

Section 203. Income Included in Tax Base

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- (a) DIVIDENDS. Except as discussed in Section 206 of these regulations, all dividends reportable to the Commonwealth of Pennsylvania for Personal Income Tax purposes are subject to this tax, exclusive of flow through items addressed elsewhere in these regulations. Dividend includes distribution from the 'S' Corporation's earnings and profits (E & P) account (described under Internal Revenue Code Section 1368 (C)(2)) accumulated in prior years when the 'S' Corporation was a 'C' Corporation. ***Dividend does not include distribution from the 'S' Corporation's Accumulated Adjustment Account. Effective January 1, 2007, any distribution from the 'S' Corporation Accumulated Adjustment Account whether or not the amount was previously reported as taxable income for the purpose of the School Income Tax shall not be included in the tax base.***

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[Any "distribution other than a dividend," declared by a "Subchapter S" corporation shall be taxable regardless of whether distribution was made to the shareholder.]

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- (i) INCOME FROM LIMITED PARTNERSHIPS. The pro rata share of taxable income of Limited Partnerships from partnerships NOT otherwise subject to the Net Profits tax shall be included in the tax base [in total, without] ***with*** recognition of the revenue stream creating the income. ***Only*** Incomes and losses ***of the same revenue stream from different Limited Partnerships*** [within this class] may be offset. ***Any income that is excluded under Section 206 of this regulation shall be excluded from the tax base.***

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[For purposes of this tax, such income is considered distributed when credited to the partners as reflected on the Schedule of Income, Credits, Deductions, Etc. issued by the partnership.]

- (J) INCOME FROM 'S' CORPORATIONS. The pro rata share of taxable income of shareholders from an 'S' Corporation shall be included in the tax base[.] ***with recognition of the revenue stream creating the income. Only*** Incomes and losses ***of the same revenue stream from different 'S' Corporations*** [within this class] may be offset. ***Any income that is excluded under Section 206 of this regulation shall be excluded from the tax base.***

[] Brackets denote deleted matter

 Underling denotes new matter

Underlined Bolding denotes matter added after Public Hearing

Nancy A. Kammerdeiner
Revenue Commissioner

Date