

PA SCHEDULE E
Rents and Royalty
Income (Loss)
PA-40 Schedule E (08-16) (FI) 2016

OFFICIAL USE ONLY

If you have more than three properties, photocopy this schedule.

Name of the taxpayer filing this schedule Social Security Number (shown first) or EIN

See the instructions. Report the income and expenses for the use of your personal property by others. Also, report the income you received for the extraction of oil, gas and other minerals from your property, and the use of your patents and copyrights. Note: If you are in the business of renting your property, extracting minerals from your property or producing products from your patents and copyrights - use PA Schedule C.

Part A. Property Description:

Show the complete address and kind of each rental real estate property, and/or each source of royalty income.

Table with 3 columns: Kind of Property, For Profit Property (YES/NO), Complete Address. Rows A, B, C.

Part B. Income and Expenses: Identify the property from Part A and indicate if the owner is the taxpayer (T = the name shown first on the PA-40) or the spouse (S) or if jointly owned (J) Important: Spouses may not offset income and losses.

Table with 3 columns: Property A, Property B, Property C. Each column has sub-columns for T, S, J. Rows for Income (Rent received, Royalties received).

Table with 3 columns: Property A, Property B, Property C. Each column has sub-columns for T, S, J. Rows for Expenses (Advertising, Automobile and travel, Cleaning and maintenance, Commissions, Insurance, Legal and professional fees, Management fees, Mortgage interest, Other interest, Repairs, Supplies, Taxes - not based on net income, Utilities, Depreciation expense).

Important: PA law does not permit any federal bonus depreciation. PA law limits the IRC Section 179 expensing to \$25,000. See the instructions.

Table with 3 columns: Property A, Property B, Property C. Each column has sub-columns for T, S, J. Row 17: Other expenses (itemize). Row 18: Total Expenses - Add Lines 3 through 17.

Income or Loss

Table with 3 columns: Property A, Property B, Property C. Each column has sub-columns for T, S, J. Row 19: Income - Subtract Line 18 from Line 1 or 2. Row 20: Loss - Subtract Line 1 or 2 from Line 18. (fill in the oval, if a net loss)

21. Net Income or Loss Total Lines 19 and 20. (fill in the oval, if a net loss)

22. Rent or royalty income (loss) from PA S corporation(s) and partnerships from your PA Schedule(s) RK-1 or NRK-1. (fill in the oval, if a net loss)

23. Net Rent and Royalty Income (Loss). Add Lines 21 and 22. If submitting more than one schedule, total all amounts, and include on Line 6 of your PA-40. (fill in the oval, if a net loss)





pennsylvania
DEPARTMENT OF REVENUE

WHAT'S NEW

Separate filing instructions for PA-40 Schedule E, Rents and Royalty Income (Loss), have been developed by the department.

GENERAL INFORMATION

PURPOSE OF SCHEDULE

Use PA-40 Schedule E to report the amount of net income (loss) from rents royalties, patents and copyrights for individual or fiduciary (estate or trust) taxpayers.

Refer to Chapter 13 of the PA PIT Guide for additional information.

RECORDING DOLLAR AMOUNTS

Show money amounts in whole-dollars only. Eliminate any amount less than \$0.50 and increase any amount that is \$0.50 or more to the next highest dollar.

WHO MUST COMPLETE

PA-40 Schedule E must be completed and included with an originally filed PA-40, Personal Income Tax Return, or PA-41, Fiduciary Income Tax Return, if a taxpayer, spouse or fiduciary (estate or trust) has net income (loss) from:

- Rental property;
- Royalties from oil and gas wells, book sales and/or other sources;
- Patents; and/or
- Copyrights.

PA-40 Schedule E must be completed even if the only transaction is to report a loss.

 **CAUTION:** Do not use federal Schedule E to report net income (loss) from rents, royalties, patents and copyrights. Unless otherwise noted, Pennsylvania rules generally do not follow the federal rules for determining

the net income (loss) realized from rents, royalties, patents and copyrights.

An amended PA Schedule E must be included with Schedule PA-40X or Schedule PA-41X if increases or decreases in income or expense amounts on PA Schedule E are discovered after an original or other amended return is filed with the department. Part III on Page 2 of Schedule PA-40X or Schedule PA-41X must be completed to explain any increase or decrease to the amount of net income (loss) from rents, royalties, patents and copyrights reported on an amended PA-40, Personal Income Tax Return, or amended PA-41, Fiduciary Income Tax Return.

 **IMPORTANT:** For taxpayers in the real estate sales business, do not use PA Schedule E. Report any net income (loss) from rentals of real estate held for sale to customers in the ordinary course of real estate sales, and/or from the business of renting other personal property on PA Schedule C.

FORM INSTRUCTIONS

IDENTIFICATION INFORMATION

Name

Enter the name of the taxpayer. If a jointly filed return, enter the name of the primary taxpayer (name shown first on the PA-40, Personal Income Tax Return). Enter the primary taxpayer's name even if reporting the income for the spouse. Enter the name of the estate or trust if including with a PA-41, Fiduciary Income Tax Return.

Social Security Number or EIN

Enter the Social Security number (SSN) of the taxpayer. Enter the primary taxpayer's SSN also when reporting net income (loss) from rents, royalties patents and copyrights for the spouse. Enter the federal employer identification number (EIN) when reporting net income (loss) from rents, royalties, patents and copyrights for an estate or trust.

GENERAL INSTRUCTIONS

When entering rental and royalty expenses, a deduction may be taken for all ordinary and necessary expenses for each property. Do not deduct amounts paid for capital investments or capital improvements other than through depreciation and do not deduct the value of personal labor.

 **IMPORTANT:** If renting part of a personal residence or other property, deduct only those expenses (or percentages of expenses) that apply to the rented part.

Oil and Gas Royalty Income and 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.

Report the amount of royalty income from oil and gas leases separately from any rental income for the same property. When reporting royalty income, use the gross amount reported on federal Form 1099-MISC. If expenses were deducted by the lessee prior to making payments, the expenses may be recorded and deducted on PA-40 Schedule E. No real estate taxes may be deducted against the income from an oil or gas lease and other allowable expenses are very limited. Please search for answer ID "2853" in the Find Answers section of the Online Customer Service Center on our website.

LINE INSTRUCTIONS

PART A, PROPERTY DESCRIPTION

Enter the kind of property being rented and the complete address of the property for each property rented.

For rental real estate, enter the street address, city or town, and state. For oil and gas royalties, enter the name of the oil and gas producer paying the royalties separately for each 1099-MISC received. For all other patent, copyright, or similar property or any other tangible personal rental property, enter the type of source of the income.

Indicate whether the property is for-profit property or not. PA law generally follows the IRC Section 280A for rental or leased property, such as a vacation home, and there is no intent to realize a profit. In such case, rental expenses may only be deducted up to the amount of rental income, and a loss may not be used to reduce other rental income. If property is rented or leased to realize a profit and also not operated as a business activity, losses may be offset against other rental or royalty income.

IMPORTANT: If the property is located in another state or country, the complete address of the property must be included in the address field.

PART B, INCOME AND EXPENSES

Enter amounts under the corresponding initial of the property from Part A.

Indicate the ownership of the property:

- Complete the T (taxpayer) oval to indicate the property was owned by and the net income (loss) reported is from the taxpayer whose name appears on the name line;
- Complete the S (spouse) oval to indicate the property was owned by and the net income (loss) reported is from the spouse listed on a PA-40, Personal Income Tax Return, filed using the Married, Filing Jointly filing status; or
- Complete the J (joint) oval to indicate the property was owned by and the net income (loss) reported is from both the taxpayer and spouse.

IMPORTANT: One spouse may not use a loss to reduce the income of the other. Each spouse must determine his/her net income (loss) from rents, royalties, patents and copyrights separately.

LINE 1

Enter the gross rent from the rental of real estate or other tangible personal property (including personal property leased with real estate) held for investment or speculation. Include income received for renting a room or other space. If services or property were received as a substitution for rent paid in cash or cash equivalents, report the fair market value of such services or property as rental income.

LINE 2

Enter the gross royalties from oil, gas, mineral properties, and other property. Oil and gas royalty payments received from mineral rights located under a farm are not considered farm income and should be reported on PA Schedule E.

CAUTIONS: Property damages resulting from the construction of temporary structures such as staging areas are taxable as rental income on Schedule E. Most contracts require the lessor to mitigate damage and restore the property to its original condition, thus no "damage" actually occurs. Payments received for the granting of

a permanent right of way or an express easement of 15 years or more should be reported on Schedule D as a gain of the sale or disposition of property. Otherwise, payments received for temporary access to another property for a temporary easement or right of way are included as rental income. Report the amount of royalty income from oil and gas leases separately from any rental income for the same property. When reporting royalty income, use the gross amount of income reported on federal Form 1099-MISC.

LINE 3

Enter the amount of any advertising expense incurred to notify potential renters of the property's availability for rental.

LINE 4

Enter the ordinary and necessary auto and travel expenses related to rental activities, including 100 percent of meal expenses incurred while traveling away from home. Generally, either the actual vehicle expenses or the standard federal mileage rate may be used as a deduction.

LINE 5

Enter the amount of any cleaning and maintenance expenses for the property.

LINE 6

Enter the amount of any commissions paid to obtain rentals for the property.

LINE 7

Enter the amount of insurance expense paid for the property.

LINE 8

Enter any legal and professional fees paid for the property.

LINE 9

Enter the amount of any management fees paid for the property.

LINE 10

Enter the amount of mortgage interest paid for the current year to banks or other financial institutions.

LINE 11

Enter the interest paid on the purchase of other property. Generally, to determine the interest expense allocable to the rental activities, records to show how the proceeds of each debt were used must be present. Pennsylvania does not follow federal rules regarding prepaid interest.

LINE 12

Enter the cost of repairs made to keep a 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. Such costs cannot be expensed in full in the year paid or incurred.

LINE 13

Enter the cost of supplies purchased for a property.

LINE 14

Enter the amount of taxes paid that are directly related to the rental activity. Deduct the proportionate share of real estate taxes. Taxes based on income may not be deducted. Deductions for gross receipts and business privilege taxes are permitted.

LINE 15

Enter the cost of all utilities paid for the rental property. Ordinary and necessary telephone calls related to rental activities or royalty income may be included. However, the base rate (including taxes and other charges) for telephone service for the first telephone line into a 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 a commercial purpose. Commercial purpose 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 where the utilities are paid for by the tenants. If the utilities expense includes electricity, natural gas, fuel oil, and/or kerosene 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, use tax is also due on the related expense amounts for these utility expenses on Line 25 of the PA-40, Personal Income Tax Return, or on Line 19 of the PA-41, Fiduciary Income Tax Return.

LINE 16

Any depreciation method permissible under generally accepted accounting principles and practices, including federal accelerated depreciation methods, may be used to calculate depreciation expenses as long as the method is consistently applied.

The Pennsylvania Tax Reform Code (as amended) limits IRC Section 179 current expensing to the expensing allowed at the time the asset was placed into service or in effect under the IRC of 1986 as amended to Jan. 1, 1997. As a result, the maximum deduction that PA Income Tax law permits under IRC Section 179 is \$25,000 and the maximum investment in property before a dollar for dollar reduction in Section 179 expense occurs is \$200,000. However, Pennsylvania follows the federal definitions for listed property with respect to Section 179 property.

The Pennsylvania Tax Reform Code also does not permit the bonus depreciation elections added to the Internal Revenue Code in 2002, 2003, 2008 and 2009.

 **IMPORTANT:** The Pennsylvania Tax Reform Code of 1971 (as amended) further requires that taxpayers use straight-line depreciation if an asset's basis for determining depreciation is different from its basis for federal income tax purposes. Therefore, assets on which federal Section 179 expense in excess of \$25,000 or federal bonus depreciation have been taken, or on which federal like kind exchange rules have been applied, must use straight-line depreciation for Pennsylvania personal income tax purposes.



NOTE: For each asset, straight-line depreciation must be calculated, unless not using an optional accelerated depreciation method. Straight-line depreciation for the assets must be calculated in order to determine the adjusted basis of the asset in the event of a sale of the property and net rental losses from the property were not able to offset other net rental income.

LINE 17

Enter the amount of other expenses incurred for the property. Include on this line any production costs, transmission costs, or gathering fees taken as a direct deduction by the lessor from royalty payments. Please itemize all expenses included on this line.

LINE 18

Add the amounts on Lines 3 through 17 and enter the result for each property.

LINE 19

If Line 18 is smaller than Line 1 or Line 2, subtract Line 18 from Line 1 or 2 and enter the result for each property.

LINE 20

If Line 18 is greater than Line 1 or Line 2, subtract Line 1 or 2 from Line 18 and enter the result for each property and fill in the oval.



NOTE: PA law does not permit losses from property rented where there is no intent to realize a profit.

LINE 21

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.

LINE 22

Enter the rent and royalty income (loss) amounts from PA S corporations and Partnerships reported to the taxpayer and/or spouse on 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 federal employer identification number along with the income (loss) by entity if rent or royalty income (loss) from any pass-through entity is reported on this line.

LINE 23

Add Lines 21 and 22. Include the total on Line 6 of the PA-40, Personal Income Tax Return, or on Line 5 of the PA-41, Fiduciary Income Tax Return.

 **IMPORTANT:** For Lines 21, 22, and 23, net income (loss) for rents, royalties, patents and copyrights for a taxpayer and spouse on a PA-40, Personal Income Tax Return, filed using the Married, Filing Joint filing status must be calculated separately. If a taxpayer and spouse are reporting income and losses, a taxpayer's income may not be offset by a spouse's loss and vice versa. All joint income and losses must be split equally when calculating net income (loss) for the taxpayer and spouse. If both the

taxpayer and spouse have net income or net loss from all their properties (including PA S corporations and partnerships) the amounts may be added together for the taxpayer and spouse and the result entered on Line 23 of Schedule E, and Line 6 of the PA-40, Personal Income Tax Return. If the taxpayer has net income and the spouse has a net loss (or vice versa), the net income amount separately calculated for the taxpayer or spouse must be entered on Line 6 of the PA-40, Personal Income Tax Return.