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*****Pennsylvania State Taxes*****

Does Pennsylvania tax code coincide with the federal tax return guidelines?

No... Under the Federal tax code all income is taxable unless it is specifically exempt, excluded or deducted. In Pennsylvania, an item is taxable only if it fits into a specific eight income category list. If it classifies, Pennsylvania imposes a flat tax instead of a graduated tax on net income, as Federal does. This Pennsylvania tax rate is 3.07 percent. The loss in one class of income may not offset against income in another class, nor may gains or losses be carried backward or forward from year to year.

Filing joint tax return for Pennsylvania is for convenience only. There are no special joint return rates. Additionally, one spouse's losses or deductions may not be used to offset the other spouse's income or gains.

The Eight Income Types are:

- 1) Compensation**
- 2) Interest** – Interest income derived from business working capital is generally characterized as business income, and interest income derived from an installment sale is generally characterized as capital gain.
- 3) Dividends** – Includes capital gain distributions as well as actual cash and property distributions from the earnings of any non-Pennsylvania S corporations that have not elected Pennsylvania S corporation status.
- 4) Net Profits** – From business, profession, or farm, including interest income from business working capital.
- 5) Net Gain from the Sale or Disposition of Property** – Gain on the sale of a personal residence, however, may be excluded if residency requirements are met.
- 6) Net Income from Rents, Royalties, Patents and Copyrights**
- 7) Income from Estates and Trusts**
- 8) Gambling & Lottery Winnings** – Except Pennsylvania state lottery prizes. Qualifying and substantiated gambling losses may offset to “net” taxable gambling winnings.

Types of income sources taxable on the federal level and not in PA are:

Income from pension plans, Social Security, Supplemental Security or SSI, railroad retirement, veterans pensions, IRAs, 401(k)s and 403(b)s; and alimony; and unemployment compensation.