is required to be retained, accumulated or set aside.

Amounts disbursed to pay taxes measured by the income for another taxable period may not be treated as set aside from current income.

Generally, amounts disbursed to pay nondeductible trustee commissions, legal and accounting expenses and other current expenses that do not reduce the amount of taxable or nontaxable income or gain of the trust for the taxable year shall be treated as nontaxable income or gain which is required to be accumulated, retained or set aside.

This is true as long as total distributions for the year do not equal or exceed the excess of total taxable and nontaxable income received by the estate or trust for the taxable year over total taxable and nontaxable income received by the estate or trust for the taxable year, which is required to be accumulated, retained or set aside for future distribution.

However, if total distributions for the year do equal or exceed the excess of total taxable and nontaxable income received by the estate or trust for the taxable year

over total taxable and nontaxable income received by the estate or trust for the taxable year, which is required to be accumulated, retained or set aside for future distribution, the amounts shall be treated as distributions by the estate or trust and beneficiaries.

If a trust consists in part of intangible investment property, such as stock or securities, or tangible investment property, such as real estate located outside Pennsylvania transferred to it by a person who at the time of the transfer was a nonresident, the income or gains realized from such property shall be excludable from tax by the trust.

## DEFINITIONS

### Charitable Trust

A charitable trust is one operated exclusively for religious, charitable, scientific, literary or educational purposes. A trust is a charitable trust only if all of the net earnings for the taxable year and remaining life of the trust are for distribution for such purposes. No part of the earnings of a charitable trust may benefit any private individual.

Trusts for the general care, maintenance or improvement of public or church cemeteries are charitable trusts. However, trusts for the care, maintenance, or improvement of the burial lots of the settlor, testator or his/her family are not charitable trusts.

### Charitable Remainder Annuity Trusts (CRAT) and Charitable Remainder Unitrusts (CRUT)

Charitable Remainder Annuity Trusts (CRATS) and Charitable Remainder Unitrusts (CRUT) are trusts consisting of assets that are designated for a charitable purpose and are paid over to the trusts after the expiration of a life estate or intermediate estate.

Federally qualified CRATs and CRUTs are not charitable trusts if during the current taxable year:

- Any part of the trust's undistributed income may benefit any private individual in subsequent years; or
- Any part of the trust's current income is required under the governing instrument or any applicable state law to be distributed currently or is actually distributed or credited to a beneficiary that is not a charitable organization for which a donor may receive a charitable contribution deduction for federal income tax purposes.

**⚠ IMPORTANT:** CRATs, charitable remainder trusts, CRUTs and pooled income fund trusts of public charities are ordinary trusts that are not exempt from PA-41, Fiduciary Income Tax Return, filing requirements or taxation. These types of charitable trusts must file a Pennsylvania trust tax return, pay tax on any undistributed income, and report the income to the beneficiary on the same basis as any other ordinary trust.

### Corpus

The corpus is principal or property of an estate or trust as opposed to the income it earns, receives or realizes from its corpus.

### Estate

For Pennsylvania personal income tax purposes, an estate is the estate of a deceased individual.

An estate also includes a taxable bankruptcy estate of a Chapter 7 or 11 bankruptcy debtor created under Section 1398 of the Internal Revenue Code of 1986. The Commonwealth is authorized to tax such estates under Title 11, Section 346(a) of the U.S. Bankruptcy Code.

An estate does not include the estate of a minor or incompetent. The guardian of a minor or incompetent is required to file income tax returns for such individuals on Form PA-40.

### Fiduciary

A fiduciary is an individual, corporation or association holding assets in trust for another party, often with the legal authority and duty to make decisions regarding financial matters on behalf of the other party.

### Funeral Trust

A funeral trust is a trust that arises from a contract with a person engaged in the business of providing funeral or burial services or property for these services, with the trust assets designated to pay the funeral expenses of the individual for whom the trust is established. The trust assets cannot be distributed until the death of that individual. Funeral trusts are revocable trusts and are not required to file a PA-41, Fiduciary Income Tax Return. However, income on the trust assets is taxed to the taxpayer who contributed the assets to the trust. See PA Personal Income Tax Guide, Chapter 14.

### Governing Instrument

The governing or trust instrument is a written document that defines and describes the nature of and provides instructions for the administration and settlement of an estate or trust.

The document can be a deed of trust, will, written trust agreement, an instrument creating or exercising a power of appointment or a dispositive, appointive or nominative instrument of a similar type.

The department does not require a copy of the governing instrument with the PA-41, Fiduciary Income Tax Return, but the estate or trust must submit it upon request.

### Grantor Retained Annuity Trust (GRAT) and Grantor Retained Unitrust (GRUT)

GRATs and GRUTs are types of grantor trusts where the grantor retains an interest in receiving income assets of the trust.

**⚠ IMPORTANT:** GRATs and GRUTs are ordinary trusts that are not exempt from PA-41, Fiduciary Income Tax Return, filing requirements or taxation. These types of trusts must file a Pennsylvania trust tax return, pay tax on any retained earnings, and report the income to the beneficiary on the same basis as any other ordinary trust.

### Electing Small Business Trust

An electing small business trust is any trust that can hold stock of an S corporation. The term means any trust if:

- It does not have as a beneficiary any person other than an individual, estate or an organization described in IRC §170(c)(2) and 170(c)(5);
- No interest in such trust was acquired by purchase; and
- An election is made by the trustee applicable to the trust.

### Grantor Trust

A grantor trust is a trust in which some or all of the assets are considered to be owned by the grantor for federal income tax purposes.

However, Pennsylvania law varies from federal law regarding grantor trusts and federal rules do not apply for Pennsylvania fiduciary income tax purposes. Pennsylvania law imposes the fiduciary income tax on grantor trusts according to the same Pennsylvania personal income tax rules that apply to irrevocable trusts, unless the grantor trust is a revocable trust. See Revocable Trust.

The beneficiaries of the trust are taxed on income required to be distributed currently or actually distributed or credited to them. The grantor trust is taxable on the remainder.

### Irrevocable Trust

An irrevocable trust is a trust that cannot be modified, amended, changed or terminated by the grantor.

### Nonresident Beneficiary

A nonresident beneficiary is a person who is not a resident beneficiary. See Resident Beneficiary.

### Nonresident Estate

A nonresident estate is any estate that is not a Pennsylvania resident estate.

### Nonresident Trust

A nonresident trust is any irrevocable trust that is not a Pennsylvania resident trust. An inter vivos trust or a testamentary trust created by a resident can become a nonresident trust if the settlor is no longer a resident or is deceased, and the trust lacks sufficient contact with Pennsylvania to establish nexus. Any one of the following conditions provides sufficient contact for a resident trust to remain a resident trust or to requalify as a resident trust:

- The trust has a resident trustee;
- Any trust administration occurs in Pennsylvania;
- Trust assets include:
  - Real or tangible personal property located within Pennsylvania, or
  - Stock, securities or intangible personal property, evidenced by the documents, certificates or other instruments that are physically located, or have a business situs within Pennsylvania; or
- The situs of the trust is Pennsylvania as provided in 20 PA. C.S. §7708.

### Pass-Through Entity

A pass-through entity for PA personal income tax purposes is:

- A partnership. A partnership is any unincorporated entity, including a domestic or foreign general partnership, joint venture, limited partnership, limited liability partnership, business trust or investment club that for federal income tax purposes is classified as a partnership.
- A Pennsylvania S corporation. A Pennsylvania S corporation is any corporation that has a valid election in effect under Subchapter S of Chapter 1 of the Internal Revenue Code of 1986, as amended to January 1, 2005 and has not elected to not be treated as an S corporation for Pennsylvania tax purposes. A qualified subchapter S subsidiary owned by a Pennsylvania S corporation shall be treated as a Pennsylvania S corporation without regard to whether an election to not be treated as an S corporation has been made with respect to the subsidiary.

- A limited liability company classified as a partnership or S corporation for federal income tax purposes.

**⚠ IMPORTANT:** A pass-through entity does not include an estate or trust for Pennsylvania personal income tax purposes

### **Pennsylvania-Source Income**

Pennsylvania-source income is income derived by the estate or trust from sources within Pennsylvania. For estates and trusts, that income is generally derived from:

- Operation of a business or ownership in a partnership, S corporation or limited liability company that has operations wholly or partially within Pennsylvania;
- Ownership of rental property or a partnership, S corporation or limited liability company that owns rental property located in Pennsylvania;
- Sales of tangible property located in Pennsylvania;
- Gambling and lottery winnings from a wager placed in Pennsylvania; and/or
- Estate or trust income from another estate or trust that has income from any of the above sources.

For additional information on Pennsylvania-source income and what types of income nonresidents should report, see Personal Income Tax Guide – Chapter 4.

### **Person**

A person is an individual, estate, trust, association, partnership or corporation, resident or nonresident, and the plural as well as the singular number.

### **Pro-forma PA-40 Personal Income Tax Return**

A pro-forma PA-40 Personal Income Tax Return is a return completed on behalf of the bankruptcy debtor that includes the income (loss), deductions and credits of the bankruptcy estate. The pro-forma PA-40 is required to be included with the PA-41 of the bankruptcy estate. It does not include any income (loss), deductions or credits that must remain with the taxpayer who completes a PA-40 to report that income.

### **Qualified Subchapter S Trust (QSST)**

A QSST is a type of trust for federal income tax purposes that is permitted to become a shareholder of an S corporation if the current individual income beneficiary of the trust elects to be treated as the owner of the trust for purposes of the Internal Revenue Code.

For PA personal income tax purposes, the S corporation income will pass through the S corporation to the trust and will be distributed from the trust to the trust income beneficiary.

### **Resident Beneficiary**

A resident beneficiary is a person who is domiciled in Pennsylvania unless the person maintains no permanent place of abode in Pennsylvania and does maintain a permanent place of abode elsewhere and spends no more than 30 days of the taxable year in Pennsylvania; or is a person who is not domiciled in Pennsylvania but maintains a permanent place of abode in Pennsylvania and spends more than 183 aggregate days of the taxable year in Pennsylvania. The fiduciary of an estate or trust must maintain an accurate list of beneficiaries.

### **Resident Estate or Trust**

A resident estate is the estate created by an individual who at the time of his or her death was a Pennsylvania resident. A resident estate also includes a taxable bankruptcy estate where the debtor is a Pennsylvania resident on the date of the filing of the bankruptcy petition.

A resident trust is any of the following:

- A trust created by the will of a decedent who, at the time of death, was a Pennsylvania resident individual;
- A trust consisting of property transferred to it or another trust by a settlor or other individual, estate or trust that at the time of such transfer, was a Pennsylvania resident; or
- A trust of a person who, at the time of such creation, was a Pennsylvania resident.

**⚠ IMPORTANT:** A resident trust that believes that it should be a nonresident trust cannot file an amended return to declare itself to be a nonresident trust. The trust must file a Petition for Refund with the Board of Appeals to have a decision and order issued for changing the residency status. See When to Amend the PA-41, Fiduciary Income Tax Return, for additional information.

### **Revocable Trust**

A revocable trust is one that can be created by anyone, and at a later date, be dissolved by the person who originally created it. Upon dissolution, the assets, if any, that were placed into the trust revert back to the ownership status they held before they were assigned to the trust. See Settlor-Revocable Trust.

### **Settlor**

A settlor is a party who transfers property to a trust.

### **Settlor-Revocable Trust**

A trust is a settlor-revocable trust if it is a totten trust or an express trust where the trust agreement reserves in the settlor:

- The power to revoke the trust as an entirety without the declaration of new uses or the consent of any other party; and
- The concurrent power to revest in himself or herself legal title to the corpus of the trust, without the consent of any other party.

A revocable trust is not a taxable entity for Pennsylvania purposes. However, the settlor of the revocable trust, if a nonresident, is required to pay Pennsylvania personal income tax on the Pennsylvania-source income of the revocable trust. As a resident, the settlor of a revocable trust is required to pay Pennsylvania personal income tax on world-wide income of the revocable trust.

**⚠ IMPORTANT:** Trusts that are classified as grantor trusts for federal tax purposes often do not constitute settlor-revocable trusts.

Grantor trusts other than settlor-revocable trusts are taxable according to the same Pennsylvania personal income tax rules that apply to other trusts. See Grantor Retained Annuity Trust and Grantor Retained UniTrust.

### **Taxable Bankruptcy Estate**

A taxable bankruptcy estate is an estate of a Chapter 7 or 11 bankruptcy debtor created under Section 1398 of the Internal Revenue Code of 1986. The PA taxable income of the bankruptcy debtor that is attributable to the bankruptcy estate must be reported by the bankruptcy estate as the estate's income. The income of the taxable bankruptcy estate is subject to PA personal income tax.

### **Taxable Trust**

For Pennsylvania personal income tax purposes, a trust includes a taxable trust created by a will and any taxable express trust taking effect during the lifetime or after the death of the settlor.

### **Totten Trust**

A type of revocable trust formed under New York law whereby the grantor deposits his or her own funds in a bank account in his or her own name as trustee for a beneficiary. The grantor retains control over the assets until death or unequivocal action of the gifting of the property. Any income of such a trust is the income of the grantor.

# PENNSYLVANIA INCOME TAXATION OF ESTATES AND TRUSTS

## Taxable Income

Estates or Trusts must report taxable income (loss) realized from the following classes:

- Interest income;
- Dividend income;
- Net income (loss) from the operation of a business, profession or farm;
- Net gain (loss) from the sale, exchange or disposition of property;
- Net income (loss) from rents, royalties, patents or copyrights;
- Estate or trust income; and
- Gambling and lottery winnings.

**TIP** Compensation from a deceased individual's final W-2 cannot be reported on a PA-41, Fiduciary Income Tax Return. This income should be reported on the individual's final PA-40, Individual Income Tax Return.

If any of the compensation is paid after an individual's death, a letter of explanation must accompany the individual's final return advising that the income was income in respect of a decedent and, therefore, is not subject to Pennsylvania personal income tax. However, any Pennsylvania income tax withheld should be included on the PA-41, Fiduciary Income Tax Return, Line 17. See Line 17 in these instructions.

Any compensation paid after the individual's death, plus any tax refund, must be included as assets of the decedent's estate, and as such, are subject to inheritance tax.

## Costs and Expenses

A fiduciary may not deduct:

- Expenses and fees related to administering the estate or trust;
- Costs and expenses attributable to earning or receiving interest and dividend income or managing securities holdings of the estate or trust;
- Costs and expenses attributable to receiving income from other estates or trusts;
- Inheritance, succession, estate, gift taxes, or taxes based on income;
- Funeral expenses;
- Expenses for preservation or maintenance of non-income producing property;
- Expenses related to exempt income; or

- Satisfaction of personal debts of the decedent.

A fiduciary may deduct only the ordinary, necessary and reasonable costs and expenses directly incurred in realizing income (loss) from:

- The operation of a business or farm;
- The sale, exchange, or other disposition of property; and
- The receipt of rental or royalty income.

## Gains or Losses

Estates or trusts cannot offset income in one Pennsylvania income class with a loss in any other Pennsylvania income class.

Estates or trusts cannot carry income or losses back or forward to other tax years. Include the appropriate completed schedule for the income, gain (loss) reported.

**TIP** If the estate or trust realized a net loss in an income class, enter the amount of the loss on the appropriate line of the PA-41, Fiduciary Income Tax Return. If a negative amount, fill in the "loss" oval.

## Taxable Income of Bankruptcy Estates

The income of a taxable bankruptcy estate includes income (loss) realized from all the classes of income for filing a PA-40 including compensation, as well as permitting the deductions for health and medical savings accounts and IRC Section 529 qualified tuition program contributions and all credits except Tax Forgiveness. All income, gain, (loss), deductions and credits allocated to a taxable bankruptcy estate will be reported on a pro-forma PA-40 Personal Income Tax Return and must be included with the PA-41 of the bankruptcy estate.

## Tax Withheld for Nonresident Beneficiaries

Under Act 52 of 2013, an estate or trust that receives Pennsylvania-source income and has beneficiaries who are nonresident individuals, nonresident estates or nonresident trusts must withhold and remit Pennsylvania personal income tax on each beneficiary's share of Pennsylvania-source taxable income that is distributed (or required to be distributed under the governing instrument) or credited to the beneficiary. The nonresident beneficiary withholding will be remitted with the estate or trust's PA-41 return or with REV-276, Application for Extension of Time to File, by the due date of the original return without regard to extension.

The estate or trust is required to withhold on all Pennsylvania-source income that is distributed (or required to be distributed under the governing instrument) or credited to a nonresident beneficiary beginning with distributions made for tax years beginning after Dec. 31, 2013. The withholding rate is 3.07 percent (0.0307). The nonresident beneficiary withholding will be due by the original due date of the PA-41 return. Nonresident beneficiary withholding will not be subject to estimated underpayment penalties but will be subject to late payment and late filing penalties as well as interest on any unpaid amounts.

Individuals who are nonresidents and nonresident estates and trusts are subject to the tax withholding for nonresident beneficiaries.

An estate or trust does not have to withhold on the following individual and entity beneficiaries:

- Pennsylvania residents;
- Corporations with a permanent place of business in Pennsylvania;
- Tax-exempt organizations under either Pennsylvania or federal law;
- IRAs or qualified pension/profit sharing plans;
- Estates where the decedent was a Pennsylvania resident at the time of death; or
- Trusts that are revocable trusts.

Withholding is required whether the distribution is made up of cash and/or an "in-kind" distribution of property of Pennsylvania-source income.

If an in-kind distribution of property is made to a nonresident beneficiary and the fair market value of the distributed property is in excess of the beneficiary's taxable PA-source income, the nonresident withholding tax attributable to the nonresident beneficiary must equal the amount of the taxable PA-source income for the nonresident beneficiary times 3.07 percent (0.0307) even if no cash is received by the nonresident beneficiary. If the in-kind distribution is made to a nonresident beneficiary and the fair market value of the distributed property is less than beneficiary's taxable PA-source income, the nonresident withholding for the nonresident beneficiary must equal the amount of the taxable PA-source income for the nonresident beneficiary times 3.07 percent (0.0307).

Withholding tax for a nonresident beneficiary does not exempt the nonresident beneficiary from the requirements for

filing a return. A nonresident beneficiary must file a Pennsylvania tax return if they have at least \$33 of income from Pennsylvania sources regardless of whether or not the tax that is due on their Pennsylvania-source income has been paid in by the estate or trust via the withholding.

## INCOME REQUIRED TO BE DISTRIBUTED CURRENTLY

Income required to be distributed currently is income for the taxable year that the fiduciary is under a duty to distribute. The determination of whether trust income is required to be distributed currently depends upon the terms of the trust instrument and the applicable local law. Income required to be distributed currently is taxable as such even if, as a matter of practical necessity, it is not actually distributed until after the close of the trust's taxable year.

It is immaterial, for purposes of determining whether income is required to be distributed currently, that the amount of income allocated to a particular beneficiary is not specified in the instrument. For example, if the fiduciary is required to distribute all the income currently, but has discretion to sprinkle or spray the income among a class of beneficiaries, or among named beneficiaries, in such amount as he/she may see fit, all the income is required to be distributed currently, even though the amount distributable to a particular beneficiary is unknown until the fiduciary has exercised his/her discretion.

### Estates, Trusts and Beneficiaries

The taxable income of an estate or taxable trust is the current income that it retains for future distribution or disbursement or currently applies to discharge, satisfy or reduce any person's or its own obligations. Each estate or taxable trust must classify and report all income, gains and losses realized in the appropriate Pennsylvania income classes.

The estate or trust must also submit PA-41 Schedules RK-1 for resident individual beneficiaries and PA-41 Schedules NRK-1 for nonresident individual beneficiaries with the estate or trust's PA-41, Fiduciary Income Tax Return.

If the beneficiary is an entity such as a partnership, PA S corporation, estate or trust, the estate or trust completing the PA-41, Fiduciary Income Tax Return, must provide the entity with both a PA-41 Schedule RK-1 and NRK-1 showing the entity beneficiary's share of taxable income.

The PA-41 Schedules RK-1 and NRK-1 show all of the distributions to each of its beneficiaries. The estate or trust must provide each beneficiary with a personalized PA-41 Schedule RK-1 and/or NRK-1, showing that beneficiary's share of its 2016 Pennsylvania-taxable income.

A taxable trust (and its beneficiaries) and an estate (and its beneficiaries) are not subject to tax on income that is set aside exclusively for charitable purposes. See Charitable Trust.

### Taxable Bankruptcy Estates

A taxable bankruptcy estate does not distribute estate income to a beneficiary. Consequently, a taxable bankruptcy estate cannot claim a distribution deduction. All the income of the bankruptcy estate is the taxable income of the bankruptcy estate for Pennsylvania personal income tax purposes.

### Owners of Partnerships and PA S Corporations

If the estate or trust is an owner of a partnership or a PA S corporation, the estate or trust must report its share of the income (loss), whether distributed or not, in the same class in which the partnership or PA S corporation reported the income.

Each resident estate or trust must submit the PA-20S/PA-65 Schedule RK-1 and each nonresident estate or trust must submit the PA-20S/PA-65 Schedule NRK-1 received from the partnership or PA S corporation.

### Credit for Taxes Paid by Pennsylvania Resident Estates or Trusts to Other States

Pennsylvania taxes the income of a resident estate or trust from sources both inside and outside Pennsylvania.

A resident estate or trust may claim a resident credit if it is subject to and pays income tax to another state on income that is also taxable to Pennsylvania during the same taxable year. This credit is nonrefundable, cannot exceed the amount of the total Pennsylvania tax liability of the estate or trust and may not be passed through to a beneficiary.

To claim a resident credit, the estate or trust must submit a completed PA-40 Schedule G-L. See Line 15 for additional information.

### Resident Beneficiary

The taxable income of a resident beneficiary from a resident or nonresident estate or trust is the taxable income, regardless of source, received by the estate or trust for the taxable year that:

- Is required to be distributed currently to the beneficiary, or
- Is credited or distributed to the beneficiary.

### Nonresident Beneficiary

The taxable income of a nonresident beneficiary from a resident or nonresident estate or taxable trust is the taxable income from Pennsylvania sources received by the estate or trust for its taxable year that the estate or trust distributed, was required to distribute currently or was credited to the beneficiary. Withholding at the rate of 3.07 percent (0.0307) is required on the taxable income of a nonresident beneficiary individual or estate or trust.

### QSSTs

For Pennsylvania personal income tax purposes, all the income reported to an irrevocable QSST is required to be distributed to the income beneficiaries. The income is reported to the trust in the various classes of income as reported on PA Schedules RK-1 or NRK-1. However, the income is distributed to the income beneficiaries as trust income.

If the income beneficiary is a nonresident beneficiary, withholding at the rate of 3.07 percent (0.0307) is required on the taxable income. The trust withholding must be paid via tax withheld by the S corporation or by separate payment on behalf of the trust by the fiduciary or income beneficiary when the PA-41, Fiduciary Income Tax Return, is filed for the QSST.

## WHAT TO FILE

See the PA-41, Fiduciary Income Tax Return, individual schedules and instructions to determine what to include with the PA-41, Fiduciary Income Tax Return. Also refer to Assembling the PA-41, Fiduciary Income Tax Return.

### Income Tax Returns of Estates or Trusts

An executor or administrator must file a PA-41, Fiduciary Income Tax Return, if he or she is a fiduciary of:

- A resident estate or trust that received taxable income during its taxable year;
- A nonresident estate or trust that received taxable income allocable to Pennsylvania during its taxable year; or
- A nonresident estate or trust that has a resident beneficiary.

If the department requests, the fiduciary of an estate or trust must file a copy of the will or trust instrument (including amendments), a written declaration under the penalties of perjury that the instrument is a true and complete copy, and a statement indicating which provisions, in the fiduciary's opinion, determine the extent of taxable income to the estate or trust or the beneficiaries.

### **Income Tax Returns of Resident Estates or Trusts as Owners in Partnerships**

Pennsylvania taxes the income of a resident estate or trust from sources both inside and outside of Pennsylvania. If the estate or trust distributes the income to its beneficiaries, it is taxable to the beneficiaries and not the estate or trust. Any income not distributed by the estate or trust is subject to tax on the PA-41, Fiduciary Income Tax Return of the estate or trust.

If the resident estate or trust is an owner in a partnership, or entity formed as a limited liability company that is classified as a partnership for federal income tax purposes, the estate or trust should receive a PA-20S/PA-65 Schedule RK-1 and a PA-20S/PA-65 Schedule NRK-1 from the partnership.

Although a resident estate or trust receives both the PA-20S/PA-65 Schedules RK-1 and Schedules NRK-1 from the partnership, a resident estate or trust must only submit a copy of the PA-20S/PA-65 Schedule RK-1 from each partnership and report its share of income whether distributed or not as shown on their PA-20S/PA-65 Schedules RK-1 from the partnership.

A PA-20S/PA-65 Schedule NRK-1 is also required to report Pennsylvania-source income necessary to calculate the amounts for PA-41 Schedule DD for nonresident beneficiaries. See the PA-41 Schedule DD instructions on the department's website.

The copy of the PA-20S/PA-65 Schedule NRK-1 is not required to be included with a resident estate or trust tax return. However, the PA-20S/PA-65 Schedule NRK-1 is required to be included with a nonresident estate or trust tax return. See Nonresident Estates or Trusts as Owners in Partnerships.

If the partnership or limited liability company does not provide PA-20S/PA-65 Schedules RK-1 or NRK-1 to the estate or trust, the estate or trust still must report and classify the income (loss) from federal Form 1065 Schedule K-1

according to the instructions for each Pennsylvania income class. The estate or trust must then submit a copy of federal Form 1065 Schedule K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the federal Form 1065 Schedule K-1.

### **Income Tax Returns of Resident Estates or Trusts as Owners in PA S Corporations**

Pennsylvania taxes the income of a resident estate or trust from sources both inside and outside of Pennsylvania. If the estate or trust distributes the income to its beneficiaries, it is taxable to the beneficiaries and not the estate or trust. Any income not distributed by the estate or trust is subject to tax on the PA-41, Fiduciary Income Tax Return of the estate or trust.

If the resident estate or trust is an owner in a PA S corporation or entity formed as a limited liability company that is classified as a PA S corporation for federal income tax purposes, the estate or trust should receive a PA-20S/PA-65 Schedule RK-1 and a PA-20S/PA-65 Schedule NRK-1 from each PA S corporation.

Although a resident estate or trust receives both the PA-20S/PA-65 Schedules RK-1 and Schedules NRK-1 from the PA S corporation, a resident estate or trust must only submit a copy of the PA-20S/PA-65 Schedule RK-1 from each PA S corporation and report its share of income whether distributed or not as shown on their PA-20S/PA-65 Schedules RK-1 from the PA S corporation.

A PA-20S/PA-65 Schedule NRK-1 is also required to report Pennsylvania-source income necessary to calculate the amounts for PA-41 Schedule DD for nonresident beneficiaries. See the PA-41 Schedule DD instructions on the department's website.

The copy of the PA-20S/PA-65 Schedule NRK-1 is not required to be included with a resident estate or trust tax return. However, the PA-20S/PA-65 Schedule NRK-1 is required to be included with a nonresident estate or trust tax return. See Nonresident Estates or Trusts as Owners in PA S Corporations.

If the estate or trust receives only a federal Form 1120S Schedule K-1, the estate or trust must obtain a PA-20S/PA-65 Schedule RK-1 from the entity. The department will only permit the estate or trust to adjust and reclassify the income from the federal Form 1120S Schedule K-1 according to Pennsylvania rules in

limited circumstances. See the PA PIT Guide, Chapter 16, Pass Through Entities, for additional information on the adjustments required and the proper classification of income.

### **Income Tax Returns of Nonresident Estates or Trusts as Owners in Partnerships**

Pennsylvania law imposes fiduciary income tax on the income of a nonresident estate or trust from Pennsylvania sources. A nonresident estate or trust must ignore items of income (loss), cost, expense and liability that are not directly related to Pennsylvania when calculating its Pennsylvania-taxable income.

If the nonresident estate or trust is an owner in a partnership, the partnership must provide the nonresident estate or trust a PA-20S/PA-65 Schedule RK-1 and a PA-20S/PA-65 Schedule NRK-1 showing the nonresident estate or trust's share of Pennsylvania-taxable income (loss) whether distributed or not. The federal Form 1065 Schedule K-1 is not an acceptable substitute.

When the nonresident estate or trust, as an owner in a partnership, receives a PA-20S/PA-65 Schedule RK-1 and NRK-1 from another entity, it has the classified income (loss) amount to complete the PA-41, Fiduciary Income Tax Return. The nonresident estate or trust, as an owner in a partnership, is required to file both the PA-20S/PA-65 Schedule RK-1 and NRK-1 with their PA-41, Fiduciary Income Tax Return.

**Example.** When a nonresident estate or trust receives income from a partnership, the nonresident estate or trust must file a copy of the PA Schedule RK-1 and NRK-1 it received from the partnership along with the PA-41, Fiduciary Income Tax Return.

Each nonresident estate or trust, as an owner in a partnership, must submit with the PA-41, Fiduciary Income Tax Return:

- A complete copy of its federal income tax return including all schedules, statements, federal schedules K-1;
- A copy of PA-20S/PA-65 Schedules RK-1 that it provides to its resident beneficiaries;
- A copy of PA-20S/PA-65 Schedules NRK-1 that it provides to its nonresident beneficiaries;
- The PA-20S/PA-65 Schedules RK-1 and NRK-1 that the nonresident estate or trust received from other entities, whether the income was distributed or not.

If the partnership or entity formed as a limited liability company that is classified as a partnership for federal income tax purposes has Pennsylvania-source income but does not provide to the nonresident estate or trust a PA-20S/PA-65 Schedule RK-1 and NRK-1, the nonresident estate or trust still must report and classify the income (loss) from federal Form 1065 Schedule K-1 according to the instructions for each Pennsylvania income class.

The nonresident estate or trust, as an owner in a partnership, must then submit a copy of its federal Form 1065 Schedule K-1 and related supporting schedules where applicable that provide information as to the classification of the income from the federal Form 1065 Schedule K-1. If the income (loss) is being reported to Pennsylvania from a federal Form 1065 Schedule K-1 and the income (loss) is not 100 percent of the amount from the federal Form 1065 Schedule K-1, a schedule or written explanation must be submitted along with the federal Form 1065 Schedule K-1 explaining how the amount reported was determined.

If a nonresident estate or trust does not have resident beneficiaries, the nonresident estate or trust reports Pennsylvania-source income in the appropriate classes on the PA-41, Fiduciary Income Tax Return.

If a nonresident estate or trust has resident beneficiaries, the nonresident estate or trust reports worldwide income in the appropriate classes on the PA-41, Fiduciary Income Tax Return.

### **Income Tax Returns of Nonresident Estates or Trusts as Owners in PA S Corporations**

Pennsylvania law imposes fiduciary income tax on the income of a nonresident estate or trust from Pennsylvania sources. A nonresident estate or trust must ignore items of income (loss), cost, expense and liability that are not directly related to Pennsylvania when calculating its Pennsylvania-taxable income.

If the nonresident estate or trust is an owner in a PA S corporation, the PA S corporation must provide the nonresident estate or trust a PA-20S/PA-65 Schedule RK-1 and NRK-1 showing the nonresident estate or trust's share of Pennsylvania-taxable income (loss) whether distributed or not. The federal Form 1120S Schedule K-1 is not an acceptable substitute.

When the nonresident estate or trust, as an owner in a PA S corporation, receives a PA-20S/PA-65 Schedule RK-1 and

NRK-1 from another entity, it has the classified income (loss) amount to complete the PA-41, Fiduciary Income Tax Return.

The nonresident estate or trust, as an owner in a PA S corporation, is required to file both the PA-20S/PA-65 Schedule RK-1 and NRK-1 with their PA-41, Fiduciary Income Tax Return.

**Example.** When a nonresident estate or trust receives income from a PA S corporation, the nonresident estate or trust must file a copy of the PA Schedules RK-1 and NRK-1 it received from the PA S corporation along with the PA-41, Fiduciary Income Tax Return.

Each nonresident estate or trust, as an owner in a PA S corporation, must submit with the PA-41, Fiduciary Income Tax Return:

- A complete copy of its federal income tax return including all schedules, statements, federal schedules K-1;
- A copy of PA-20S/PA-65 Schedules RK-1 that it provides to its resident beneficiaries;
- A copy of PA-20S/PA-65 Schedules NRK-1 that it provides to its nonresident beneficiaries; and
- The PA-20S/PA-65 Schedules RK-1 and NRK-1 that the nonresident estate or trust received from other entities, whether the income was distributed or not.

If the PA S corporation or entity formed as a limited liability company that is classified as a PA S corporation for federal income tax purposes has Pennsylvania-source income but does not provide to the nonresident estate or trust a PA-20S/PA-65 Schedule RK-1 and NRK-1, the nonresident estate or trust still must report and classify the income (loss) from federal Form 1120S Schedule K-1 according to the instructions for each Pennsylvania income class.

If the nonresident estate or trust receives only a federal Form 1120S Schedule K-1, the nonresident estate or trust must obtain a PA-20S/PA-65 Schedule RK-1 from the entity. The department will only permit the nonresident estate or trust to adjust and reclassify the income from the federal Form 1120S Schedule K-1 according to Pennsylvania rules in limited circumstances. See the PA PIT Guide, Chapter 16, Pass Through Entities, for additional information on the adjustments required and the proper classification of income.

If a nonresident estate or trust does not have resident beneficiaries, the

nonresident estate or trust reports Pennsylvania-source income in the appropriate classes on the PA-41, Fiduciary Income Tax Return.

If a nonresident estate or trust has resident beneficiaries, the nonresident estate or trust reports worldwide income in the appropriate classes on the PA-41, Fiduciary Income Tax Return.

### **Income Tax Returns of Nonresident Estates or Trusts with Resident Beneficiaries**

Pennsylvania law requires a nonresident estate or trust with resident beneficiaries to file a PA-41, Fiduciary Income Tax Return, regardless of whether there is Pennsylvania-source income or not. The nonresident estate or trust must report the worldwide income in the appropriate classes on the PA-41, Fiduciary Income Tax Return. The nonresident estate or trust must also report its worldwide income and calculate the amounts for PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website. A nonresident estate or trust must provide each resident beneficiary with a PA-41 Schedule RK-1 showing the resident beneficiary's share of the distributed/distributable income.

A nonresident estate or trust with a Pennsylvania resident beneficiary must include a copy of the resident state's fiduciary income tax return or a copy of an affidavit certifying the state of residency of the estate or trust if the estate or trust's state of residency does not have an income tax. In addition, the nonresident estate or trust must include a copy of federal Form 1041 with the PA-41, Fiduciary Income Tax Return.

Further, when a nonresident estate or trust with resident beneficiaries is an owner in a PA S corporation, partnership or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes, the estate or trust must submit a copy of each of the PA-20S/PA-65 Schedules RK-1 and PA-20S/PA-65 Schedules NRK-1 that it receives from each entity. The nonresident estate or trust must also report its worldwide income and calculate the amounts for PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website.

### **Income Tax Returns of Nonresident Estates or Trusts with Nonresident Beneficiaries**

A nonresident estate or trust with no resident beneficiaries that is an owner in a PA S corporation, partnership or entity

formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes must only submit a copy of the PA-20S/PA-65 Schedules NRK-1 that it receives from each entity. If a nonresident estate or trust does not have resident beneficiaries, the nonresident estate or trust must only report Pennsylvania-source income in the appropriate classes on the PA-41, Fiduciary Income Tax Return. The nonresident estate or trust must report its Pennsylvania-source income and calculate the amounts for PA-41 Schedule DD, Column B. The nonresident estate or trust must calculate and include its worldwide income and calculate the amounts for PA-41 Schedule DD, Column A. See the PA-41 Schedule DD instructions on the department's website.

### **Income Tax Returns of Pennsylvania Resident Estates or Trusts as Beneficiaries of Pennsylvania Estates or Trusts**

If the estate or trust is a beneficiary of a Pennsylvania estate or trust, the estate or trust beneficiary should receive a PA-41 Schedule RK-1 and PA-41 Schedule NRK-1 from the Pennsylvania estate or trust entity.

A PA-41 Schedule RK-1 reports worldwide income necessary to calculate the amounts for PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website.

As a resident beneficiary of a resident estate or trust, the resident estate or trust reports the income from the Pennsylvania estate or trust reports the income from the PA-41 Schedule RK-1, Line 6 on PA-41 Schedule J and on the PA-41, Fiduciary Income Tax Return, Line 6.

A PA-41 Schedule NRK-1 reports the Pennsylvania-source income to calculate amounts for Column b on PA-41 Schedule DD when there are nonresident beneficiaries. See the PA-41 Schedule DD instructions on the department's website. If there are no nonresident beneficiaries, the PA-41 Schedule NRK-1 is not used by estates or trusts.

 **IMPORTANT:** An estate or trust as a beneficiary should receive PA-41 Schedules RK-1 and NRK-1, if it has income from a resident estate or trust. It is important to remember that the PA-41 Schedules RK-1 and NRK-1 submitted to the resident beneficiary should reflect the taxable income to Pennsylvania residents even if the estate or trust is a nonresident.

If the nonresident estate or trust does not provide to the Pennsylvania estate or trust a PA-41 Schedule RK-1 and NRK-1, the Pennsylvania estate or trust still must include and report the income from federal Form 1041 Schedule K-1 as a single class of income; estate or trust income. The income from the federal Form 1041 Schedule K-1 should be added together to arrive at the estate or trust income to be reported for PA purposes. However, if any losses are reported on the federal Form 1041 Schedule K-1, only losses within the same PA class of income (usually gain or loss on the sale, exchange or disposition of property) may be netted with other gains in the same PA class of income. Losses from different PA classes of income may not be netted against income from another PA class of income when calculating the income from a federal Form 1041 Schedule K-1. A copy of the federal Form 1041 Schedule K-1 is required to be included with the PA-41, Fiduciary Income Tax Return.

If the estate or trust beneficiary receives a PA-41 Schedule RK-1 or NRK-1, a copy of that document is not required to be submitted with the PA-41, Fiduciary Income Tax Return.

A PA-41 Schedule RK-1 reports worldwide income necessary to calculate the amounts for PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website.

As a resident beneficiary of a resident estate or trust, the resident estate or trust reports the income from the PA-41 Schedule RK-1, Line 6 on PA-41 Schedule J and on the PA-41, Fiduciary Income Tax Return, Line 6.

A PA-41 Schedule NRK-1 reports the Pennsylvania-source income to calculate amounts for Column b on PA-41 Schedule DD when there are nonresident beneficiaries. See the PA-41 Schedule DD instructions on the department's website. If there are no nonresident beneficiaries, the PA-41 Schedule NRK-1 is not used by estates or trusts.

### **Income Tax Returns of Pennsylvania Resident Estates or Trusts as Beneficiaries of Nonresident Estates or Trusts**

If the Pennsylvania estate or trust is a beneficiary of a nonresident estate or trust, the nonresident estate or trust may provide the Pennsylvania estate or trust beneficiary with a PA-41 Schedule RK-1 and NRK-1 showing the estate or trust's share of Pennsylvania-taxable income

(loss) whether distributed or not if the estate or trust is required to file the PA-41, Fiduciary Income Tax Return. See Who Must File and Who Does Not File.

If the nonresident estate or trust does not provide to the Pennsylvania estate or trust a PA-41 Schedule RK-1 and NRK-1, the Pennsylvania estate or trust still must include and report the income from federal Form 1041 Schedule K-1 as a single class of income; estate or trust income. The income from the federal Form 1041 Schedule K-1 should be added together to arrive at the estate or trust income to be reported for PA purposes. However, if any losses are reported on the federal Form 1041 Schedule K-1, only losses within the same PA class of income (usually gain or loss on the sale, exchange or disposition of property) may be netted with other gains in the same PA class of income. Losses from different PA classes of income may not be netted against income from another PA class of income when calculating the income from a federal Form 1041 Schedule K-1. A copy of the federal Form 1041 Schedule K-1 is required to be included with the PA-41, Fiduciary Income Tax Return.

If the estate or trust beneficiary receives a PA-41 Schedule RK-1 or NRK-1, a copy of that document is not required to be submitted with the PA-41, Fiduciary Income Tax Return.

A PA-41 Schedule RK-1 reports worldwide income necessary to calculate the amounts for PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website.

As a resident beneficiary of a nonresident estate or trust, the resident estate or trust reports the income from the PA-41 Schedule RK-1, Line 6 on PA-41 Schedule J and on the PA-41, Fiduciary Income Tax Return, Line 6.

A PA-41 Schedule NRK-1 reports the Pennsylvania-source income to calculate amounts for Column b on PA-41 Schedule DD when there are nonresident beneficiaries. See the PA-41 Schedule DD instructions on the department's website. If there are no nonresident beneficiaries, the PA-41 Schedule NRK-1 is not used by estates or trusts.

### **Income Tax Returns of Resident Taxable Bankruptcy Estates**

If the bankruptcy debtor is a resident of Pennsylvania, the bankruptcy estate must file a PA-41 including only the portion of the bankruptcy debtor's income

allocated to the bankruptcy estate. The income to be reported is included on a pro-forma PA-40 prepared as if it were the income of the resident bankruptcy debtor. The Adjusted PA Taxable Income from Line 11 of the pro-forma PA-40 will be reported on PA-41 Schedule J and on Line 6 of the PA-41. Taxes withheld, estimated tax payment and credits (except the Tax Forgiveness Credit) from Lines 13, 14, 15, 17, 22 and 23 of the pro-forma PA-40 will also be reported as payments and credits for the bankruptcy estate.

The pro-forma return is prepared including only the bankruptcy estate's allocated world-wide income using the requirements and attachment of schedules for a PA-40. The pro-forma PA-40 must be included with the PA-41 of the bankruptcy estate as supporting documentation for the PA-41 Schedule J. To clearly distinguish the pro-forma PA-40 of the bankruptcy estate from the regular PA-40 of the taxpayer, write in all capital letters, "PRO-FORMA RETURN" across the top of the bankruptcy-related return.

### **Income Tax Returns of Nonresident Taxable Bankruptcy Estates**

If the bankruptcy debtor is a nonresident of Pennsylvania and the bankruptcy estate has PA-source income, the bankruptcy estate must file a PA-41 including only that portion of the bankruptcy debtor's PA-source income allocated to the bankruptcy estate. The income to be reported is included on a pro-forma PA-40 prepared as if it were the income of the nonresident bankruptcy debtor. The Adjusted PA Taxable Income from Line 11 of the pro-forma PA-40 will be reported on PA-41 Schedule J and on Line 6 of the PA-41. Taxes withheld, estimated tax payment and credits (except the Tax Forgiveness Credit) from Lines 13, 14, 15, 17 and 23 of the pro-forma PA-40 will also be reported as payments and credits for the bankruptcy estate.

The pro-forma return is prepared including only the bankruptcy estate's allocated PA-source income using the requirements and attachment of schedules for a PA-40. The pro-forma PA-40 must be included with the PA-41 of the bankruptcy estate as supporting documentation for the PA-41 Schedule J. To clearly distinguish the pro-forma PA-40 of the bankruptcy estate from the regular PA-40 of the taxpayer, write in all capital letters, "PRO-FORMA RETURN" across the top of the bankruptcy-related return.

### **Pro-forma PA-40 Income Tax Returns for Resident and Nonresident Bankruptcy Debtors**

A pro-forma PA-40 Personal Income Tax Return must be prepared and included with the PA-41 of the bankruptcy estate. The pro-forma PA-40 must include the name, address and SSN of the bankruptcy debtor in the spaces provided on the return. In addition, it must include the filing status as single or married filing separately (separate PA-41s must be filed for the bankruptcy estates of a taxpayer and spouse who have filed a joint bankruptcy petition) and the residency status of the bankruptcy debtor. Furthermore, the dates of residency and/or the date of death must be included, when applicable. The name of the school district and the school district code are not required to be included.

All income (loss) deductions and credits attributable to the bankruptcy estate will be reported on the pro-forma PA-40 as if the return were an individual income tax return (resident or nonresident) for the bankruptcy debtor. All rules and instructions for preparing a PA-40 apply to the preparation of a pro-forma PA-40. The bankruptcy debtor is not required to sign the pro-forma return. However, the name and telephone number of the paid preparer (if applicable) must be included. All requirements for the inclusion of schedules, forms, documents, etc. for a PA-40 must also be followed for the pro-forma PA-40. In addition, schedules should be provided to illustrate any pro-ration of income between the taxpayer and bankruptcy estate.

 **CAUTION:** A pro-forma PA-40 cannot include a Tax Forgiveness Credit. The Tax Forgiveness Credit may be claimed on the individual return filed on behalf of the taxpayer. For a resident taxpayer, the total income reported on the PA-41 for a bankruptcy debtor must be included on Line 10 of the PA Schedule SP for the taxpayer. For a nonresident taxpayer, the total of the positive income reported on Lines 1, 2a and 3 through 8 of federal Form 1041 for the bankruptcy estate of a Chapter 7 or 11 bankruptcy debtor created under Section 1398 of the Internal Revenue Code of 1986 must be included on Line 10 of the PA Schedule SP for the taxpayer.

### **PA-20S/PA-65 Schedules RK-1 and NRK-1**

These schedules show the share of income (loss) for each Pennsylvania income class from PA S corporations, partnerships and entities formed as limited

liability companies that are classified as partnerships or PA S corporations for federal income tax purposes.

If the estate or trust received any guaranteed payments from a partnership or limited liability company, add those payments to the estate or trust's share of income (loss) as shown on the Pennsylvania schedules.

The PA S corporation, partnership or limited liability company deducts all allowable expenses and other allowable adjustments.

An estate or trust may not deduct additional expenses incurred on behalf of the PA S corporation, partnership or limited liability company that it may be able to deduct for federal purposes.

## **ASSEMBLING THE PA-41, FIDUCIARY INCOME TAX RETURN**

Assemble the PA-41 Fiduciary Income Tax Return, forms and schedules in the following order:

- Signed original PA-41, Fiduciary Income Tax Return, (Pages 1 and 2). Do not mail a photocopy;
- A copy of the federal extension or statement showing the electronically filed extension confirmation number if REV-276 is not required to be filed;
- A complete copy of the pro-forma PA-40 Personal Income Tax Return completed on behalf of the bankruptcy debtor.
- Copies of federal Forms 1099, W-2, or other documents showing Pennsylvania tax withheld;
- Copies of any completed Pennsylvania schedules in alphabetical order, if not otherwise listed below;
- Copies of all statements providing listings for or additional explanations of the income (loss) on the PA-41, Fiduciary Income Tax Return, or its schedules in the order of presentation on the PA-41, Fiduciary Income Tax Return, or in relation to the appropriate schedule;
- Copies of all PA-41 and PA-20S/PA-65 Schedules RK-1, PA-41 and PA-20S/PA-65 Schedules NRK-1, and federal Form 1065 Schedules K-1, federal Form 1120S Schedules K-1 or federal Form 1041 Schedules K-1 for income (loss) reported from partnerships, S corporations; or other estates or trusts when PA Schedules RK-1 and NRK-1 are not received;

- Complete copy of federal Form 1041 for the estate or trust including all schedules and attachments;
- Copies of any PA-40 Schedule(s) G-L completed on behalf of the estate or trust; and
- Copies of the PA-41 Schedules RK-1 and NRK-1 for each beneficiary of the estate or trust.

Do not staple documents.

On any additional statements you include with your return, please include the estate or trust's name, FEIN, tax year, and a brief line reference to PA-41, Fiduciary Income Tax Return, or PA-41 schedules.

**⚠ IMPORTANT:** Do not create a substitute PA-41, Fiduciary Income Tax Return, that has not been approved by the department. A spreadsheet is an unapproved and unacceptable tax form. Unapproved tax forms filed with the department may be rejected and returned to the taxpayer or tax return preparer. This may result in an assessment of interest and penalty.

If you are filing any tax form other than an official tax form, please read Miscellaneous Tax Bulletin 2008-02 available on the department's website.

## ESTIMATED FIDUCIARY INCOME TAX PAYMENTS

The estimated tax rules apply to:

- Resident estates or trusts;
- Nonresident estates or trusts that expect to have taxable income from sources within Pennsylvania; and
- A decedent's estate or trust created by the decedent to receive the residue of the decedent's estate or trust beginning in the third year after the decedent's death.

If the estate or trust expects more than \$8,000 of Pennsylvania-taxable income in 2016, the fiduciary must file a PA-40 ESR F/C, Declaration of Estimated Tax and make installment payments.

Estates and trusts follow federal annualization of income rules to determine the amount of quarterly estimated payments due.

Use the following forms to determine the amount of quarterly estimated payment due:

- REV-413(F), Instructions for Estimating PA Fiduciary Income Tax (Estates and Trusts);
- REV-414(F), Estimated Tax Worksheet (Estates and Trusts); and

- REV-1630F, Underpayment of Estimated Tax by Fiduciaries.

These forms are available on the department's website for downloading. See the Forms and Publications tab in the center of the department's website.

Forms and schedules can also be obtained through one of the Forms Ordering Services. See Forms and Publications in the left navigation menu on the department's website or refer to Taxpayer Services at the end of these instructions.

## PENALTY AND INTEREST

The department will bill you for any penalty and interest that you owe.

Calculate penalty and interest by visiting the Revenue e-Services Center on the department's website.

**Estimated Underpayment Penalty**  
The estate or trust is subject to this penalty if:

- It owes more than \$246 on its return (3.07 percent on \$8,000 of Pennsylvania-taxable income); and
- The estate or trust made estimated payments, but did not meet one of the exceptions described below.

The department will not impose this penalty on an estate or trust when:

- Its total timely estimated payments and credits are at least 90 percent of the tax due as shown on its 2016 PA-41, Fiduciary Income Tax Return;
- Its total timely estimated payments and credits are at least equal to an amount calculated using the current year's tax rate and the income on its prior year's PA-41, Fiduciary Income Tax Return;
- For each installment period, its timely estimated payment is at least 90 percent of the actual tax due on the income earned or received for each installment period; or
- This is the first or second year the estate or trust receiving the residue of a probate estate is required to file a PA-41, Fiduciary Income Tax Return.

The fiduciary should calculate the estimated underpayment penalty on REV-1630-F, Underpayment of Estimated Tax by Fiduciaries, and include it with the PA-41, Fiduciary Income Tax Return. Fiduciaries should also include the REV-1630 when either of the exceptions to the interest penalty are met as indicated on that form.

The department will send a notice to the estate or trust if it owes this penalty. A

fiduciary who disagrees with the department's notice should submit REV-1630F to support the calculations for the estate or trust or to claim an exception.

## Interest for Nonpayment or Late Payment of Tax

If the estate or trust does not pay its tax by the due date, the department imposes interest from the due date to the date of payment. The annual interest rate is the rate established by the U.S. Secretary of the Treasury that is in effect on Jan. 1 of each calendar year.

## Penalties for Not Filing or Filing a Late Return

If the estate or trust does not file its PA-41, Fiduciary Income Tax Return timely, Pennsylvania law imposes a penalty, unless the estate or trust can show reasonable cause for late filing.

The penalty is 5 percent of the tax due for each month or fraction of a month that the PA-41, Fiduciary Income Tax Return, is late. The maximum penalty is 25 percent.

The minimum penalty is \$5. Any estate or trust that attempts to evade or defeat their Pennsylvania fiduciary income tax responsibility is subject to prosecution.

## Penalty for Uncollectible Funds

Pennsylvania tax law imposes an additional penalty on funds submitted via check and not paid on presentment (bad checks). The penalty is 10 percent of the face amount of the check. The penalty imposed cannot exceed \$1,000 nor be less than \$25.

## Other Penalties

- A 5 percent underpayment penalty if the estate or trust does not pay the full amount of its tax due by the original due date; and
- An additional penalty of 25 percent of the tax due on the unreported income, if the estate or trust does not report an amount of taxable income that is more than 25 percent of the taxable income that it reported on its PA-41, Fiduciary Income Tax Return.

**⚠ IMPORTANT:** The department may assess both late filing and underpayment penalties if the fiduciary files the PA-41, Fiduciary Income Tax Return, after the due date, or extended due date, and does not pay the tax due by the original due date.

Pennsylvania law also may impose:

- An additional 50 percent penalty on the underpayment of the tax due if any part of the underpayment is due to fraud;

- A \$500 penalty if the estate or trust:
  - Files a return that contains information that indicates the liability is significantly incorrect.
  - Files a return frivolously, or in a manner to delay or impede the administration of the tax law.
- A penalty of \$250 for each instance when any person required to furnish an information return either furnishes a false or fraudulent return or fails to furnish an information return.

### Abatement of Penalties

Penalties may be abated only if the estate or trust can show reasonable cause for abatement in its petition for reassessment of the penalty. To be timely, the petition must be filed with the department's Board of Appeals within 90 days of the mailing date of the assessment of the penalty.

 **NOTE:** The nonresident withholding tax is not required to be prepaid as part of the estimated income tax of an estate or trust and is not subject to the estimated underpayment penalty. However, any nonresident withholding tax not paid by the original due date of the PA-41, Fiduciary Income Tax Return, is subject to the late payment penalty as well as interest. In addition, any nonresident withholding tax not paid by the original due date of the PA-41, Fiduciary Income Tax Return, is subject to the late filing penalty as well as interest if the fiduciary files the return after the original due date of the return (if no extension was requested) or if the fiduciary files the return after the extended due date (of a return on extension).

### Additional Tax, Penalties and Interest

Fiduciaries of estates and trusts that fail to keep an accurate list of beneficiaries will be subject to the tax, penalties and interest on behalf of any nonresident beneficiaries who are determined by the department to be resident beneficiaries.

## WHEN TO FILE

If the due date falls on a Saturday, Sunday or business holiday, the estate or trust must file the PA-41, Fiduciary Income Tax Return, no later than midnight on the first business day following the Saturday, Sunday or business holiday. The U.S. Postal Service postmark date on the envelope is proof of timely filing. Pennsylvania follows the same tax year as federal rules.

For a calendar-year filer, file the 2016 PA-41, Fiduciary Income Tax Return, on or before April 18, 2017, including an extension date of Sept. 30, 2017.

For a fiscal-year filer, file the 2016 PA-41, Fiduciary Income Tax Return, on or before the 15th day of the fourth month following the close of the fiscal year including an extension of five-and-a-half months after the 15th day of the fourth month following the close of the fiscal year.

If the estate or trust cannot file by the original due date, request an extension of time to file. See Extension of Time To File.

If the estate or trust does not file its return by the original due date or extended due date and does not pay the tax due by the original due date, the department imposes late filing and underpayment penalties.

### Calendar-Year Estate or Trust

An estate or trust that files on a calendar year basis, reports all taxable income recognized between Jan. 1 and Dec. 31. See When To File.

An estate or trust reports all gross taxable income (loss) allocable or apportionable to Pennsylvania, regardless of the amount of its income (loss) and/or whether or not the income was distributed.

### Fiscal-Year Estate or Trust

A fiscal year is a period of 12 consecutive months without regard to the calendar year. The fiscal year is designated by the calendar year in which it begins. A fiscal-year estate or trust reports all taxable income recognized during the fiscal year. An estate or trust reports all gross taxable income (loss) allocable or apportionable to Pennsylvania, regardless of the amount of its income (loss) and/or whether or not the income was distributed.

 **IMPORTANT:** An estate or trust that elects to file on a fiscal-year basis must use tax-year forms in which the tax year begins.

### Changing From a Fiscal-Year Estate or Trust to a Calendar-Year Estate or Trust

To change from a fiscal-year filer to a calendar-year filer, the entity files a short-year return. See How To File A Short-Year Return. The entity then files the next calendar year on or before April 15, unless an extension of time to file has been granted.

The entity is also required to submit a copy of its federal election Form 1128,

Application to Adopt, Change or Retain a Tax Year, with both the short-year return and the calendar-year return.

### Short-Year Return

A short year is an accounting period shorter than one year and not a 52-53 week taxable year.

A short-year return is required for the following reasons:

- Changes in the annual accounting period, for example, the entity changes from a fiscal-year filer to a calendar-year filer; or
- An entity is in existence during only part of the tax year. For example, if the year is the initial. See How To File A Short-Year Return.

### How to File a Short-Year Return

If an estate or trust is required to file a short-year return, the entity must use the most recent PA-41, Fiduciary Income Tax Return, schedules and forms on the department's website. If the tax year on the forms is not the current tax year and/or the tax year for which the entity is filing, then the entity must cross out and write the correct tax year for which it is filing a short-year return.

A short-year return is not always a fiscal-year filer. The fiscal-year filer oval on the PA-41, Fiduciary Income Tax Return, or the PA-41 Schedules RK-1 and NRK-1 should only be completed in limited circumstances. Use the instructions for the various scenarios that follow on this page and Page 12 for when to fill in the fiscal-year filer oval.

### Short-Year Period of a Fiscal-Year Filer for an Initial Year Return (Beginning and Ending Date in Same Calendar Year)

If an estate or trust is a fiscal-year filer and the initial return is for a short-year period, where the beginning date of the short-year return is in the same calendar year as the end date of the short-year return, the estate or trust must use the prior calendar-year tax forms. **Do not** use the calendar-year forms related to the beginning date of the short-year return. This will delay processing of your return.

Fill in the fiscal-year filer oval on the PA-41, Fiduciary Income Tax Return, and the fiscal-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

**Example.** Estate of Taxpayer A, who dies on Jan. 21, 2017, elects to have a fiscal-year end of April 30. Therefore, Estate of Taxpayer A must file a short-year return for the period Jan. 22, 2017 to April 30, 2017, using the 2016 tax year form to file the short-year return.

### Short-Year Period of a Fiscal-Year Filer for an Initial-Year Return (Beginning and Ending Date in Different Calendar Years)

If an estate or trust is a fiscal-year filer and the short-year period begins in the calendar year prior to the calendar year in which the short-year period ends, the estate or trust should use the calendar-year forms for the year in which the short-year period begins.

Fill in the fiscal-year filer oval on the PA-41, Fiduciary Income Tax Return, and the fiscal-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

**Example.** Estate of Taxpayer B, who died on Nov. 25, 2016, elects a fiscal-year end of May 31. The Estate of Taxpayer B must file a short-period return for the period Nov. 25, 2016 to May 31, 2017, using the 2016 tax year form.

### Short-Year Period of a Fiscal-Year Filer for a Final-Year Return

If an estate or trust is a fiscal-year filer and the final return is for a short-year period, the estate or trust should use the tax-year forms for the year in which the short-year period begins. If the tax forms are not available when the return is due, use the prior tax-year forms and cross out and write the correct tax year on the forms.

Fill in the fiscal-year filer oval on the PA-41, Fiduciary Income Tax Return, and the fiscal-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

**Example.** Trust A has a fiscal year of April 1 to March 31. The trust is dissolved in July 2017. The trust should use 2016 tax-year forms and cross out "2016" on the forms and write in 2017 on the forms.

### Short-Year Period Begins and Ends in the Same Year for a Final-Year Return

If the estate or trust is filing a short-year period that begins and ends in the same year and the return is a final-year return, the estate or trust must use the prior year calendar tax forms if the calendar-year tax forms are not available at the time the return is required to be filed. Otherwise, use the calendar-year tax forms for that calendar year. If prior calendar year tax forms must be used, cross out and write the correct tax year for which the estate or trust is filing a short-year period return. If either situation applies, fill in the short-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

**Example.** Estate of Taxpayer C dies on Jan. 21, 2017, and is resolved by June

30, 2017, with all assets dispersed to the heirs. The Estate of Taxpayer C must file a short-year return for the period Jan. 20, 2017 to June 30, 2017, using the 2016 tax year form. Cross out 2016 on the forms and write 2017 on the forms when filing the short-year return.

**Example.** Using the same facts as the example above except the estate completed its transaction by Nov. 30, 2017, the estate should wait until Jan. 2018 to file and use 2017 tax forms to file the short-year return.

### Short-Year Period for an Initial Year Return

If the estate or trust is filing a short-year return for an initial tax year, the estate or trust must use prior calendar year tax forms and cross out and write the correct tax year for which the estate or trust is filing a short-year return.

Fill in the short-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

### Short-Year Period for a Calendar-Year Return

If the estate or trust is a calendar-year filer and files a short-year period return use the tax-year forms for the tax year in which the short period begins.

**Do not** fill in the fiscal-year oval on the PA-41, Fiduciary Income Tax Return. Fill in the short-year oval on the PA-41 Schedules RK-1 and/or NRK-1.

## EXTENSION OF TIME TO FILE

If the estate or trust cannot file the PA-41, Fiduciary Income Tax Return, on or before the original return due date, the estate or trust can use REV-276, Application for Extension of Time to File, to file for a five-month extension.

The department will not grant an extension of more than five-and-a-half months, except for estates and trusts outside the U.S.

An extension of time to file does not extend the full payment of the tax. Pay in full the amount reasonably estimated as the estate's or trust's Pennsylvania tax due on or before the original return due date.

Follow one of these procedures when applying for an extension of time to file:

1. If the estate or trust owes income tax or nonresident withholding tax with the PA-41, Fiduciary Income Tax Return, the estate or trust must pay by check with a timely filed REV-276,

Application for Extension of Time to File, on or before the original return due date. The original return due date is usually April 15 for calendar-year filers and the 15th day of the fourth month following the close of the fiscal year for fiscal-year filers. The department will not send a letter granting the extension, but it will write if there is a question concerning the request.

2. Electronic filers of the PA-41 may also file an electronic version of the REV-276 (with or without additional tax due) if electronic filing of REV-276 is supported by the e-file software used to prepare the estate or trust return. Electronic funds transfer must be used to make payments using this method of filing an extension with an amount due.
3. If the estate or trust has an extension of time to file federal Form 1041 and does not owe Pennsylvania income tax or nonresident withholding tax on the 2016, PA-41, Fiduciary Income Tax Return, the department will automatically grant the estate or trust a five-and-a-half month extension to file the return. The estate or trust is not required to submit REV-276 or federal Form 7004 before the original return due date. However, federal Form 7004 must be submitted with the filing of the PA-41, Fiduciary Income Tax Return.
4. If the estate or trust does not have an extension to file federal Form 1041, request an extension on REV-276, and file it on or before the due date of the return.

### Mail REV-276, with or without a payment, to:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280504  
HARRISBURG PA 17128-0504

### How To File the PA-41, Fiduciary Income Tax Return with an Extension

When filing your PA-41, Fiduciary Income Tax Return, with an extension:

- Fill in the extension request oval at the top of your PA-41, Fiduciary Income Tax Return.
- If you did not file REV-276, submit a copy of federal Form 7004 with your PA-41, Fiduciary Income Tax Return.
- If you electronically filed your federal extension, submit a statement with an explanation and the confirmation number you received.

- If you submitted REV-276, you do not have to submit the extension paperwork with your PA-41, Fiduciary Income Tax Return.

**⚠ IMPORTANT:** An extension of time to file the PA-41, Fiduciary Income Tax Return, does not extend the fiduciary income tax or nonresident withholding tax payment deadline.

The department will assess an underpayment penalty if:

- The estate or trust does not pay at least 90 percent of the 2016 tax due by April 18, 2017;
- Any estate or trust which uses a fiscal filing year does not pay at least 90 percent of the 2016 tax due by the 15th day of the fourth month following the close of the fiscal year; See Estimated Underpayment Penalty; or
- The estate or trust does not pay the remaining tax with a timely filed PA-41, Fiduciary Income Tax Return.

The department will charge interest on the amount not paid by the due date of the return.

**💡 NOTE:** Do not submit REV-276, Application for Extension of Time To File, with the PA-41, Fiduciary Income Tax Return.

#### Extension Due Dates

See When To File.

## WHERE TO FILE

If there is **tax due** on Line 20 of the PA-41, Fiduciary Income Tax Return, mail the return, check and PA-V voucher to:

PA DEPARTMENT OF REVENUE  
BUREAU OF IMAGING AND  
DOCUMENT MANAGEMENT  
PO BOX 280413  
HARRISBURG PA 17128-0413

If there is an **overpayment** on Line 23 of the PA-41, Fiduciary Income Tax Return, mail the return to:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280505  
HARRISBURG PA 17128-0505

If there is **no tax due or overpayment**, mail the PA-41, Fiduciary Income Tax Return, to:

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
PO BOX 280506  
HARRISBURG PA 17128-0506

## HOW TO PAY

Use the 2016 PA-41 Payment Voucher (PA-V) with your payment if you owe tax with your 2016 PA-41, Fiduciary Income Tax Return. Do not use this voucher for any other purpose.

When filing the PA-41, Fiduciary Income Tax Return, print the correct information on the PA-41, Fiduciary Income Tax Return, and submit a check or money order along with the PA-V made payable to the PA Dept. of Revenue in the same envelope with the PA-41, Fiduciary Income Tax Return.

Do not staple check or money order to your return or the PA-V. Place your PA-V and check or money order in the envelope with your PA-41, Fiduciary Income Tax Return. Do not send cash. See Where to File.

The estate or trust must pay the balance of tax due shown on the PA-41, Fiduciary Income Tax Return, by April 18, 2017.

Fiscal-year filers must pay by the 15th day of the fourth month following the close of the tax year. Make the check or money order payable to PA Dept. of Revenue.

The estate or trust must file a PA-41, Fiduciary Income Tax Return, even if no payment is due.

#### Payment with a Fill-in PA-V Form

Complete a fill-in PA-V form for payment included with the fill-ins of a return. The fill-in PA-V form and instructions are available on the department's website at [www.revenue.pa.gov](http://www.revenue.pa.gov) under Forms and Publications, Personal Income Tax.

Using the fill-in PA-V form will enable the department to more accurately process your payment.

#### Payment Without A PA-V Form

Make your check or money order payable to: PA Dept. of Revenue. On the check or money order:

- Print the estate's or trust's FEIN (including "F").  
**Example.** 12-3456789F;
- "2016 PA-41"; and
- Daytime telephone number of the estate's or trust's representative.

## AMENDING THE PA-41, FIDUCIARY INCOME TAX RETURN

If after filing the PA-41, Fiduciary Income Tax Return, an estate or trust discovers that an incorrect return has been submitted to the department and/or federal

Form 1041 has been amended or if the Internal Revenue Service changes or corrects any item of income, gain (loss) previously reported, the estate or trust must submit an amended PA-41, Fiduciary Income Tax Return, within 30 days of discovering the error or omission to the Pennsylvania Department of Revenue.

## WHEN TO AMEND THE PA-41, FIDUCIARY INCOME TAX RETURN

### Over-Reported Fiduciary Income

If the estate or trust over-reported income; failed to claim allowable credits; failed to report allowable deductions; experienced events that decreased reportable Pennsylvania-taxable income, including an IRS Report of Change; or experienced the dismissal of a bankruptcy case, which terminates the existence of a taxable bankruptcy estate, the estate or trust must file an amended PA-41 Fiduciary Income Tax Return.

The amended return must be filed within three years of the original due date or extended due date of the PA-41, Fiduciary Income Tax Return. The amended PA-41 Schedules RK-1 and/or NRK-1 must show the corrected Pennsylvania-taxable income, so the beneficiaries can request refunds of Pennsylvania income tax they overpaid.

In order to obtain any refunds, beneficiaries must also file an amended Pennsylvania tax return within three years of the original due date of their return.

If a bankruptcy case is dismissed, an amended PA-41 must be filed to remove the income from the bankruptcy estate, and an amended PA-40 must be filed to include the income for the taxpayer previously claiming to be in bankruptcy.

**TIP** An amended return should not be filed requesting a refund in the nine-month period prior to the close of the statute of limitations for a tax period (three years from the original or extended due date of the return). A Petition for Refund (Form REV-65) should be filed for amendments requesting refunds during that time period to protect appeal rights in the event the request for refund is denied. A Petition for Refund may not be acted upon by the Board of Appeals if an amended return refund is denied and the Petition for Refund is filed after the three-year period has ended.

### Under-Reported Fiduciary Income

If the estate or trust under reported income, erroneously claimed credits or

deductions to which it was not entitled, or events transpired that increased reportable Pennsylvania-taxable income, including an IRS Report of Change, the entity must file an amended PA-41, Fiduciary Income Tax Return, within 30 days from the determination of such increase. The amended PA-41 Schedules RK-1 and/or NRK-1 must show the corrected Pennsylvania-taxable income so the beneficiaries can pay the tax due.

The beneficiaries must also file an amended Pennsylvania tax return within 30 days of the discovery of the error to report any increase in income for taxes due.

**IMPORTANT:** Do not file an amended PA-41, Fiduciary Income Tax Return, after the department issues an assessment if the amendment relates to the same taxable year and assessed item of income, gain, deduction or loss.

In this instance, either file a timely petition for reassessment or pay the assessment and file a timely petition for a refund via the Revenue e-Services Center.

Taxpayers may also obtain REV-65, Board of Appeals Petition Form on the department's website.

**CAUTION:** Do not file an amended return to change the residency status of a trust. You must file a REV-65 Petition for Refund, with the Board of Appeals.

## HOW TO AMEND THE PA-41, FIDUCIARY INCOME TAX RETURN

To file an amended PA-41, Fiduciary Income Tax Return, use the appropriate return for the tax year you are correcting and be sure to fill in the amended oval at the top of the tax form.

Beginning with tax year 2008, Schedule PA-41X must be submitted with an amended PA-41, Fiduciary Income Tax Return. Schedule PA-41X is not a return and cannot be filed without the amended PA-41, Fiduciary Income Tax Return.

As a result of Schedule PA-41X, the instructions to file an amended PA-41, Fiduciary Income Tax Return, are different than those for earlier tax years. The instructions to file an amended PA-41, Fiduciary Income Tax Return, for tax years beginning in 2008 are as follows:

1. Complete Schedule PA-41X.
2. Enter the amended amounts from Schedule PA-41X per the PA-41X instructions.

3. Calculate Line 8, Deductions from PA Schedule DD, distributed to each beneficiary and complete amended PA-41 Schedules RK-1 and NRK-1.
4. Calculate Line 9, Net PA-Taxable Income.
5. Calculate Line 10, Total PA Tax Liability.
6. Calculate Line 11, Tax Withheld for Nonresident Beneficiaries.
7. Calculate Line 12, Total PA Tax Liability.
8. Calculate Line 18, Total Payments and Credits.
9. Calculate Line 20, Tax Due.
10. Complete Line 21 to report any adjusted penalty and interest to be included on the return.
11. Do not complete Lines 22 and 23. The department's tax system is programmed to properly calculate your amended total payment or overpayment.
12. Complete Lines 24 and 25 to notify the department how to disperse your overpayment.

If you are amending a 2007 or earlier tax year return, you must obtain a PA-41, Fiduciary Income Tax Return booklet, for the year you want to amend and follow the amended return instructions included therein.

The department will take the original refund or payment into account when reviewing the amended PA-41, Fiduciary Income Tax Return.

Be sure to sign the amended return and mail the amended return with all explanations and attachments. See Where To File.

**NOTE:** Do not send a copy of the original PA-41, Fiduciary Income Tax Return, with the amended PA-41, Fiduciary Income Tax Return.

## RECORDKEEPING

All amounts reported on the PA-41, Fiduciary Income Tax Return, and accompanying schedules are subject to verification and audit by the department. The fiduciary must retain books and records for at least four years after filing to verify any information reported on the PA-41, Fiduciary Income Tax Return.

Information that substantiates the calculation of the estate or trust's basis in any investment (partnership, S corporation, stocks, bonds, real estate, etc.) must be retained indefinitely or for at least four

years after the investment is sold. Information that substantiates the calculation of basis in an investment shall include, but not be limited to, broker statements, Pennsylvania and other states' income tax returns, PA Schedules RK-1, closing statements, etc.

## COMPLETING THE PA-41

### ROUNDING NUMBERS

On the PA-41 form and schedules, show money amounts in whole dollars. Eliminate any amount less than \$0.50 and increase any amount that is \$0.50 or more to the next highest dollar.

## FOREIGN ADDRESS INSTRUCTIONS

### Foreign Address Instructions (other than Canada)

If the estate or trust is located outside the U.S., it is important to write the foreign address on the PA-41, Fiduciary Income Tax Return, according to U.S. Postal Service standards.

Failure to use these standards may delay any refunds requested or correspondence necessary to complete the processing of the return.

To comply with foreign address standards, use the following rules when completing the address portion of the PA-41, Fiduciary Income Tax Return.

- Eliminate apostrophes, commas, periods and hyphens.
- Use all capital letters to write all lines.
- Write the name of the estate or trust in the space provided.
- Write the name and title of the fiduciary in the space provided.
- Write the address in the space provided, including street and building name and number, apartment or suite numbers, city name and city or provincial codes.
- Write only the name of the country in the space provided for the city or post office.
- Write OC in the entry space for state to indicate out-of-country.
- Leave the ZIP code spaces on the PA-41, Fiduciary Income Tax Return, blank.

Providing the address in this format will better ensure that the department is able to send a refund on a timely basis or contact the estate or trust if additional information is required.

Below is an example of a properly completed foreign address.

**Foreign Address Example**

DIETRIC-FISCHER INGE TRUST  
PATRIK FISCHER TTEE  
WEIMARER STR 7 5300 BONN 1  
GERMANY OC

**Canada Only Foreign Address Instructions**

The same rules apply as for other foreign address instructions. However, when the Canada address contains a postal zone and two-character abbreviation for provinces and territories, there are special spacing rules for the address line for the PA-41. On mail to Canada, there must be two spaces between the province abbreviation and the postal code. Below is an example of a properly completed Canada foreign address.

SAUNDERS HELEN ESTATE OF  
JANET SAUNDERS EXECUTRIX  
9 BOW ST OTTAWA ON K1A 0B1  
CANADA OC

If the estate or trust's address does not fit in the available spaces on the PA-41, Fiduciary Income Tax Return, using the above formats, please include a separate statement with the return showing the complete address.

**PAGE 1**

**Federal Employer Identification Number**

Enter the nine-digit federal employer identification number (FEIN) of the estate or trust.

An estate with an FEIN should leave the field blank for decedent's Social Security number.

If an estate has not yet received its FEIN from the IRS, the preparer should provide the decedent's Social Security number in this field.

If a trust has not yet received its FEIN from the IRS, the preparer should write "APPLIEDFR" in the space provided for the FEIN.

The estate or trust should then send the department a copy of the notice identifying the assigned FEIN as soon as it is received from the IRS.

The copy of the notice should be sent to the same address to which any previous returns or extensions were filed.

**IMPORTANT:** Any grantor trust not required to obtain an FEIN for federal income tax purposes is strongly encouraged to apply for one in order to facilitate filing of a PA-41. A grantor trust

without an FEIN that uses the SSN of the grantor may be able to continue to file without an FEIN under the grantor's SSN. However, there is a possibility that a separate trust may be issued an FEIN that matches the SSN of the grantor. In addition, if more than one grantor trust is created for the same grantor, the department will not be able to process the second grantor trust with the SSN of the grantor as the identifying number. Processing errors and incorrect refunds may result in these instances.

**Decedent's Social Security Number**

Enter the nine-digit Social Security number of the decedent.

**Fiduciary's Daytime Phone Number**

Enter the fiduciary's daytime phone number.

**Name of Estate or Trust**

Print the name of the estate or trust in the following format:

**Estate**

Enter taxpayer's last name, first name and middle initial.

**Example.** SMITH JOHN T ESTATE OF

**Trust**

Enter taxpayer's last name, first name and middle initial.

**Example.** JONES MARY S TRUST

**Name and Title of Fiduciary**

Print the name and title of the fiduciary.

**Address of Fiduciary**

Enter the fiduciary's complete street address. If the address has an apartment number, suite, or RR number, enter after the street address.

Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

**City or Post Office, State and ZIP Code**

Enter the appropriate information in each box. Eliminate all punctuation such as apostrophes, commas, periods and hyphens.

For a foreign address, the bottom line of the address should show only the country name, written in full (no abbreviations) and in capital letters. See Foreign Address Instructions.

**FILL IN THE APPLICABLE OVALS**

**Extension Requested**

Fill in the oval if the estate or trust requested an extension of time to file the

PA-41, Fiduciary Income Tax Return. If the entity did not file REV-276, Application for Extension of Time to File, submit a copy of federal Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns, with the PA-41, Fiduciary Income Tax Return. See Extension of Time To File

**Amended PA-41**

Fill in the oval if amending the 2016 PA-41, Fiduciary Income Tax Return. The estate or trust must also provide amended PA-41 Schedules RK-1 and NRK-1 to its beneficiaries. See How To Amend the PA-41, Fiduciary Income Tax Return.

**Fiscal-Year Filer**

A fiscal year is a 12-month accounting period, other than a calendar year, ending on the last day of a particular month, for example July 1 to June 20 of the following year. Numerous taxpayers are free to select a fiscal year in which to report taxable income.

The estate or trust must use its federal taxable year for Pennsylvania purposes.

If the estate or trust does not file on a calendar-year basis, fill in the oval. Enter the month, day and year when the fiscal year begins and ends.

**NOTE:** A fiscal-year basis includes anything other than tax year beginning Jan. 1 and ending Dec. 31.

**TIP** Do not fill in the fiscal-year oval for a calendar-year filer whose initial year does not begin Jan. 1 or for a calendar-year filer whose final return does not end Dec. 31.

**Residency Status**

Fill in only one oval.

**Final Return**

Fill in the oval and enter the date the estate was closed or the trust terminated during its taxable year.

**LINE INSTRUCTIONS**

**LINE 1**

**Interest Income and Gambling and Lottery Winnings**

PA-41 Schedule A is required to be completed and submitted if there are amounts to be reported on Lines 2 through 14 (not including subtotal Lines 4 and 10) of PA-41 Schedule A. See the instructions for PA-41 Schedule A for additional information.

If you are required to complete PA-41 Schedule A, please include the amount from Line 15 of PA-41 Schedule A on Line 1 of the PA-41, Fiduciary Income Tax Return.

If you are not required to complete PA-41 Schedule A, record the total amount of interest income earned for the year on Line 1 of the PA-41, Fiduciary Income Tax Return.

Pennsylvania-taxable interest income includes interest from:

- Savings and loan associations;
- Credit unions, even if reported as dividends on your statement;
- Bank deposits;
- Bonds (except as noted below);
- Certificates of deposit;
- Interest-bearing personal checking accounts;
- Pennsylvania, federal, local and foreign tax refunds;
- Other deposits, investments, and obligations;
- GNMA and FNMA certificates and other obligations that are guaranteed by the U.S. government, but not direct obligations of the U.S. government;
- Obligations of other states or countries;
- Mutual savings banks and cooperative banks, even if reported as dividends;
- Income from any amount paid under contract of life insurance, endowment or annuity contract that is includable in gross income for federal income tax purposes.

Pennsylvania-taxable income does not include interest from:

- Direct obligations of the U.S. Government (U.S. Treasury Bonds, Notes, Bills, Certificates, and Savings Bonds);
- Direct obligations of the Commonwealth of Pennsylvania;
- Direct obligations of political subdivisions of Pennsylvania.

For a list of exempt obligations, request REV-1643, Tax-Exempt Obligations for PA Personal Income Tax Purposes.

### **Distributions from Money Market Funds, Mutual Funds and Other Investment Companies**

Estates or trusts must report distributions from the earnings and profits of money market or mutual funds, investment trusts

and investment companies as dividend income on Line 2, not as interest income.

### **Forfeited Interest Penalty**

Estates or trusts may use forfeited interest penalty, incurred for premature redemption or withdrawal of a time savings account or certificate of deposit, to offset only the interest income from that account or certificate.

It may not offset other interest income. If the total penalty exceeds the interest on an account or certificate, the excess is a loss on PA-41 Schedule D.

### **Interest Received by Nonresident Estates or Trusts**

Generally, interest received by nonresident estates or trusts is not taxable even when paid by a Pennsylvania bank.

Interest is taxable to a nonresident only if derived from the ownership or disposition of real or personal tangible property in Pennsylvania, or received in connection with doing business in Pennsylvania.

Although the interest income may not be taxable, the information may be necessary in the completion of PA-41 Schedule DD. See the PA-41 Schedule DD instructions on the department's website.

### **Gambling and Lottery Winnings**

Gambling and lottery winnings for resident estates and nonresident estates must be reported on Line 13 of PA-41 Schedule A and on Line 1 of the PA-41, Fiduciary Income Tax Return.

## **LINE 2**

### **Dividend and Capital Gains Distributions Income**

PA-41 Schedule B is required to be completed and submitted if there are amounts to be reported on Lines 2 through 11 (not including subtotal Line 6) of PA-41 Schedule B. See the instructions for PA-41 Schedule B for additional information.

If you are required to complete PA-41 Schedule B, please include the amount from Line 12 of PA-41 Schedule B here on Line 2 of the PA-41, Fiduciary Income Tax Return.

If you are not required to complete PA-41 Schedule B, record the total amount of dividend income earned for the year on Line 2. See the PA-41 Schedule B instructions on the department's website.

PA-taxable dividends and capital gains distributions income includes dividend income received from stocks, non PA S corporations, mutual funds, other busi-

ness associations, etc. as well as capital gains distributions from mutual funds.

A resident estate or trust that is a shareholder of a corporation, other than a PA S corporation, must report as taxable dividend income distributions by a business corporation or business association out of its earnings and profits, without regard to the manner in which the business derived the income.

For Pennsylvania 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, and other federally regulated investment companies.

**IMPORTANT:** If the estate or trust is a shareholder in a subchapter S corporation in another state, and that corporation elected not to be treated as a PA S corporation, include the cash or property the estate or trust actually received out of the corporation's earnings and profits as dividend income on Line 2.

The estate or trust must submit federal Form 1120S Schedule K-1. If the estate or trust received distributions in excess of the corporation's earnings and profits, report these distributions on PA-41 Schedule D. Do not report the amount of the estate or trust's distributable income, and do not submit the federal Form 1120S Schedule K-1.

A shareholder may not claim a credit for income tax paid to another state by an S corporation that elected not to be treated as a PA S corporation.

**CAUTION:** Report capital gains distributions from mutual funds and regulated investment companies as dividend income for Pennsylvania purposes, even though reported on federal Schedule D for federal purposes.

### **Mutual Funds, Money Market Funds and Investment Trusts**

Distributions, including dividends in the form of capital gains, received from mutual funds and money market funds, real estate investment trusts, and other investment trusts, except for ordinary dividends from exempt Pennsylvania obligations and exempt federal obligations, are fully taxable as dividends unless they are a return of capital.

### **Dividend Income Does Not Include**

- Dividends distributed by a corporation to its stockholders in the form of

stock, when the distribution is not taxable as income for federal purposes.

- Distributions designated as a return of capital by a utility company or other corporation. Once such distributions reduce the basis of the stock to zero, further distributions are taxable as gain from the sale or disposition of property on PA-41 Schedule D.
- Dividends from deposits or withdrawals from accounts paid by savings and loan associations, mutual savings banks, cooperative banks, and credit unions. Report these payments as Pennsylvania-taxable interest income on Line 1.
- Ordinary dividends paid by a mutual fund or a registered investment company that the fund/company statement designates as being exempt-interest dividends. Use the percentage of the total dividend income that is from exempt Pennsylvania and exempt federal obligations.
- Income from an estate or trust, even if reported on a federal Form 1041 Schedule K-1. Report such income on PA-41 Schedule J.
- Dividends from Pennsylvania tax-exempt obligations. You can request REV-1643, Tax-Exempt Obligations for Pennsylvania personal Income tax purposes, for a list of exempt obligations.
- Dividends distributed under a charitable gift annuity are not taxable. However, after you recovered the amount you donated, you must report further distributions as taxable gains on PA-41 Schedule D.

### **Dividends Received by Nonresident Estates or Trusts**

Generally, dividends received by nonresident estates or trusts are not taxable even when paid by a Pennsylvania corporation.

However, the information may be necessary to complete the PA-41 Schedule DD and may be necessary to determine the amount of trust income to be reported by a resident beneficiary. See the PA-41 Schedule DD instructions on the department's website.

## **LINE 3**

### **Net Income or Loss from the Operation of a Business, Profession or Farm**

Complete and file a separate PA-40 Schedule C or PA-40 Schedule F for each business or farm that the estate or trust operates.

If the estate or trust is an owner in a partnership, PA S corporation or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes, submit a copy of the federal Form 1065 or federal Form 1120S Schedule K-1 if a PA-20S/PA-65 Schedule RK-1 is not supplied.

If the estate or trust is an owner in a partnership or entity formed as a limited liability company that is classified as a partnership for federal income tax purposes and receives only a federal Form 1065 Schedule K-1, you must adjust and classify the income and losses according to Pennsylvania rules.

See the Pennsylvania Personal Income Tax Guide (PA PIT), Chapter 16, Pass Through Entities, for additional information on the adjustments required and the proper classification of income.

If the estate or trust is an owner in a PA S corporation, the PA S corporation must provide the PA-20S/PA-65 Schedule RK-1 or NRK-1. The federal Form 1120S Schedule K-1 is not an acceptable substitute.

### **What is a Business or Profession**

A business or profession has certain features and must meet each of the following conditions:

- Markets its products, goods, and services to its customers in a marketplace;
- Regularly and continuously conducts its commercial activities; and
- Does not limit or restrict its commercial activities to certain related or unrelated customers.

### **Reporting Net Income (Loss) on the PA-41, Fiduciary Income Tax Return**

If the estate or trust realizes ordinary income (loss) from the operation of a business, profession or farm from more than one partnership, PA S corporation, or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes, provide a statement showing the FEIN, name, and amount of distributable/distributed income by entity. Also include the PA-20S/PA-65 Schedules RK-1 and/or federal Form 1065 Schedules K-1 or 1120S Schedules K-1 when filing your PA-41, Fiduciary Income Tax Return.

Record the total amount of income (loss) from partnerships, PA S corporations, and entities formed as limited liability compa-

nies that are classified as partnerships or PA S corporations for federal income tax purposes along with any income (loss) from Schedules C or F on Line 3. If the estate or trust realizes a net loss, enter that amount on Line 3 and fill in the oval next to the line. Do not use brackets or a minus sign.

### **Income Not Derived in the Ordinary Course of Business**

Unless the estate or trust realizes the following kinds of income in the ordinary course of operating its business, profession or farm, the estate or trust reports these kinds of income in other Pennsylvania income classes on its PA-41, Fiduciary Income Tax Return.

The estate or trust may not deduct expenses attributable to these classes of income on its PA Schedules C or F.

Follow these rules for reporting other income.

- Report the gain (loss) from the sale of an asset used in business, other than inventory or stock-in-trade, on PA-41 Schedule D.
- Report interest income on PA-41 Schedule A.
- Report dividend income on PA-41 Schedule B.
- Report rent and royalty income on PA-40 Schedule E.

### **Allowable Business Expenses**

Allowable expenses are those ordinary, necessary, and reasonable expenses currently paid or incurred during the taxable year that are directly related to and necessary for operating a business, profession or farm.

Social security and unemployment compensation taxes paid for employees are allowable expenses.

- Do not deduct any federal income tax, estate, inheritance, legacy, succession and gift taxes, or assessments for any improvements or betterments.
- Do not deduct taxes on dwellings or household property and other taxes not related to the business.

### **Depreciation/Bonus Depreciation**

Pennsylvania personal income tax law does not follow the federal allowances for additional depreciation expenses. Taxpayers may not use any of the bonus depreciation elections enacted for federal purposes. An estate or trust must increase its Pennsylvania income by the difference between the bonus depreciation and the depreciation based on the

generally accepted depreciation method it elected for Pennsylvania personal income tax purposes.

### Other Depreciation Expense Differences

An estate or trust must adjust its federal expense for the difference between its federal depreciation and its Pennsylvania personal income tax depreciation, based on its generally accepted method.

Pennsylvania allows ACRS, MACRS, and IRC Section 168(k) only to the extent allowable under the version of the Internal Revenue Code in effect at the time the property was placed in service or the IRC in effect on Jan. 1, 1997, whichever is earlier, but not any other accelerated method.

**CAUTION:** Estates and trusts cannot expense capital property using any provisions of IRC Section 179.

**TIP** If the basis of the property used to calculate depreciation for federal income tax purposes is different than that used to calculate depreciation for state income tax purposes, the department requires straight-line depreciation to be used to calculate the depreciation on these assets.

### Other Federal Legislation

Federal legislation signed into law late in 2010 – including the Small Business Jobs Act and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act – contain no provisions applicable for or that may be used in calculating Pennsylvania personal income tax liabilities. Any provisions provided in the aforementioned acts to defer income or accelerate deductions must be reversed for Pennsylvania personal income tax purposes.

## LINE 4

### Net Gain or Loss from the Sale, Exchange or Disposition of Property

If the estate or trust has net gains or losses from the sale, exchanges, or disposition of property, enter the amount from Line 10 of the PA-41 Schedule D here on Line 4. See the PA-41 Schedule D instructions on the department's website.

You must report each sale, exchange, or disposition of any kind of property, including real estate, tangible personal property and intangible property such as stock or ownership interests in business enterprises, bonds, annuities, and contract

of insurance with refundable accumulated reserves payable upon lapse or surrender.

However, if a sale, including an installment sale, is a routine transaction in the ordinary course of operating a business, profession or farm, include the gain (loss), and any interest realized in determining net business income (loss).

See the Pennsylvania Personal Income Tax (PA PIT) Guide, Chapter 12, Table 12-1, for more information on determining whether the sale should be included as a routine transaction in the ordinary course of business or on PA-41 Schedule D.

Report gain on the disposition of property in the taxable year in which the amount realized from the conversion of the property into cash or other property exceeds the adjusted basis of such property.

An estate or trust recognizes a loss only:

- With respect to transactions entered into for profit; and/or
- In the taxable year in which it closes and completes the transaction by some identifiable event that fixes the amount of such loss, so that there is no possibility of any eventual recovery.

### Installment Sales

When real or tangible personal property is sold at a gain and any portion of the payments is expected to be received in a tax year after the year of sale, it is an installment sale. The estate or trust has the option to either report the entire proceeds in the year of the sale or report the gain on the installment sale method. An installment method election, once made, cannot be revoked nor may the profit percentage be altered.

The election to report using the installment method is made by filing a PA Schedule D-1 (REV-1689) for the year of sale. Schedule D-1 is required in subsequent years in which any payment is received. Obtain and complete PA Schedule D-1 and enter on Line 3 of PA-41 Schedule D the total gain realized from PA Schedule D-1.

If the decedent had entered into an installment sale prior to death, the estate is required to continue using the installment method of reporting, using the same profit percentage established at the time of sale.

The estate or trust may not use the installment method for:

- Reporting gains from the sale of intangible personal property, such as

stocks, bonds, partnership interests, goodwill, etc.; or

- Transactions where the object is the lending of money or the rendering of services.

Follow the instructions for PA Schedule D-1. Submit PA Schedule D-1 with the PA-41 Schedule D.

**IMPORTANT:** Interest incidental to an installment sale is reported directly from the sale contract or agreement, on PA Schedule D-1.

### Repossession of Property

If an estate or trust repossesses property resulting from an installment sale because the buyer defaulted, the estate or trust must adjust the basis of the recovered property by the amount of any previously reported gain. The estate or trust may not amend its tax return for the taxable year of the original installment sale.

**TIP** Report capital gains distributions from mutual funds and regulated investment companies as dividend income for Pennsylvania purposes, even though reported on a federal Schedule D for federal purposes.

### Federal and Pennsylvania Obligations

Since 1993, Pennsylvania law treats net gains and losses from the sale, exchange, or disposition of the following obligations differently depending on the original issue date of these obligations:

1. Direct obligations of the U.S., such as Series E, F, G, H, I, and EE bonds, federal treasury bills, and treasury notes;
2. Direct obligations of certain agencies, instrumentalities, or territories of the U.S.; and
3. Direct obligations of the Commonwealth of Pennsylvania and its political subdivisions.

If the original issue date was before Feb. 1, 1994:

- The net gain is not subject to Pennsylvania tax;
- A loss may not offset other gains; and
- Expenses incurred may not reduce other taxable gains.

If the original issue date was on or after Feb. 1, 1994:

- The net gains are Pennsylvania-taxable income; and
- Losses may offset other Pennsylvania-taxable gains, but not income in other Pennsylvania income classes.

**⚠ IMPORTANT:** If the sale, exchange or disposition of property transaction is from a federal or Pennsylvania obligation, please include the original issue date or DTD date of the obligation in the description of the transaction.

**⚠ CAUTION:** The gain from the sale of a mutual fund or a fixed investment portfolio trust is not exempt for Pennsylvania purposes.

### **Involuntary Conversions**

Sales, exchanges or dispositions of property resulting from an involuntary conversion (destruction in whole or in part, theft, seizure, or requisition or condemnation or threat or imminence thereof) that are not required to be reported for federal income tax purposes under IRC Section 1033 are not required to be reported for PA personal income tax purposes on transactions occurring after Sept. 11, 2016.

### **Obligations of Other States**

Net gain from the disposition of obligations of other states or countries is always Pennsylvania-taxable income.

### **Taxable Distributions from a C Corporation**

An estate or trust that is a shareholder in a C corporation must report as taxable gain the excess of the fair market value of a distribution (other than a dividend) in excess of current or accumulated earnings and profits over the adjusted basis of its stock when the adjusted basis of the stock is zero.

When a distribution, that is not a dividend, is received that is in excess of the current or accumulated earnings and profits, it decreases the basis of the stock or shares, but not below zero, by any distribution that is not taxable as a dividend on Line 2 of PA-41, Fiduciary Income Tax Return. Once a distribution reduces the basis of the stock to zero, the excess distributions are taxable as gains from the disposition of property and reported on Schedule D, Line 4.

**Example.** B corporation distributes from its capital account \$100,000 to the estate of John Doe, the only stockholder. The estate's adjusted basis in the stock is \$75,000. The distribution is not from the regular corporation's earnings and profits, so it is not a taxable dividend.

The estate must reduce its basis from \$75,000 to zero, then report \$100,000 on the "Enter total distribution" line, and \$75,000 on the "Minus adjusted basis" line. The estate reports the remaining \$25,000 as a gain on its PA-41 Schedule D.

### **Property Acquired Before June 1, 1971**

Obtain and complete PA Schedule D-71 (REV-1742). Report on Line 5 of PA-41 Schedule D the total net gain (loss) from PA Schedule D-71.

### **Limited Liability Company, Partnership and PA S Corporation Income**

If the estate or trust is a member, partner or shareholder (owner) in a PA S corporation, it should receive a PA-20S/PA-65 Schedule RK-1 or NRK-1 showing its share of any net gain (loss) realized by the sale, exchange or disposition of property.

Report the amount of any net gain (loss) realized by the sale, exchange or disposition of property from PA-20S/PA-65 Schedule RK-1, Line 4 and PA-20S/PA-65 Schedule NRK-1, Line 2 on PA-41 Schedule D, Line 6 or Line 7.

Submit all schedules to support the amount reported on PA-41 Schedule D.

Submit a copy of the federal Form 1065 Schedule K-1 if a PA-20S/PA-65 Schedule RK-1 or NRK-1 is not supplied by the partnership or limited liability company.

If the estate or trust receives only a federal Form 1065 Schedule K-1, the estate or trust must adjust and classify the income and losses according to Pennsylvania rules.

See the Pennsylvania Personal Income Tax (PA PIT) Guide, Chapter 16, Pass Through Entities, for additional information on the adjustments required and the proper classification of income.

If the estate or trust is a shareholder (owners) in a PA S corporation, the PA S corporation must provide the PA-20S/PA-65 Schedule RK-1 or NRK-1. The federal Form 1120S Schedule K-1 is not an acceptable substitute.

If the estate or trust realizes income (loss) from more than one partnership, PA S corporation or entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes, provide a statement showing the FEIN, name and amount of distributable/distributed income by entity.

### **Disposition of Principal Residence**

A sale or other disposition of a decedent's principal residence will not qualify for the principal residence exclusion unless the disposition is pursuant to an executor contract made prior to death by an individual that met the ownership and use

requirements. Include the taxable sale of a decedent's residence on Line 1 of PA-41 Schedule D.

## **LINE 5**

### **Net Income or Loss from Rents, Royalties, Patents or Copyrights**

If the estate or trust has net income (loss) from rents, royalties, patents and/or copyrights, it must complete a separate PA-40 Schedule E to report the income (loss) and include it with the PA-41, Fiduciary Income Tax Return.

Report the amount of income (loss) from PA-40 Schedule E, Line 23 on the PA-41, Fiduciary Income Tax Return, Line 5. See the PA-40 Schedule E and instructions on the department's website.

Rental income includes the amounts the estate or trust received for the use of, or the right to use, its real or personal property.

Royalty income includes the amounts the estate or trust received for the extraction of coal, oil, gas or other minerals in place, and the amounts received for the use of its patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises and similar property.

### **Limited Liability Company, Partnership and PA S Corporation Income**

If the estate or trust is a member, partner or shareholder (owner) in a partnership, PA S corporation or an entity formed as a limited liability company that is classified as a partnership or PA S corporation for federal income tax purposes, it should receive a PA-20S/PA-65 Schedule RK-1 and NRK-1 showing its share of any net income (loss) from rents, royalties, patents and/or copyrights.

Report the amount of any net income (loss) from rents, royalties, patents and/or copyrights from PA-20S/PA-65 Schedule RK-1, Line 5 and PA-20S/PA-65 Schedule NRK-1, Line 3 on PA-40 Schedule E, Line 22.

Submit all schedules to support the amount reported on PA-40 Schedule E.

Submit a copy of the federal Form 1065 Schedule K-1 if a PA-20S/PA-65 Schedule RK-1 is not supplied by the partnership or limited liability company.

If the estate or trust receives only federal Form 1065 Schedule K-1, the estate or trust must adjust and classify the income and losses according to Pennsylvania personal income tax.

See the Pennsylvania Personal Income Tax (PA PIT) Guide, Chapter 16, Pass Through Entities, for additional information on the adjustments required and the proper classification of income.

If the estate or trust is a shareholder in a PA S corporation or an entity formed as a limited liability company that is classified as a PA S corporation for federal income tax purposes, the PA S corporation must provide the owner the PA-20S/PA-65 Schedule RK-1 or NRK-1. The federal Form 1120S Schedule K-1 is not an acceptable substitute.

If the estate or trust realizes income (loss) from more than one partnership, PA S corporation or limited liability company, provide a statement showing the FEIN, name and amount of distributable/distributed income by entity.

The department no longer permits an estate or trust to use federal Schedule E to report rental/royalty income or loss. The estate or trust must use PA-40 Schedule E to report the rental/royalty activity. The income or loss reported on PA-40 Schedule E must be calculated using PA personal income tax rules; federal calculations are not acceptable. There can be significant differences between rental/royalty income or loss calculated according to PA rules vs. federal rules, such as:

- PA taxpayers report passive rental/royalty loss in full; the federal carryover of losses to future years is not permitted.
- PA taxpayers only report the current year's income (loss); any rental/royalty loss carryovers from prior years deducted for federal purposes are not permitted.
- PA permits an additional deduction for any meals and entertainment expenses disallowed for federal purposes.
- PA provides an option to deduct sales and use tax on acquired property; for federal purposes, this must be included in the basis of the property. In addition, if sales and use tax are deducted as an expense, depreciation on the asset will be different for PA purposes due to the differing depreciable bases.

**⚠ IMPORTANT:** If currently expensing sales and use tax, the basis of that property will differ from the federal basis. As a result, straight-line depreciation is required to be used for Pennsylvania personal income tax purposes and the depreciation expense must be

adjusted accordingly. An estate or trust cannot expense sales and use tax and still take the same depreciation for Pennsylvania personal income tax purposes as it does for federal purposes.

### **Rental and Royalty Receipts and Allowable Expenses**

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

- Receipts from the sale, exchange or other disposition of rental, royalty and similar property; and
- Receipts from operating an oil, gas or mineral interest as a business, profession or farm or otherwise derived in the ordinary course of, and from the operation of, a business.

Deduct those expenses that were paid or incurred during the taxable year that are ordinary and necessary for:

- The production of, or collection of, rents and royalties; or
- The management, conservation or maintenance of rents, royalties, patents, copyrights and similar property. See the PA-40 Schedule E instructions on the department's website for the allowable expenses.

### **Rents or Net Profit from the Operation of a Business**

Rental activity is a business activity the estate or trust reports on a PA-40 Schedule C, when:

- The estate or trust offers the use of its property on a commercial basis to others in a marketplace;
- It provides significant services (see below) to the lessee primarily for the lessee's convenience, and not customarily provided in connection with renting property; and
- At least one of the following three conditions applies:
  - The average period of customer use is 30 days or less;
  - The property is customarily made available for use only during defined business hours;
- The estate or trust incurs significant operating expenses in making the property available for lease; or
- The leasing activity is incidental to a real estate sales business; and
  - It offers the use of its property intending to realize a profit; or
  - The leasing of its property is a regular and continuous activity.

### **Significant Services**

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 rental condition are not usually significant services.

### **Rents or Net Gain from the Sale, Exchange, or Disposition of Property Lease with an Option to Buy**

A lease with an option to buy may be a purchase contract under accepted accounting principles and practices.

If it is, the payments you received under the contract are payments of the purchase price and are not includable as rental income. Report such income on PA-41 Schedule D.

### **Selling Mineral Interests, Patents, or Copyrights**

If giving up all rights to mineral interests, patents or copyrights, the amounts the estate or trust received are considered payments for the sale or exchange of property. Report such income on PA-41 Schedule D.

## **LINE 6**

### **Estate or Trust Income**

If the estate or trust has estate or trust income reported on PA-41 Schedule J, report that income here.

If the estate is a taxable bankruptcy estate, report on Line 6 of the PA-41 the income from Line 11 of the pro-forma PA-40 completed on behalf of the bankruptcy debtor.

Income currently paid, distributable or credited income from another estate or trust is Pennsylvania-taxable income on the PA-41, Fiduciary Income Tax Return. The estate or trust will receive a PA-41 Schedule RK-1 or NRK-1 from the other estate or trust.

Cash and property received from another estate or trust by gift, bequest, devise or inheritance is not taxable.

Pennsylvania-taxable income from other estates or trusts is reported on PA-41 Schedule J.

If the other estate or trust provides a federal Form 1041 Schedule K-1, report only the total distributed and distributable income from all categories of

income, not taking into account any losses, on PA-41 Schedule J. See the PA-41 Schedule J instructions on the department's website.

If a resident estate or trust, enter the amount reported from Line 6 of the PA-41 Schedule RK-1 provided by the other estate or trust as your resident taxable income on the PA-41, Fiduciary Income Tax Return, Line 6.

If a nonresident estate or trust, enter the amount reported from Line 4 of the PA-41 Schedule NRK-1 provided by the other estate or trust as your nonresident taxable income on the PA-41, Fiduciary Income Tax Return, Line 6.

## LINE 7

### Total Income

Add all positive amounts on Lines 1 through 6. You cannot offset income (loss) on these lines to calculate Line 7.

## LINE 8

### Deductions for PA Schedule DD

Complete the PA-41 Schedule DD, Distribution Deduction Schedule, to determine the allowable deductions for distributions made to beneficiaries of the estate or trust. See the PA-41 Schedule DD instructions on the department's website.

## LINE 9

### Net PA-Taxable Income

Subtract Line 8 from Line 7.

## LINE 10

### PA Tax Liability

Multiply the amount on Line 9 by 3.07 percent (0.0307).

## LINE 11

### Tax Withheld for Nonresident Beneficiaries

If the estate or trust has distributed or distributable Pennsylvania-source income and nonresident beneficiaries, report the amount of the nonresident withholding tax from PA-41 Schedule N here. See the instructions for PA-41 Schedule N on the department's website.

If the estate or trust does not distribute its income or does not have Pennsylvania-source income, there is no nonresident withholding tax requirement.

The amount reported on Line 11 must equal the total amount reported on Line 6 for all PA-41 Schedule NRK-1s. See the instructions for PA-41 Schedule NRK-1 on the department's website.

## LINE 12

### Total PA Tax Liability

Add Lines 10 and 11. This amount is the Pennsylvania tax before adjustment for payments and credits.

## LINE 13

### 2016 Estimated Payments and Credits

Enter the total of:

- Any credit carried over from the 2015 PA-41, Fiduciary Income Tax Return;
- All 2016 installment payments of estimated tax; and
- Any payment made with a 2016 request for extension of time to file.

If the estate is a taxable bankruptcy estate, report on this line the estimated payments allocated to the bankruptcy estate from Lines 14 or 15 of the pro-forma PA-40 completed on behalf of the bankruptcy debtor. A copy of the letter approving the assignment of the estimated tax payments to the bankruptcy estate must be included with the PA-41 of the bankruptcy estate and the individual taxpayer's PA-40.

## LINE 14

### Nonresident Tax Withheld from PA Schedules NRK-1

Enter the Pennsylvania tax withheld by a partnership, PA S corporation, or limited liability company from Line 6 of a partnership, PA S corporation or limited liability company PA-20S/PA-65 Schedule NRK-1.

The estate or trust must submit the PA-20S/PA-65 Schedules NRK-1.

## LINE 15

### Total Credit for Taxes Paid by Pennsylvania Resident Estates or Trusts to Other States

Pennsylvania resident estates or trusts having income subject to both Pennsylvania tax and fiduciary income tax of another state may claim a credit for all or a portion of the tax paid to the other state. A state is defined as a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico and any territory of possession of the United States.

Submit a photocopy of the tax return, or other evidence, filed in the other state with the PA-40 Schedule G-L.

If a shareholder or partner, the estate or trust must also submit the PA Schedules RK-1.

Your partnership or PA S corporation submits the PA-40 Schedule G-L and other state's return with its PA-20S/PA-65 Information Return.

### Pennsylvania Resident Shareholders in a Subchapter S Corporation that is not also a PA S Corporation

Pennsylvania law does not permit a resident credit if you are a shareholder in a subchapter S corporation if that corporation elected not to be taxed as a PA S corporation.

See the PA-40 Schedule G-L instructions on the department's website.

Pennsylvania law does not provide rules that allow an estate or trust to pass through the fiduciary income tax it pays to another state on behalf of its beneficiaries.

Therefore, the estate or trust may adjust the income it reports on the PA-41 Schedule RK-1 that it provides to its beneficiaries by the amount of fiduciary income tax that it paid to another state on the income it distributes to its beneficiaries.

The estate or trust must submit an explanation for its adjustment and a copy of the other state's tax return or other evidence of the tax due to the other jurisdiction.

If the estate or trust distributes all of its distributable income, the estate or trust shows the gross amount of income received for the appropriate class of income taxed in the other state on a separate statement. The separate statement should also include a line with a negative amount and the description "other state taxes paid" and the amount of taxes paid to the state. The estate or trust then reports the net amount of income or loss for that class of income on the PA-41, Fiduciary Income Tax Return. Example A provides how this affects the income of a trust and the distribution to the beneficiary.

**Example A.** A trust has \$75,000 of income that consists of \$25,000 of interest income and \$50,000 of business income. The trust has \$2,000 of taxes it pays to another state on business income of \$20,000. The trust is required, by its trust

document, to distribute all of its income to one Pennsylvania beneficiary. In this example the resident credit cannot be passed through to the beneficiaries. The tax paid to the other state is shown as a reduction to the business income earned by the trust on a separate line of the statement reporting the income for Line 3 of the PA-41, Fiduciary Income Tax Return. The PA-41 Fiduciary Income Tax Return would then show \$48,000 of taxable business income. The PA-41 Schedule RK-1 would then report \$73,000 of income on Line 6.

If an estate or trust does not distribute all of its distributable income and it also has other state taxes paid, the estate or trust cannot utilize the entire amount as a reduction to income or as a resident credit for taxes paid to the other states. In such cases, the tax must be prorated between reducing the income and resident credit. Example B provides how to prorate the amounts.

**Example B.** A trust has \$100,000 of income that consists of \$25,000 of interest income, \$50,000 of business income and \$25,000 of gains. The trust has \$2,000 of taxes it pays to another state on business income of \$20,000 and distributes \$60,000 of its income.

The trust agreement or document in this example does not permit gains to be distributed. Therefore, the income distributed is made up of business and interest income and not all of that income was distributed. Since not all the business and interest income were distributed, the trust has to prorate the other state's taxes between adjusting the business income and receiving a resident credit.

If all income is not distributed, here's how to prorate the taxes and credit:

- Since \$60,000 of the total distributable income of \$75,000, or 80 percent was distributed, 80 percent of the taxes paid should be adjusted against the business income amount and 20 percent of the business income (20 percent x 20,000 = \$4,000) and taxes paid (20 percent x 2,000 = \$400) should be used to calculate the resident credit.
- Resident credit would then be \$123.
- Business income of \$48,400 (50,000 – (2,000 x 80 percent = \$1,600), interest income of \$25,000 and gains of \$25,000 would be reported on the PA-41, Fiduciary Income Tax Return.
- Total income would then be \$98,400 and taxable income \$38,400.

- The PA-41 Schedule RK-1 to the individual still shows \$60,000 of income to the beneficiary because the individual still received that amount as a distribution.
- The only time the PA-41 Schedule RK-1 income would be adjusted is if the distribution was all of the interest and business income or more than the net total interest and business income on the return (for this example).

### Taxable Bankruptcy Estates

If the estate is a taxable bankruptcy estate, report on this line the amount of the resident credits reported on Line 22 of the pro-forma PA-40 completed on behalf of the bankruptcy debtor. Copies of any tax returns for the other states should be included with the pro-forma PA-40. If any portion of the credit is also attributable to the individual taxpayer's return, a schedule must be included to illustrate how the credit was allocated between the individual taxpayer's return and the PA-41 of the bankruptcy estate.

### LINE 16

#### Total Other Credits from PA Schedule OC

Enter the total allowable credits from Line 15, PA Schedule OC. See the PA-40 Schedule OC and the instructions on the department's website.

If a bankruptcy estate has any credits reported on Line 23 of the pro-forma PA-40, include them on this line. Credits reported from the pro-forma PA-40 should be reported as "Other restricted credits not listed above" on Line 14 of the PA-40 Schedule OC filed and included with the PA-41 of the taxable bankruptcy estate.

### LINE 17

#### Pennsylvania Income Tax Withheld

Enter any Pennsylvania income tax withheld from federal Forms W-2, 1099 or W-2G. Most estates and trusts will not complete this line.

However, Pennsylvania income tax withheld on income in respect of a decedent (not taxable for estate or trust income tax purposes, but includable in the value of an estate for inheritance tax purposes) should be included on this line along with any Pennsylvania income tax withheld from Pennsylvania Lottery winnings or any tax withheld in error on estate or trust income.

PA personal income tax withholding is required for all Pennsylvania Lottery cash prizes greater than \$5,000 paid after July 12, 2016. If the estate or trust has PA tax withheld included in Box 15 of federal Form(s) W-2G, Certain Gambling Winnings, report the withholding on Line 17 of the PA-41, Fiduciary Income Tax Return.

If a bankruptcy estate has Pennsylvania tax withheld allocated to it based upon an allocation of compensation or any other income that has tax withholding, include on this line the amount of withholding reported on Line 13 and/or Line 17 of the pro-forma PA-40.

Include originals or photocopies of all forms that include withholding on behalf of the estate or trust (Forms W-2, W-2G and 1099) with the PA-41, Fiduciary Income Tax Return.

### LINE 18

#### Total Payments and Credits

Add Lines 13, 14, 15, 16 and 17.

### LINE 19

#### Use Tax

Use tax is the counterpart of sales tax and applies to taxable purchases made over the Internet, through toll-free numbers, from mail order catalogs and from out-of-state locations, or any other occasion where sales tax was not charged and collected by the seller. The use tax rate is the same as the sales tax rate: 6 percent state tax, plus an additional 1 percent local tax for items purchased or used in Allegheny County and 2 percent local tax for Philadelphia.

If the estate or trust purchases items or services subject to sales tax for which the seller does not charge and collect sales tax on the invoice or receipt, the estate or trust is responsible for remitting the use tax directly to the PA Department of Revenue.

**Example.** Taxable items include antiques, paintings, appliances, books, stationery, computers, exercise equipment, sports equipment, formal clothing, furniture, furnishings, jewelry, luggage, handbags, musical instruments, office equipment, souvenirs, televisions, radios, stereo equipment, video equipment and camera equipment.

**Example.** Taxable services include lawn care, pest control, self-storage, building cleaning and maintenance services such as housekeeping services. See the

Use Tax Worksheet	Amount
1. Purchases of taxable items subject to Pennsylvania use tax, including shipping & handling	
2. Purchases of taxable services subject to Pennsylvania use tax	
3. Total taxable purchases	
4. Tax rate (0.07 Allegheny County, 0.08 Philadelphia or 0.06 state)	0. ___
5. Use tax: Multiply Line 3 by Line 4	
6. Sales tax previously paid on any amount included on Lines 1 and 2 (up to 0.07 per item for Allegheny County, 0.08 for Philadelphia or 0.06 state)	
7. Total use tax liability. Subtract Line 6 from Line 5 and enter the amount here and on Line 19 of your PA-41, Pennsylvania fiduciary income tax return	

Retailer's Information Guide (REV-717) for an extensive, though not comprehensive, list of taxable items and services.

This method of reporting and paying use tax may not be used for purchases of motor vehicles, watercraft, boats, ATVs, snowmobiles or cigarettes.

If the estate or trust has receipts or purchase records for items or services subject to use tax, use the worksheet in the next column to calculate the estate or trust's use tax liability. Estates and trusts are encouraged to review purchase histories made available online by popular Internet sellers and use that information to calculate the tax due.

**NOTE:** This worksheet must be used to calculate use tax due on individual purchases over \$1,000.

If the estate or trust paid some sales tax on items – for example, sales tax at a lower rate paid to another state or sales tax paid to Pennsylvania but not Philadelphia – the estate or trust may offset its use tax liability by the sales tax already paid using this worksheet.

**TIP** If the estate or trust does not have a use tax liability or filed form PA-1 to report and pay use tax, the state or trust must enter zero on Line 19.

**IMPORTANT:** The department reserves the right to assess additional use tax due if and when it discovers evidence that the total purchase amount reported on the PA-41, Fiduciary Income Tax Return, is less than the actual purchase amount.

Businesses with Pennsylvania sales tax licenses should report use tax on their sales tax returns.

For detailed information on use tax reporting responsibilities and options, visit [www.revenue.pa.gov/usetax](http://www.revenue.pa.gov/usetax).

## PAGE 2

### LINE 20

#### Tax Due

If Line 12 is more than the total of Lines 18 and 19 enter the difference on this line.

### LINE 21

#### Estimated Underpayment Interest Penalty

If Line 20, less Line 19, is more than ten percent of Line 11, the estate or trust is liable for an estimated underpayment penalty.

Pennsylvania law requires estimated Pennsylvania personal income tax payments if the estate or trust earned, received, or realized more than \$8,000 of Pennsylvania-taxable income.

Pennsylvania law does provide specific exceptions (safe harbors) to this penalty, and the estate or trust can calculate its penalty at the applicable interest rates on REV-1630F, Underpayment of Estimated Tax by Fiduciaries.

**IMPORTANT:** Request REV-1630F for each tax year for which the estate or trust owes the penalty.

#### Late Filing and Underpayment Penalty and Interest

If paying the tax after the due date, the estate or trust must also pay applicable penalty and interest. See Penalty and Interest.

If including REV-1630F, Underpayment of Estimated Tax by Fiduciaries, fill in the oval on Line 21 on the PA-41, Fiduciary Income Tax Return.

Enter the appropriate code in the block provided. Descriptions of the codes that can be entered in the block are as follows:

- L - If late payment penalty and interest, failure to file penalty or interest or late filing penalty and Interest is included in Line 21;
- E - If only estimated underpayment penalty is included in Line 21;
- B - If both late payment penalty and interest and estimated underpayment penalty are included in Line 21;
- X - Indicates there is no estimated underpayment penalty due to exception 2 or the special exception rules as indicated on the completed and included REV-1630F.

**IMPORTANT:** If you do not owe any penalty or interest, do not complete the amount block for Line 21 leave it blank. If there is no amount included on Line 21 of the return, no code should be entered in the block provided for the code on this line unless REV-1630F is included with the return that indicates there is no estimated underpayment penalty due to exception 2 or the special exception rules as indicated on the completed and included REV-1630F.

All returns with amounts listed on Line 21 should have a code listed in the block provided for the code on this line. See the description of codes listed above for the proper code to enter when REV-1630F is included.

To determine the applicable interest rate, obtain REV-1611, Interest Rate and Calculation Method for All Taxes Due After Jan. 1, 1982. The department will apply payments in the order of tax, interest, and penalty as prescribed by Pennsylvania law.

### LINE 22

#### Total Payment

Add Lines 20 and 21. This is the 2016 amount due with the PA-41, Fiduciary Income Tax Return. Pay the total due, in full, on or before April 18, 2017.

Fiscal-year filers must pay by the 15th day of the fourth month following the close of the tax year.

If you owe \$1 or less, you do not have to submit a payment with your return.

### LINE 23

#### Overpayment

If Line 18 is more than the total of Lines 12, 19 and 21, enter your overpayment. The total of Lines 24 and 25 must equal Line 23.

## LINE 24

### Refund

For a refund of the amount of Line 23, enter the amount the trust or estate wants as a check mailed to the estate or trust.

### Direct Deposit Refunds (Electronically Filed Returns Only)

Estates and trusts that e-file the PA-41, Fiduciary Income Tax Return, can receive a direct deposit refund for overpayment of Pennsylvania tax.

Estates and trusts have three options when the PA-41, Fiduciary Income Tax Return, shows an overpayment of Pennsylvania tax.

The estate or trust may elect to have the overpayment:

- Applied to next year's tax;
- Refunded in the form of a refund check; or
- Refunded directly into the trust's or estate's bank account by electronic transfer (direct deposit) for e-filed returns only.

Paper-filed PA-41, Fiduciary Income Tax Return, requesting a refund of overpayment of Pennsylvania personal income tax will only receive a mailed check.

### International ACH Transactions

The Federal Office of Foreign Assets Control has imposed additional reporting requirements on all electronic banking transactions that directly involve a financial institution outside of the territorial jurisdiction of the U.S. These transactions are called international ACH transactions (IAT). Presently, the Pennsylvania Department of Revenue does not support IAT ACH debit transactions. Taxpayers who instruct the department to process electronic banking transactions on their behalf are certifying that the transactions do not directly involve a financial institution outside of the territorial jurisdiction of the U.S. at any point in the process.

## LINE 25

### Credit

For a credit to the 2017 Pennsylvania estimated tax account of the estate or trust, enter the amount from Line 23.

 If the estate or trust requests a refund and a credit, enter the amounts on Lines 24 and 25. The total of these lines must equal Line 23.

## WHO MUST SIGN

### Paper Filed Returns Signature of Fiduciary

The estate or trust has not filed a valid PA-41, Fiduciary Income Tax Return, unless it is properly signed.

The fiduciary signing the return verifies by written declaration, under penalties of perjury, that he or she personally has examined the PA-41, Fiduciary Income Tax Return, and its accompanying schedules and to the best of his or her knowledge, the PA-41, Fiduciary Income Tax Return, is true, correct and complete.

The estate or trust official responsible for signing the PA-41, Fiduciary Income Tax Return, must sign it by hand; signature stamps or labels are not acceptable, and include his or her title, date and daytime phone number.

If there are joint fiduciaries, both may sign in the space provided. However, only one signature for a fiduciary is required on the return.

The responsible official must submit all required schedules with the PA-41, Fiduciary Income Tax Return, including the PA-41 Schedules RK-1 and NRK-1 for each beneficiary.

### Preparer's Signature and Name

A paid preparer may sign original or amended returns by rubber stamp, mechanical device or computer software program. Pennsylvania follows federal guidelines for signature requirements for the preparer.

If the fiduciary or an employee of the estate or trust completes the PA-41, Fiduciary Income Tax Return, the paid preparer's space should remain blank. In addition, anyone who prepares the PA-41, Fiduciary Income Tax Return but does not charge the estate or trust should not complete the paid preparer section.

Anyone who prepares a PA-41, Fiduciary Income Tax Return for a fee or incident to the performance of services for which the preparer charges a fee e.g. an attorney provides legal services for a fee and includes for free, the preparation of the PA-41, Fiduciary Income Tax Return, must do the following.

- Print or type the paid tax return preparer's company or corporation federal employer identification number, if applicable.
- Print or type the preparer's Preparer Tax Identification Number (PTIN). If

you are a preparer, you must use a PTIN issued by the Internal Revenue Service (IRS) to identify yourself in the paid preparer section of the tax return.

### Electronically Filed Returns

An electronic return must be signed by the fiduciary or authorized individual or representative.

An electronic return must also be signed by the paid preparer, if applicable.

Two signature options are available, as described below.

1. PA-8879, Pennsylvania e-File Signature Authorization; or
2. PA-8453, Pennsylvania Individual Income Tax Declaration for Electronic Filing.

### PA-8453 Form

If a taxpayer elects not to use the federal self-select PIN or a return is filed without a federal return, the PA Department of Revenue requires Electronic Return Originators (EROs) and transmitters to retain completed PA-8453 forms and supporting documents for three years after the due date of the return or the date the return was filed electronically, whichever is later. EROs and transmitters must make the documents available to the PA Department of Revenue upon request.

Do not mail PA-8453 forms and attachments to the department unless requested.

 **NOTE:** If an ERO or transmitter closes its business, it must mail all forms to the following address with a letter of explanation.

PA DEPARTMENT OF REVENUE  
BUREAU OF INDIVIDUAL TAXES  
ELECTRONIC FILING SECTION  
PO BOX 280507  
HARRISBURG PA 17128-0507

Any taxpayer filing electronically from a home computer must keep the signed PA-8453 forms and supporting documents for three years after the due date of the return or the date the return was filed electronically, whichever is later.

Taxpayers must make the documents available to the PA Department of Revenue upon request. Do not mail PA-8453 forms and attachments to the department unless requested.

The responsible official must file all required schedules with the PA-41, Fiduciary Income Tax Return, including the PA-41 Schedules RK-1 and NRK-1.

## PA-8879 Form

The federal self-select PIN option consists of two PINs, one for the taxpayer and one for the practitioner.

In order for the department to accept the federal self-select PIN as a signature, software developers must display a jurat/disclosure statement. Taxpayers and Electronic Return Originators (EROs) must complete the PA-8879 form when using this method and consenting to electronic funds withdrawals.

The department requires EROs to retain completed PA-8879 forms for seven years after the due dates of the returns or the dates the returns were filed electronically, whichever is later.

Do not mail PA-8879 forms and attachments to the department unless requested.

## Instructions for PA-41 Schedule OI-Other Information

PA-41 Schedule OI is located on the bottom half of Page 2 of the PA-41, Fiduciary Income Tax Return.

See separate instructions for PA-41 Schedule OI on the department's website.

### TAXPAYER SERVICES AND ASSISTANCE

### ONLINE SERVICES

#### Revenue e-Services Center at [www.revenue.pa.gov](http://www.revenue.pa.gov)

This is the location for all the department's electronic filing services. There are many electronic filing and payment options available for both individual and business taxpayers.

Visit the website and learn about the services that may be available to you and take advantage of the speed, ease, convenience, and peace of mind these programs provide.

## Online Customer Service Center at [www.revenue.pa.gov](http://www.revenue.pa.gov)

If you have Internet access, you can find answers to commonly asked questions by using the department's Online Customer Service Center. Use the Find an Answer feature to search the database of commonly asked questions. If you do not find your answer in this area, you can submit your question to a customer service representative.

## PA Personal Income Tax Guide (PA PIT Guide)

The department's Pennsylvania Personal Income Tax Guide has information that explains Pennsylvania's income tax, and its differences from federal rules. You can only access the PA PIT Guide at the department's website. You can open specific chapters of the PA PIT Guide and use the search features of Adobe Acrobat Reader™ to find additional information on PA personal income tax rules. The department offers a link for free download of the Adobe Acrobat Reader™, which is necessary to access the Pennsylvania Personal Income Tax Guide.

### TELEPHONE SERVICES

#### Taxpayer Service and Information Center

Call 717-787-8201 for Pennsylvania personal income tax help during normal business hours, 7:30 a.m. to 5 p.m.

#### 1-888-PATAXES

Touch-tone service is required for this automated 24-hour toll-free line. Call to order forms or check the status of a personal income tax account, corporation tax account or property tax/rent rebate.

Harrisburg-area residents may call 717-425-2533.

#### Forms Ordering Services

To obtain forms, visit a Revenue district office, or use one of the following services:

## Internet: [www.revenue.pa.gov](http://www.revenue.pa.gov)

Pennsylvania income tax forms, schedules, brochures, electronic filing options, and other information are available on the department's website. If you do not have Internet access, visit your local public library.

## Email Requests for forms: [ra-forms@pa.gov](mailto:ra-forms@pa.gov)

## Automated 24-hour Forms Ordering Message Service: 1-800-362-2050

This line serves taxpayers without touch-tone telephone service.

## Written Requests:

PA DEPARTMENT OF REVENUE  
TAX FORMS SERVICE UNIT  
1854 BROOKWOOD ST  
HARRISBURG PA 17104-2244

## Services for Taxpayers with Special Hearing and/or Speaking Needs:

1-800-447-3020 (TTY)

## Language Services

Non-English-speaking taxpayers can receive assistance from the department through an interpretation service.

### OTHER SERVICES

#### Español

El Departamento de Impuestos puede ayudar a los contribuyentes que no hablan inglés por medio de un servicio de traducción durante el periodo de pago de impuestos.

#### Federal Tax Assistance

Federal tax account or technical information and problem solving are available by calling: 1-800-829-1040.

Recorded Tele-Tax Service on federal tax topics or tax refund information is available by calling: 1-800-829-4477.

Federal tax forms and publications are available by calling: 1-800-829-FORM (3676).