

## Pennsylvania Personal Income Tax 101:

### What You Need to Know to Prepare the PA-40

- I. Pennsylvania Personal Income Tax (PA PIT) vs. Federal Income Tax (FIT)
  - A. Amedon vs. Secretary of Revenue
  - B. PA constitution uniformity clause
  - C. Generally accepted accounting principals
- II. Classes of Income
  - A. Definition of “personal” income tax
  - B. Netting of income
- III. Tax Return Header Information
  - A. Name, address, SSN
  - B. Filing status
  - C. Residency status
  - D. Amended and final returns
  - E. School district code
- IV. Compensation
  - A. Wages - PA PIT vs. FIT
  - B. 1099-R distributions
  - C. Other types/forms of PA compensation
  - D. Non-taxable forms of compensation
  - E. Reciprocal states
  - F. Typical errors
- V. Unreimbursed Business Expenses
  - A. Allowable expenses
  - B. Non-allowable expenses
  - C. PA-40 Schedule UE
  - D. Home office
  - E. Sales tax on home office utilities
  - F. Federal miscellaneous expense change
  - G. Breakeven expense formula
  - H. Typical errors
- VI. Interest Income
  - A. PA-40 Schedule A
  - B. Typical errors
- VII. Dividend Income
  - C. PA-40 Schedule B
  - D. Typical errors
- VIII. Net Profit or Loss from a Business, Profession or Farm
  - A. PA-40 Schedule C
  - B. PA-40 Schedule F
  - C. PA-20S/PA-65 Schedule RK-1s and NRK-1s
  - D. Joint vs. taxpayer or spouse
  - E. Depreciation and Section 179 expense
  - F. Other PA PIT vs. FIT expense differences

- G. Non-allowable expenses
- H. Statutory employees
- I. Schedule UE vs Schedule C expenses
- J. Compensation vs. business income
- K. Business use of home
- L. Sales tax on utilities
- M. Typical errors
- IX. Gain/Loss on Disposition of Property
  - A. Recognition of gain or loss
  - B. Sale of principal residence
  - C. Installment sales
  - D. 6/1/71 property
  - E. Section 1256 gains and losses
  - F. Foreign exchange gains and losses
  - G. Typical errors
- X. Rents, Royalties, Patents and Copyrights
  - A. Rents vs net profits
  - B. Oil and gas leases
  - C. Oil and gas Rk-1s and NRK-1s
  - D. Principal residence rentals
  - E. Sales tax on utilities
  - F. PA-40 Schedule E
  - G. Typical Errors
- XI. Estate and Trust Income
  - A. Revocable vs irrevocable trusts
  - B. CRATs, CRUTs, GRATs and GRUTs
  - C. PA-41 filing requirement
  - D. No loss pass through
  - E. PA PIT vs. FIT income reporting
  - F. PA-41 Schedule N – nonresident withholding
  - G. Typical errors
- XII. Gambling & Lottery Winnings
  - A. PA Lottery winnings taxable
  - B. Costs vs. expenses
  - C. Typical errors
- XIII. PA-40 Lines 13 to 17
  - A. Tax withheld
  - B. Credit from previous year's return
  - C. Estimated payments
  - D. Extension payment
  - E. Nonresident tax withheld
  - F. Typical errors
- XIV. Tax Forgiveness
  - A. Who is a dependent
  - B. Who is not a dependent
  - C. Annualization of income deceased taxpayers

- D. Nonresident taxpayers
- E. Military personnel
- F. Non-taxable income
- G. Typical errors
- XV. Resident Credit for Taxes Paid to Other States
  - A. Income subject to tax vs. taxable income
  - B. Classes of income
  - C. Sources of income
  - D. Resident credits reported on Schedule RK-1s
  - E. PA-40 Schedule G
  - F. Typical errors
- XVI. Restricted Tax Credits
  - A. Documentation to support credits
  - B. Pass-through entity restricted credits
  - C. Typical errors
- XVII. Estimated Underpayment Penalty (EUP)
  - A. Timely estimated payments
  - B. Interest calculations
  - C. Immaterial totals
  - D. Typical errors
- XVIII. Penalties and Interest
  - A. Late Payment Penalty
  - B. Underpayment Penalty
  - C. Interest
  - D. Typical Errors
- XIX. Miscellaneous Items
  - A. DEX-93
  - B. Responding to department notices
  - C. Estimated taxes
  - D. Nonresident withholding