

INSTRUCTIONS FOR PREPARING THE SCHOOL INCOME TAX RETURN

Read these instructions carefully to determine if you have income subject to the tax.

Note: Income from Federal Schedule "C" business income and W-2 income should not be reported on School Income Tax returns.

The School District of Philadelphia imposes a tax on different classes of unearned income (i.e., income **not** subject to Philadelphia Business or Wage taxes). Examples of taxable income are dividends, certain interest, certain rents, and royalties. All residents of Philadelphia who receive these types of income must pay the tax.

If you were a resident for a portion of the year, see Page 4 for instructions.

If you no longer have taxable income, complete the Change Form.

Line 1. All dividends are taxable unless they are a return of capital on a life insurance policy or from common stock of a National Bank. **All other dividends are taxable regardless of the source. You cannot reduce this income by reinvested dividends.**

Line 2. Interest income on either the Federal or State tax return may be included. Examples of taxable interest include, but are not limited to: Interest income from securities, mortgages, private loans, insurance policies, bank notes, repurchase agreements, Fannie and Ginnie Mae obligations, and other sources.

The following are examples of non-taxable interest income:

- A. Direct obligations of the Federal Government
- B. Bonds or debt obligations of Pennsylvania or its political subdivisions
- C. Interest on savings, checking, escrow and money market savings accounts that are deposited in:
 - 1. Private Banks
 - 2. Building and Loan Associations
 - 3. Savings and Loan Associations
 - 4. Credit Unions
 - 5. Savings Banks
 - 6. Bank and Trust Company, or Trust Companies

Line 3. Any distribution by a "Subchapter S" Corporation of all or any of its accumulated earnings and profits is treated as if it were a dividend for purposes of the School Income Tax.

Line 4. The pro-rata share of any limited partnership income not otherwise subject to Philadelphia Net Profits Tax is taxable. If this is a net loss, enter "0".

Line 5. Income from estates and trusts is taxable only if it is received by or credited to the beneficiary and is the type of income that would normally be subject to the tax. **For example, if the income from a trust consists of interest and dividends, the amount taxable would be determined as in Lines 1 and 2 above.**

Line 6. Net gains and losses are taxable from the sale of tangible and intangible personal property and real property held for six months or less. **Note: This holding period differs from the 12 months or less period used by the Federal Government to identify short term capital gains.** If this is a net gain, enter the gain on Line 6. If this is a net loss, enter "0".

Line 7. Net rental income received from the ownership of real or personal property is taxable unless the income is subject to Philadelphia Business Privilege and/or Net Profits taxes. If this is a net loss, enter "0". For School Income Tax purposes, report the net rental activity from a property which meets **all** of the following three criteria:

1. It is the principal residence of the owner;
2. It is totally residential;
3. It consists of 4 rental units or less including the owner occupied unit.

If the activity does not meet these criteria, you must file Business Privilege and/or Net Profits taxes.

Examples of owners that report rental income on School Income Tax:

2 Units Owner Occupied Unit Rental Unit	3 Units Owner Occupied Unit Rental Unit Rental Unit	4 Units Owner Occupied Unit Rental Unit Rental Unit Rental Unit
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Examples of owners that must report rental income on Business Privilege and/or Net Profits Tax returns:

1 Unit Rental Unit	2 Units Rental Unit Rental Unit	3 Units Rental Unit Rental Unit Rental Unit	4 Units Rental Unit Rental Unit Rental Unit Rental Unit	5 Units or more Rental Unit Rental Unit Rental Unit Rental Unit Owner Occupied Unit
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Owners of properties with 5 or more units must file Business Privilege and/or Net Profits tax returns even if they reside on the premises.

Line 8. Report the following income: 1) royalty or copyright, 2) an award of punitive damages, 3) the monetary value of any prize or award, 4) income from any annuity under a policy of insurance unless payable from a contract of employment as a part of retirement or pension plan, and 5) net proceeds from gambling (except PA lottery). If this is a net loss, enter "0".

Line 9. Add lines 1 through 8.