


value of your own labor or amounts paid for capital investments or capital improvements other than through depreciation.

Oil and Gas Royalty Expenses

Royalty income is derived from subsurface mineral or oil and gas rights. As a result, the expenses that relate to surface rights, such as real estate taxes and insurance are not allowable against royalty income. Mortgage interest is only allowable if the interest relates directly to the financing of the separately enumerated mineral or oil and gas rights. Expenses that relate directly to the production of royalty income, such as production costs payments and costs related to the negotiation or verification of the lease, are allowable. Direct reductions to payments from the lessor, such as production costs, transmission costs or gathering fees, are allowable and should be itemized under Line 17, Other Expenses.

Expenses incurred by a landowner to restore a property damaged by staging areas, rights of way or structures are allowable expenses. However, expenses incurred by a landowner to improve the property or increase its value are not allowable.

CAUTION: Depletion, specifically percentage depletion, is not an allowable expense for PA personal income tax purposes. Although cost depletion may be allowable, it requires that the landowner has clearly identifiable costs incurred with the acquisition of the mineral or oil and gas rights. These specific costs are not included within the general acquisition costs of the surface and must be separately enumerated in a purchase agreement in order to clearly identify the depletable amount of oil and gas rights from the property.

 **IMPORTANT: Renting Part of Your Home.** If you rent out only part of your home or other property, deduct only those expenses (or percentages of expenses) that apply to the rented part.

3. Advertising

4. **Automobile and travel.** Deduct ordinary and necessary auto and travel expenses related to your rental activities, including 100 percent of meal expenses incurred while traveling away from home. Pennsylvania differs from federal treatment on the meals and entertainment expense. You generally can either deduct your actual expenses or take the standard federal mileage rate.

5. Cleaning and maintenance

6. Commissions

7. Insurance

8. Legal and professional fees

9. Management fees

10. **Mortgage interest.** If you have a mortgage on your rental property, enter the amount of interest you paid for the current year to banks or other financial institutions.

11. **Other interest.** Generally, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Pennsylvania does not follow federal rules regarding prepaid interest.

12. **Repairs.** Deduct the cost of repairs made to keep your property in good working condition. Repairs (fixing a broken lock or painting a room) generally do not add significant value to the property or extend its life. Improvements that increase the value of the property or extend its life (such as replacing a roof or renovating a kitchen) must be capitalized. You cannot expense such costs in full in the year paid or incurred.

13. Supplies

14. **Taxes.** Deduct taxes directly related to the rental activity. Deduct the proportionate share of real estate taxes. You may not deduct taxes based on income. You may deduct gross receipts and business privilege taxes.

15. **Utilities.** Deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income. However, the base rate (including taxes and other charges) for telephone service for the first telephone line into your residence is a personal expense and is not deductible.

CAUTION: Certain utilities, which are not subject to sales and use tax when purchased exclusively for residential use, become subject to sales and use tax when used for commercial purposes. Commercial purposes includes rental property owned by an individual and held out for rent by another individual or business. Exceptions include properties with separate metering for rental units and common areas where the common area utilities are included as used for commercial purposes and the rental unit property is residential rental property when the utilities are paid for by the tenants. If you are including electricity, natural gas, fuel oil, or kerosene in your calculation of utilities expense and the property is not listed as commercial property with the utility company or as a commercial entity with the fuel oil or kerosene supplier, you should report use tax due on the related expense amounts for these utility expenses on Line 25 of the PA-40.

16. **Depreciation expense.** See DIFFERENCES BETWEEN PA PIT AND IRS on Page 9. You may use any other generally accepted depreciation method, but you must use it consistently.

17. **Other expenses.** Include any production costs, transmission costs or gathering fees taken as a direct deduction by the lessor from royalty payments. Please itemize.

18. **Total Expenses.** Add Lines 3 through 17.

19. **Income.** Subtract Line 18 from Line 1 or 2.

20. **Loss.** Subtract Line 1 or 2 from Line 18, and fill in the oval. **NOTE:** PA law does not permit losses from property rented where there is no intent to realize a profit.

21. **Net Income (Loss).** Add the net income (loss) amounts from Lines 19 and 20 for each property. If a net loss, please fill in the oval. **NOTE:** Pennsylvania does not follow federal At-Risk Rules or Passive Activity Loss Rules.

22. **Rent or Royalty Income (Loss) from PA S Corporations and Partnerships.** For Line 22, enter the rent and royalty income (loss) amounts from your PA Schedule(s) RK-1 or NRK-1. If PA Schedules RK-1 or NRK-1 are not provided, enter the amount from the federal Schedule K-1. Include a statement providing the entity name and FEIN along with the income (loss) by entity if rent or royalty income (loss) from any pass-through entity is reported on this line.

23. **Net Rent and Royalty Income (Loss).** Add Lines 21 and 22. Include the total on Line 6 of your PA-40.


PA SCHEDULE J (LINE 7)

As a beneficiary of an estate or trust, you should receive a PA Schedule RK-1 and/or NRK-1. Report the total income that you received or that the estate or trust credited to you. For PA income tax purposes, an estate or trust cannot distribute a loss.

Enter the name, identification number, and amount of PA-taxable income from each PA Schedule RK-1 or NRK-1. Check the box on the schedule to indicate if the estate or trust income you are

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.