


reporting is received from a PA resident estate or trust as reported on a PA Schedule RK-1 or NRK-1. Do not check this box if you use a federal Schedule K-1 to report the income. If you only receive a federal Schedule K-1, enter the total amount of positive income reported, whether the income is your income, your spouse's income, or your joint income. Include a photocopy of the federal Schedule K-1 with your return for all nonresident estates or trusts and/or each estate or trust for which you fail to receive a PA Schedule RK-1 or NRK-1.

CAUTION: The federal amount may not be correct for PA purposes. You should contact the fiduciary of the estate or trust to verify the correct PA income.

 **IMPORTANT:** Grantor or irrevocable trusts do not distribute losses as trust income. Therefore, all amounts for PA Schedule J should be positive.

PA SCHEDULE T (LINE 8)

The instructions for PA Schedule T are on the schedule. Also, please see Page 17 LINE 8, GAMBLING AND LOTTERY WINNINGS for more information.

PA SCHEDULE O (LINE 10)

Taxpayers claiming deductions for IRC Section 529 Qualified Tuition Program contributions, Medical Savings Account contributions or Health Savings Account contributions must complete PA Schedule O.

PART I - IRC Section 529 Qualified Tuition Program Contributions

- Line 1. Enter the name and Social Security number for each beneficiary for whom a contribution was made to an IRC Section 529 plan during tax year 2015. Enter the amount of the contribution made for each beneficiary. A taxpayer and spouse each may take a deduction for contributions up to a limit of \$14,000 per beneficiary. If you have more than 10 beneficiaries for which you are claiming a deduction, please include a statement showing each beneficiary's name, Social Security number, and the amount of deduction claimed for each of the beneficiaries by the taxpayer and/or spouse.
- Line 2. Add the amount of contributions made by the taxpayer and/or spouse and include the total in the appropriate columns.

PART II - Other Deductions and Limitations

- Line 3. Enter the amount of Medical Savings Account contributions allowed for federal income tax purposes included on Line 36 of your federal Form 1040. If you claim this deduction, you must include a copy of the first page of your federal Form 1040 with your PA-40 return.
- Line 4. Enter the amount of Health Savings Account contributions allowed for federal income tax purposes included on Line 25 of your federal Form 1040. If you claim this deduction, you must include a copy of the first page of your federal Form 1040 with your PA-40 return.
- Line 5. Add the amounts from Lines 2, 3, and 4 together for the taxpayer and/or spouse columns.
- Line 6. Enter the total income included in Line 9 of your PA-40, calculated for the taxpayer and spouse separately.

NOTE: When added together, the amounts reported separately for the taxpayer and/or spouse for Line 6 of PA Schedule O should equal Line 9 of the PA-40.

- Line 7. Compare the amounts on Lines 5 and 6 for the taxpayer and spouse. Enter the lesser of the amounts for each column.
- Line 8. Add the amounts from Line 7 for the taxpayer and spouse together. Enter the Total Other Deductions amount here and on Line 10 of your PA-40 return.

PA SCHEDULE SP (LINE 21)

What is Tax Forgiveness?

Tax Forgiveness is a credit that allows eligible taxpayers to reduce all or part of their PA tax liability. Tax Forgiveness:

- Gives a state tax refund to some taxpayers; and
- Forgives some taxpayers of their liabilities even if they have not paid their PA personal income tax.

Who is Eligible for Tax Forgiveness?

You, and your spouse if applicable, are eligible if:


1. You are subject to PA personal income tax. You and/or your spouse are liable for PA tax on your income (or would be liable if you earned, received, or realized PA-taxable income);
2. You are not a dependent on another person's federal tax return; and
3. You meet the eligibility requirements.

NOTE: A dependent child may be eligible if he or she is a dependent on the PA Schedule SP of his or her parents, grandparents, or foster parents. See Page 35.

How Do I Claim Tax Forgiveness?

To claim Tax Forgiveness, complete and submit a PA Schedule SP, and:

1. Determine your Eligibility Income. If married, whether filing jointly or separately, you must determine your total (your Eligibility Income plus your spouse's Eligibility Income) joint Eligibility Income in Part C.
2. Determine your Filing Status in Part A.
3. Calculate your Tax Forgiveness Credit, using the applicable Eligibility Income Table, in Part D.

 **IMPORTANT:** There is no advantage to filing separately because married claimants must report their Joint Eligibility Income on PA Schedule SP. You must include your spouse's SSN if filing separate.

Claiming Dependents on Separate PA Schedules SP

It is possible that you and your spouse file jointly for federal purposes, but must file separately for PA purposes. If you qualify for Tax Forgiveness, you must each complete PA Schedule SP as if filing jointly. You each must report the same information including dependents and your joint eligibility income. You must fill in the Married and Filing Separate oval in Part A of each PA Schedule SP. You must each submit a copy of the PA Schedule SP with your PA tax return.

Part A. Filing Status

Fill in the oval that describes your status as of Dec. 31, 2015.

Unmarried means single, widowed and could not or did not elect to file a joint return in the year of death of the taxpayer and/or spouse, or divorced on Dec. 31, 2015.

Separated means:

- Separated and living apart at all times during the last six months of 2015; or
- Separated pursuant to a written separation agreement.

Married means:

- Married and lived together; or
- Separated and lived apart, but for less than the last six months of 2015; or
- Separated, but not by a written separation agreement; or
- Elected to file a joint return in the year of death with a deceased taxpayer and/or spouse.

Also, fill in the correct oval for your specific filing condition.

When claiming Tax Forgiveness together, one of you must meet the eligibility requirements, but you must use your Joint Eligibility Income and Eligibility Income Table 2.

When filing separately, the taxpayer and spouse must combine their eligibility incomes to determine if they meet the eligibility requirements. A married taxpayer cannot claim Tax Forgiveness independently of his or her spouse. Married claimants are not dependents of one another for Tax Forgiveness purposes, even when one spouse does not have any Eligibility Income. You each must use your Joint Eligibility Income and Eligibility Income Table 2, and fill in the oval and certify that you are using the same information for PA Schedule SP.

When one spouse is claimed as a dependent on another person's federal income tax return, otherwise qualifying married taxpayers must file separately. **EXAMPLE:** Scott is a dependent on his parents' federal income tax return and is not eligible for Tax Forgiveness. His wife, Paula, is not a dependent, and may complete PA Schedule SP. Paula may not claim Scott as a dependent, but must include his Eligibility Income when calculating her Total Eligibility Income. Additionally, if Scott's parents qualify for Tax Forgiveness, Scott may also qualify if he included Paula's income in his Total Eligibility Income.

Deceased means you are filing for a person who died during 2015 and/or the deceased person's surviving spouse or deceased spouse could not or did not elect to file a joint return with the deceased taxpayer. Annualization of a deceased taxpayer and/or spouse's income may be required in order to determine total eligibility income for Tax Forgiveness purposes.

Annualization of Income

In order to annualize a taxpayer's income, you may use the income realized by the decedent, divided by the number of days or months the taxpayer lived and multiplied by 365 days or 12 months. Subtract from that product the amount of realized income and include the remainder in the amount reported on Line 2 of Part C for PA Schedule SP. One time transactions, such as those from the sale of stock or real property, need not be included when determining the amount of the daily or monthly income for a decedent.

When determining the amount of annualized income, you may also base the total eligibility income on the prior year's return if the individual was eligible for Tax Forgiveness, received approximately the same income during this taxable year and did not have any transactions that were different from the previous tax year. The department will accept a reasonable calculation of the decedent's annual Eligibility Income.

EXAMPLES: Jerry and Pat have been married for 50 years and Jerry dies on October 1 of the most recent tax year. Pat elects to file a joint return with her deceased spouse. Jerry worked as a custodian for a local school to supplement their social security income and died while still employed. Jerry and Pat also had joint interest and dividend income during the tax year. Jerry's compensation income must be annualized and the amount Jerry might have earned for the remaining three months of the tax year must be included on Line 2 in Part C of PA Schedule SP. Because Pat is electing to file a joint return, the interest and dividend income from the joint ownership of the assets is not required to be annualized. If the surviving spouse (Pat) or Jerry's estate elects to file a separate return, Jerry's return would need to include annualized income from the interest and dividend classes of income in addition to the annualized compensation income.



IMPORTANT: Surviving spouses should not include any income in respect of a decedent, income that should be included on the estate tax return, or any income of the deceased taxpayer (including the decedent's half of any joint income received prior to the decedent's date of death) in the taxable income or in the calculation of the eligibility income of the surviving spouse when a separate return is filed by the surviving spouse.

Students

A full-time student who is a dependent on his/her parents' federal income tax return cannot claim this credit, regardless of his/her income, unless his/her parents are eligible for Tax Forgiveness. In this case, the student claimant must file his/her own tax return and PA Schedule SP.

Nonresidents and Part-Year Residents

Taxpayers who are nonresidents and part-year residents of Pennsylvania may claim Tax Forgiveness if meeting all the eligibility requirements. Such taxpayers must include in their eligibility income all income as described whether earned within or outside Pennsylvania. Nonresident and part-year resident taxpayers who file paper copies of the PA-40 must also include a copy of page one of their federal income tax return along with their completed PA Schedule SP.

CAUTION: If you are a resident of a reciprocal state and have PA-taxable income in classes other than compensation (see also Resident of a Reciprocal State Filing for a Refund on Page 10), you must include all your nontaxable income (including the compensation not taxable to Pennsylvania as a resident of a reciprocal state) earned outside Pennsylvania on Line 6 of PA Schedule SP.

Part B. Dependent Children

A dependent is a minor or adult child claimed as a dependent on a 2015 federal income tax return.

The Department of Revenue has a two-step test for a dependent child:

1. Is the individual a child of the claimant?

For PA income tax purposes, child includes the natural child, adopted child, or step-child of a parent. Child also includes a grandchild of a grandparent and a foster child of a foster parent. Therefore, you can claim a son or daughter, a grandchild, or a foster child as a dependent for PA Schedule SP if you can claim the child as a dependent on your federal income tax return.

However, an aunt, uncle, or unrelated person cannot claim a child as a dependent, as defined above, even if claiming the child as a dependent on a federal income tax return.

2. Can the claimant claim the child as a dependent for federal tax purposes?

The age, status as a full-time student, and gross income of a daughter, son, granddaughter, grandson, or foster child are factors only in determining whether the claimant can claim the child as a dependent for federal purposes. For example, parents that can claim a qualifying 30-year-old child for federal purposes can claim that child as a dependent for PA Schedule SP purposes.

You cannot claim a dependent child on PA Schedule SP if:

- The dependent is not your child, as defined in questions 1 and 2;
- You cannot claim the child on your federal tax return;
- You are unmarried for Tax Forgiveness purposes, and your former spouse by agreement or court decree can claim your child as a dependent for federal and PA Schedule SP purposes; or
- Your child's other parent, by agreement or court decree, can claim your child as a dependent for federal tax and PA Tax Forgiveness purposes.

You cannot claim any other adult as a dependent, even if doing so on a federal tax return.

A dependent child with taxable income in excess of \$33 must file a PA tax return. If that child's parents qualify for Tax Forgiveness, that child is also eligible for this credit. The child must file a tax return and a PA Schedule SP. The child must also include any child support paid to his/her parent on his/her behalf in his/her Eligibility Income.

Complete Lines 1 and 2.

1. Provide all the requested information for each child.
2. Enter the number of dependent children you are claiming.



FILING TIP: If you do not have any dependents, go to Part C.

CAUTION: If claiming an adult child, an adopted child, a foster child or a child with a different last name than yours, you must include a copy of page one of your 2015 federal income tax return.

Part C. Eligibility Income

Use Column A if unmarried or married filing jointly. Use the columns under Column B and C if married filing separately.

1. **PA Taxable Income.** Enter your total PA Taxable Income amount from Line 9 of your PA-40 form.

Nontaxable Income. On Lines 2 through 10, you must include income that you do not report as taxable on your PA return, but PA law requires you to report for Tax Forgiveness purposes. If you do not have an amount to report on Lines 2 through 10, enter zero. Annualized income from each of the sources for Lines 2 through 10 should also be reported for decedents on the respective lines.

2. **Nontaxable interest, dividends, and gains and/or annualized income.** Include tax-exempt interest from Lines 6 and 7 of PA Schedule A and any exempt-interest dividends included in Line 3 of PA Schedule B as well as any exempt gains from investments in direct obligations of the federal government, Pennsylvania, and political subdivisions of Pennsylvania. Include the nontaxable portion of gain from the sale of any property. Include nontaxable income received as a beneficiary of an estate or trust. For decedents only: in addition to any annualized income for nontaxable interest, dividends, and gains, include the difference between the total annualized taxable income and the PA-taxable income from Line 1 above.
3. **Alimony.** Enter the amount of federally taxable alimony that you receive.

4. **Insurance proceeds and inheritances.** This amount includes the total proceeds received from life or other insurance policies. Also, include inherited cash or the value of property received as well as the amount received as reported on federal Form 1099-R with distribution Code 4 reported in Box 7 of the form. Also include any survivor annuity benefits reported on federal Form 1099-R with distribution Code 7 reported in Box 7.

5. **Gifts, awards, and prizes.** Include the total amount of nontaxable cash or property received as gifts from others. Also, include awards received in recognition of civic and social achievements and prizes from all games of the Pennsylvania Lottery.

6. **Nonresident income.** Part-year residents and nonresidents must complete this line. Enter the total of all income, not already reported on this schedule, that you (and your spouse, if applicable) earned, received, and realized while residing outside Pennsylvania. Include any amount exempted from taxation under the Military Spouses Residency Relief Act (see Page 38 for additional information). If you are a part-year resident or nonresident and you file a paper copy of your PA-40 return, you must also include a copy of page one of your federal income tax return.

7. **Nontaxable military income.** This amount represents the difference between the total military income you earned and the amount you report on your PA tax return. Do not include combat zone pay and hazardous duty pay.

8. **Gain excluded from the sale of a residence.** Enter your nontaxable gain.

9. **Nontaxable educational assistance.** Include the total value of all nontaxable scholarships, fellowships, and stipends as well as the amount of any federal and state educational grants received. Do not include student loans. Also, include the value of tuition reductions offered as part of your employer's benefit plan.

10. **Cash received for personal use from outside your home.** Include on Line 10 the following kinds of nontaxable income when determining your Eligibility Income:

- Support you receive from a spouse or former spouse who does not live in your household. Do not include payments you receive for child support here – see the instructions for Part B.
- Any payments received from other persons outside your household, including nontaxable cash or property received for personal use, such as cash received from a parent to buy clothing, or gifts from grown children. Do not include monies paid pursuant to a cost-sharing arrangement.
- Nontaxable payments to your employer's cafeteria plan for hospitalization, sickness, disability, or death, supplemental unemployment, or strike benefits.
- Payments received as a foster parent for providing in-home care for foster children.



FILING TIP: If claiming a foster child in Part B, you must include the payments you received as a foster parent. However, if the foster care program did not place the child in your home, or you did not receive any payments for providing foster care, submit a written explanation that you do not have any income to report as a foster parent. Include an explanation of the child's relationship to you.

- The value of the personal use of employer-owned or leased property (if included in federal taxable income).
- The value of government education grants.

- In case of a Chapter 7 or 11 bankruptcy filed under Section 1398 of the Internal Revenue Code, the total amount of income reported on Line 7 of PA-41 Fiduciary Income Tax Return for a resident bankruptcy estate prepared on behalf of the debtor taxpayer; or the total of the positive income reported on Lines 1, 2a and 3 through 8 of federal Form 1041 for a nonresident bankruptcy.

Do not include the following types of nontaxable income in Line 10 when calculating eligibility income:

- Social Security and Railroad Retirement Benefits;
- Retirement benefits from Pennsylvania eligible retirement plans after becoming eligible to retire and retiring;
- United Mineworkers pensions;
- Child support (unless a dependent child of a taxpayer also eligible for Tax Forgiveness);
- Military pension benefits;
- Civil Service annuity payments;
- Payments received under workers' compensation acts, occupational disease acts or similar legislation including Heart and Lung Pensions;
- Payment for injuries received while working and damages received, whether by suit or otherwise, for personal injuries;
- Sick pay and disability benefits, including payments by third party insurers for sickness and disability;
- Damage awards and settlements from physical injury or sickness – pain and suffering, emotional distress;

- Personal use of an employer's owned or leased property and/or services, at no cost or at a reduced cost (if not included in federal taxable income); or
- Income from contracts of insurance for long-term care that do not have accumulated refundable reserves payable upon lapse or surrender.

11. **Total Eligibility Income.** Add Lines 1 through 10, and enter the total. If using Columns B and C, add each column, and enter the total on Line 11. Eligibility Income is the total amount of your PA-taxable and nontaxable income that you use to determine your percentage of Tax Forgiveness.

Part D. Calculating Your Tax Forgiveness

12. **PA Tax Liability.** Enter the amount of your tax due from your PA-40, Line 12. If filing an amended return, you must use the amount from Line 12 of the amended PA-40.

13. **Less Resident Credit.** Enter your credit from your PA-40, Line 22.

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

15. **Percentage of Tax Forgiveness.** Find your percentage using your dependents from Part B, Line 2, and your Eligibility Income from Part C, Line 11, and the appropriate Eligibility Income Table. Enter the percentage as a decimal on Line 15.

16. **Tax Forgiveness Credit.** Multiply Line 14 by the decimal on Line 15, and enter on your PA-40, Line 21.

ELIGIBILITY INCOME TABLE 1. Unmarried, Separated and Deceased Claimants

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:

YOU →	\$6,500	\$6,750	\$7,000	\$7,250	\$7,500	\$7,750	\$8,000	\$8,250	\$8,500	\$8,750
▼ DEPENDENT CHILDREN										
1	\$16,000	\$16,250	\$16,500	\$16,750	\$17,000	\$17,250	\$17,500	\$17,750	\$18,000	\$18,250
2	\$25,500	\$25,750	\$26,000	\$26,250	\$26,500	\$26,750	\$27,000	\$27,250	\$27,500	\$27,750
3	\$35,000	\$35,250	\$35,500	\$35,750	\$36,000	\$36,250	\$36,500	\$36,750	\$37,000	\$37,250
4	\$44,500	\$44,750	\$45,000	\$45,250	\$45,500	\$45,750	\$46,000	\$46,250	\$46,500	\$46,750
5	\$54,000	\$54,250	\$54,500	\$54,750	\$55,000	\$55,250	\$55,500	\$55,750	\$56,000	\$56,250
6	\$63,500	\$63,750	\$64,000	\$64,250	\$64,500	\$64,750	\$65,000	\$65,250	\$65,500	\$65,750
7	\$73,000	\$73,250	\$73,500	\$73,750	\$74,000	\$74,250	\$74,500	\$74,750	\$75,000	\$75,250
8	\$82,500	\$82,750	\$83,000	\$83,250	\$83,500	\$83,750	\$84,000	\$84,250	\$84,500	\$84,750
9	\$92,000	\$92,250	\$92,500	\$92,750	\$93,000	\$93,250	\$93,500	\$93,750	\$94,000	\$94,250
Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10

NOTE: If claiming more than nine (9) dependent children, go to the **PA PIT Guide** on the department's website.

ELIGIBILITY INCOME TABLE 2. Married Claimants, even if filing separately

If your Eligibility Income from PA Schedule SP, Line 11, does not exceed:

YOU & SPOUSE →	\$13,000	\$13,250	\$13,500	\$13,750	\$14,000	\$14,250	\$14,500	\$14,750	\$15,000	\$15,250
▼ DEPENDENT CHILDREN										
1	\$22,500	\$22,750	\$23,000	\$23,250	\$23,500	\$23,750	\$24,000	\$24,250	\$24,500	\$24,750
2	\$32,000	\$32,250	\$32,500	\$32,750	\$33,000	\$33,250	\$33,500	\$33,750	\$34,000	\$34,250
3	\$41,500	\$41,750	\$42,000	\$42,250	\$42,500	\$42,750	\$43,000	\$43,250	\$43,500	\$43,750
4	\$51,000	\$51,250	\$51,500	\$51,750	\$52,000	\$52,250	\$52,500	\$52,750	\$53,000	\$53,250
5	\$60,500	\$60,750	\$61,000	\$61,250	\$61,500	\$61,750	\$62,000	\$62,250	\$62,500	\$62,750
6	\$70,000	\$70,250	\$70,500	\$70,750	\$71,000	\$71,250	\$71,500	\$71,750	\$72,000	\$72,250
7	\$79,500	\$79,750	\$80,000	\$80,250	\$80,500	\$80,750	\$81,000	\$81,250	\$81,500	\$81,750
8	\$89,000	\$89,250	\$89,500	\$89,750	\$90,000	\$90,250	\$90,500	\$90,750	\$91,000	\$91,250
9	\$98,500	\$98,750	\$99,000	\$99,250	\$99,500	\$99,750	\$100,000	\$100,250	\$100,500	\$100,750
Then your Percentage of Tax Forgiveness and the Decimal Equivalent is:										
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	1.0	.90	.80	.70	.60	.50	.40	.30	.20	.10