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PA-41 FIDUCIARY INCOME TAX RETURN INSTRUCTIONS UPDATED TO INCLUDE GUIDANCE ON FILING OBLIGATIONS OF TAXABLE BANKRUPTCY ESTATES

The instructions for the 2015 PA-41 Fiduciary income tax return have been updated to include guidance regarding personal income tax filing obligations for resident and nonresident taxable bankruptcy estates of individual Chapter 7 (liquidations) and Chapter 11 (reorganizations) bankruptcy debtors.

The department is required by Title 11, Section 346(a) of the U.S. Bankruptcy Code to recognize the creation of separate taxable bankruptcy estates for individual Chapter 7 and 11 debtors under Section 1398 of the Internal Revenue Code, for the purpose of taxing all income attributable to the taxable bankruptcy estates.

Income of a taxable bankruptcy estate is the income of the bankruptcy debtor that is attributable to the estate under federal income tax rules to the extent such income falls into the eight classes of income subject to PA personal income tax, including compensation. Deductions are permitted for health and medical savings accounts, IRC Section 529 qualified tuition program contributions and all credits except Tax Forgiveness.

A pro-forma PA-40 Personal Income Tax Return must be completed by each taxable bankruptcy estate on behalf of the bankruptcy debtor, identifying the income, loss, deductions and credits of the bankruptcy debtor attributable to the bankruptcy estate for PA personal income tax purposes. All rules and instructions for preparing a PA-40 will apply to preparing a pro-forma PA-40. The pro-forma PA-40 will have to be identified as such at the top of the form by the taxable bankruptcy estate, and it must be included with the PA-41 filing of the bankruptcy estate.

For additional information and line-by-line instructions, please review the 2015 PA-41 Instructions and the new frequently asked questions that will be published in January 2016. For more immediate information on the topic, contact the Bureau of Individual Taxes Director's Office at (717) 787-8346.

DEPARTMENT EXPANDS REVIEW OF PERSONAL INCOME TAX DEDUCTIONS

For tax year 2015, the Department of Revenue will expand its systemic review of personal income tax expense deductions to include examination of PA-40 Schedule C expenses. This is in addition to the unreimbursed employee business expenses and incorrectly reported wages or withholding from W-2s that were the primary focus of enhanced review last tax year.

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In cases where the department believes expenses may have been erroneously reported or claimed, it will contact taxpayers to request additional supporting information before tax examiners make any adjustments. Taxpayers and practitioners may see an increase in correspondence from the department related to these expense claims.

INTEGRATED TAX SYSTEM NOW INCLUDES STATEMENT OF ACCOUNT

The Department of Revenue has revised the Statement of Account notice to now include unique sections that correspond to the reported taxes for which an entity is subject. These sections include a Summary of Tax Periods for:

- Corporation Taxes
- Employer Withholding Tax
- Sales, Use, and Hotel Occupancy Tax
- Public Transportation Assistance
- Vehicle Rental Tax
- Cigarette Floor Tax
- Unstampable Little Cigar
- Cigarette Use/Excise Tax
- Malt Beverage Tax
- Voluntary Use Tax

There are no longer separate sections for Filed Tax Periods and Non-Filed Tax Periods. A column shown for each tax period will indicate "Tax Period Filed" as "Yes" or "No".

The revised Statement of Account also includes a Summary of Available Restricted Tax Credits. Included in this section are: the restricted credit type, the original effective date of the credit, the last year available for application and the amount. The credits shown are available for application to future liabilities or may be eligible for sale or pass-through.

Displayed within each section above, the tax periods shown will include the three most recently filed periods, periods that do not have a zero balance, and periods that have not been filed. Columns will identify: the Period End Date, Tax Type, Liability Type, Liability Amount,

Payments/Credits, Restricted Credits, Tax Period Filed, and the Balance. Accrued interest will also be provided.

Periods with a 'Tax Period Filed' indicator of 'No' are periods that may not yet be due or may include estimated tax (where no timely report was filed) or estimated prepayments/credits for the current non-reported tax year. Taxpayers should note that a period balance is not displayed for these periods and they are not included in an overall balance for the account.

The next phase for the Statement of Account (Tax Period Details) will provide itemized detailed transactions for the sections on the Summary page(s). Categories include: individual payment/credit details, liability details, restricted credit utilization and appeal information.

Various triggering events will generate a Statement of Account. These notices will accompany a Notice of Assessment package that results when a return reaches a processed status where an increase to the reported tax occurs or subsequent to a desk review or field audit. Statements of Account can also be requested by fax (on company letterhead signed, by an officer of the corporation) to the Bureau of Corporation Taxes Accounting Division at (717) 705-6227.

Taxpayers are encouraged to view the reverse side of ALL notices. On the reverse side of the Statement of Account details are provided regarding a taxpayer's Revenue ID, general payment application and important contact information including email addresses and telephone numbers.

In order to provide the best financial information to taxpayers regarding their account, practitioners are encouraged to contact their practitioner organization and provide comments or suggestions for improving the content in the Statement of Account.

TAKE STEPS TO PREVENT REFUND FRAUD

The Pennsylvania Department of Revenue is reminding taxpayers and tax professionals of the steps they can take to protect personal and tax data to help prevent refund fraud.

Tax preparation businesses also can help by sharing information with clients. Tips for customers are available in a new Internal Revenue Service publication, Publication 4524, Security Awareness for Taxpayers. And, the IRS created a new resource page at www.irs.gov/taxessecuritytogether.

Important steps taxpayers can take include:

- Use security software with firewall and anti-virus protections. Use automatic updates. Encrypt your tax returns and other sensitive data. Use strong passwords.
- Beware of phishing emails purporting to be from your financial institution or a tax software company. A link may take you to a fake website that is designed to steal your log-on information. The attachment you open may include a program that allows a cyber-thief to get access to sensitive files on your computer.
- Beware of phone scams from criminals posing as trusted organizations. If you get a call from an aggressive or belligerent person who says you will be sued or jailed if you don't make an immediate payment, that person is a fraud. If you need to make sure a call is legitimate, you can always just hang up and then call the Department of Revenue directly at 717-787-8201.
- Shred your old tax returns and documents with your name, address, bank account numbers and credit card information.
- Check your credit reports and Social Security Administration accounts regularly.
- Know your tax preparer. If you like to file your return online, start at www.revenue.pa.gov or at IRS.gov. If you like to file using installed software, buy your software from a trusted retailer, or by going directly (not clicking a link) to your preferred software company's website. If you use an accountant, make sure it's someone you know will be available after the filing deadline date.
- Expect to see new questions, lockout features and password requirements for logging in to tax preparation products. These new features are in place for your protection, and the requirements are in place for all tax preparation companies.

The Security Summit – the public-private collaboration that is tackling the problem from all three sides – recently revealed some of the dozens of changes and new programs that will be in place for the 2016 filing season.

Many of these new safeguards are invisible to taxpayers but will help the states and IRS verify the identity of the taxpayer and the validity of the tax return. There are new password standards for tax software. And, the IRS, the states and the industry are sharing more information about identity theft schemes. (See IRS Fact Sheet 2015-23 for details.)

TAX PROFESSIONAL E-SERVICES CENTER



Tax professionals are encouraged to use the department's Tax Professional e-Services Center for easy access to clients' tax information.

Visit the department's [Online Customer Service Center](#) or call 717-787-1392.