PA Schedule C

Profit or Loss From Business or Profession
(SOLE PROPRIETORSHIP)

PA-40 C (09-12) (FI)
PA DEPARTMENT OF REVENUE

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20____ Include with Form **PA-40, PA-20S/PA-65** or **PA-41**

OFFICIAL USE ONLY

Name of owner as shown on PA tax return:

Owner's Social Security number

A. Main business activity ▶ Product or service ▶

B. Business name ▶

C. Federal Employer Identification Number

D. Business address (number and street)
City, State and ZIP Code ▶

C

E. Method(s) used to value closing inventory. Fill in the appropriate oval:
(1) ⬭ Cost (2) ⬭ Lower of cost or market
(3) ⬭ Other (if other, attach explanation)

Sales Tax License Number (if applicable)

F. Accounting method. Fill in the appropriate oval:
(1) ⬭ Cash (2) ⬭ Accrual (3) ⬭ Other (specify) ▶

	Yes	No
G. Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," submit explanation.		
H. Did you deduct expenses for an office in your home?		

Federal NAICS Code

I. If the business is out of existence, fill in this oval. ⬭

PART I Income

1. a. Gross receipts or sales	1a.		
b. Returns and allowances	1b.		
c. Balance (subtract Line 1b from Line 1a)		1c.	
2. Cost of goods sold and/or operations (Schedule C-1, Line 8)		2.	
3. Gross profit (subtract Line 2 from Line 1c)		3.	
4. Other Income (submit statement). Include interest from accounts receivable, business checking accounts and other business accounts. Also include sales of operational assets. See Instructions Booklet.		4.	
5. Total income (add Lines 3 and 4) ▶		5.	

PART II Deductions

6. Advertising		28. Supplies (not included on **Schedule C-1**)	
7. Amortization		29. Taxes	
8. Bad debts from sales or services		30. Telephone	
9. Bank charges		31. Travel and entertainment	
10. Car and truck expenses		32. Utilities	
11. Commissions		33. Wages	
12. Cost depletion but not percentage depletion		34. Other expenses (specify):	
13. a. Regular depreciation		a.	
13. b. Section 179 expense		b.	
14. Dues and publications		c.	
15. Employee benefit programs other than on Line 23		d.	
16. Freight (not included on Schedule C-1)		e.	
17. Insurance		f.	
18. Interest on business indebtedness		g.	
19. Laundry and cleaning		h.	
20. Legal and professional services		i.	
21. Management fees		j.	
22. Office supplies		k.	
23. Pension and profit-sharing plans for employees		34. Total other expenses	
24. Postage		35. Total expenses. (add Lines 6 through 34)	
25. Rent on business property		36. Reduce expenses by the total business credits claimed (for example, Employment Incentive Payments Credit) on your **PA-40.**	
26. Repairs			
27. Subcontractor fees			

37. Total adjusted expenses (subtract Line 36 from Line 35). ▶ 37.

38. Net profit or loss (subtract Line 37 from Line 5). If a net loss, fill in the oval. Enter the result on your PA tax return. .....Loss ⬭ 38.

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PA Schedule C

PA-40 C (09-12) (FI)
PA DEPARTMENT OF REVENUE

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START

Name of owner as shown on PA tax return:

Social Security Number

SCHEDULE C-1 - Cost of Goods Sold and/or Operations

1.	Inventory at beginning of year (if different from last year's closing inventory, include explanation)		1.	
2.	a. Purchases	2a.		
	b. Cost of items withdrawn for personal use	2b.		
	c. Balance (subtract Line 2b from Line 2a)		2c.	
3.	Cost of labor (do not include salary paid to yourself or subcontractor fees)		3.	
4.	Materials and supplies		4.	
5.	Other costs (include schedule)		5.	
6.	Add Lines 1, 2c, 3, 4 and 5		6.	
7.	Inventory at end of year		7.	
8.	Cost of goods sold and/or operations (subtract Line 7 from Line 6) Enter here and on Part I, Line 2 ▶		8.	

SCHEDULE C- 2 - Depreciation

PA PIT law does not permit the bonus depreciation elections added to the Internal Revenue Code (IRC) in 2002, 2003, 2008 and 2009. PA PIT law limits IRC Section 179 current expensing to the expensing allowed at the time you placed the asset into service or in effect under the IRC of 1986 as amended Jan. 1, 1997. For each asset, you must also report straight-line depreciation, unless not using an optional accelerated depreciation method. You need straight-line depreciation to take advantage of Pennsylvania's Tax Benefit Rule when you sell the asset. See the PA PIT Guide for the Tax Benefit Rule.

1.	Total Section 179 depreciation (do not include in items below) ▶	1.	
2.	Less: Section 179 depreciation included in Schedule C-1 ▶	2.	
3.	Balance (subtract Line 2 from Line 1). Enter here and on Part II, Line 13b. ▶	3.	

Description of property (a)	Date acquired (b)	Cost or other basis (c)	Depreciation allowed or allowable in prior years (d)	Method of calculating depreciation (e)	Life or rate (f)	Depreciation for this year (g)
4. Other depreciation:	MM/DD/YY					
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
5. Totals (add all Line 4 amounts)					5.	
6. Any depreciation included in Schedule C-1					6.	
7. Balance (subtract Line 6 from Line 5). Enter here and on Part II, Line 13a. ▶					7.	

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PA Schedule C

Profit or Loss from Business or Profession (Sole Proprietorship)
PA-40 C (09–12) (FI)
PA DEPARTMENT OF REVENUE

Overview

Use PA Schedule C to report income or loss from a business you operate or a profession you practice as a sole proprietor. Your activity qualifies as a business if your primary purpose for engaging in the activity is income or profit, you conduct your activity with continuity and regularity and you satisfy the "Commercial Enterprise" test. Certain rental activity may be business income and not rental income. If you are a sole member of an LLC, complete PA Schedule C.

For additional information regarding the definition of a business or profession, and for Pennsylvania's requirements for reporting income and expenses, go to the department's website at www.revenue.state.pa.us and link to the PA PIT Guide.

If your business had expenses of $5,000 or less, you may be able to use PA Schedule C-EZ instead of PA Schedule C.

Note: Pennsylvania determines income and (loss) under generally accepted accounting principles, systems or practices that are acceptable by standards of the accounting profession and consistent with regulations of the department.

Pennsylvania allows a taxpayer to use federal tax accounting rules to determine income or (loss) to the extent consistent with department regulations and to the extent federal tax accounting rules clearly reflect income.

- You may use any accounting method for PA purposes, as long as you apply your accounting methods consistently.
- PA law does not contain provisions for statutory employees. Federal statutory employees may be required to report PA taxable income on Line 1a, PA-40, and use PA Schedule UE to deduct expenses. See Chapter 7 of the PA PIT Guide for more information.
- An owner may deduct all losses from a business or profession in the taxable year realized. Report all transactions directly related to your business or profession on PA Schedule C.
- Do not use the installment method for sales of inventory if you sell such inventory in the regular and ordinary course of a business or profession. Include interest on such sales in gross receipts.

Maintain separate books and records for PA PIT purposes and file PA Schedule C. If you wish to take advantage of Pennsylvania reporting differences that decrease your federal profit, complete PA Schedule C.

Important Differences between Federal and Pennsylvania Rules

You may use any accounting method for PA purposes, as long as you apply your accounting methods consistently. PA law does not have material participation rules. Report all transactions that are directly related to your business or profession on your PA Schedule C.

If you own or operate more than one business, you must submit a separate PA Schedule C for each business operation.

The following federal schedules and instructions do not apply for PA Schedule C:

Schedule A. You may not deduct nonbusiness-related personal interest, taxes and casualty losses on any PA PIT return.

Schedule E. Report rental and royalty income on PA Schedule E, unless engaged in the business of making your property or rights available in a public market place with intention to realize a profit.

Schedule F. Report farming activity on PA Schedule F.

Schedule SE. Do not report self-employment taxes to Pennsylvania.

Form 4562. If using bonus depreciation, do not use Form 4562. Use Schedule C-2 on Side 2 of this schedule. The maximum deduction PA income tax law permits under IRC Section 179 is $25,000. If you have income or loss from more than one business, profession or farm, you may not deduct more than $25,000 for all business activities.

Form 4684. Report gain or (loss) from all business activity on PA Schedule C. Include a casualty or theft loss of business property (or gain, if insurance proceeds exceed the basis of the property lost or taken) on Line 4 of PA Schedule C. You may refer to the federal schedule for an explanation of gain or (loss) items, but do not submit the federal schedule.

Form 4797. Report other sales, exchanges and involuntary conversions of business property on Line 4 of PA Schedule C if the property sold was replaced. Refer to the federal schedule for an explanation of gain/loss items, but do not submit the federal schedule.

Form 8271. Do not report or deduct any transactions related to tax shelters.

Form 8594. Report the acquisition or disposition of business assets on Line 4 of PA Schedule C. Refer to the federal schedule for an explanation for gain/loss items, but do not submit the federal schedule.

Form 8824. Do not report a like-kind exchange on PA Schedule C, unless it is a normal and recognized transaction in your business or profession in accordance with APB 29. PA law does not have like-kind exchange provisions. You must include the gain or loss from a sale, exchange or disposition of a business asset on Line 4 of PA Schedule C if the transaction was a normal business transaction. You must report any gain or loss from the sale of a nonbusiness asset or property or the sale of a business or segment thereof on PA Schedule D if the property sold was not replaced.

Form 8829. Include your allowable expenses for the business use of your home on Line 34 of PA Schedule C. Refer to the federal schedule for an explanation of this expense, but do not submit the federal schedule.

Other Pennsylvania and Federal Income Tax Differences -

PA income from the operation of business generally differs from the income determined for federal income tax purposes. Further, Pennsylvania will no longer accept a PA Schedule C-F Reconciliation for the purpose of adjusting the federal business income to PA business income. Therefore, the items which were previously included as additions to PA income or expense on the PA Schedule C-F Reconciliation should be included with the specific line of income or expense on the PA Schedule C. In addition, those items which Pennsylvania does not require be reported as income or does not allow as expense in determining net business income, which are allowed in the determination of net federal business income, should not be included in the specific business income or expenses on PA Schedule C.

Examples of items that Pennsylvania requires as additions to income include: any advance receipts for goods or services; working capital interest or dividend income including federal-exempt interest and dividend income from obligations of other states; gains from the sale of business assets where the property is replaced by similar property; gains from like-kind exchanges; gains from involuntary conversions (such as those from IRC Section 1033); and gains from the sale of property where PA basis is different than federal basis.

Examples of items that Pennsylvania allows as additions to expenses that required a reduction for federal tax purposes include: a meals, travel and entertainment expense deduction of 100 percent by Pennsylvania for the expenses incurred; any differences in depreciation related to differences in basis of assets, amount of allowable Section 179 expense, or method of depreciation for federal or PA purposes; and any other reductions in federal expenses allowed at 100 percent for PA personal income tax purposes.

Examples of items that Pennsylvania requires as reductions in federal income or expenses include: income taxes based upon gross or net income; any differences in depreciation related to differences in basis of assets, amount of allowable Section 179 expense, or method of depreciation for federal or PA purposes; recognition of cancellation of debt income; recognition of income from IRC Section 481(a) spread adjustments; payments for owner pension, profit-sharing plans, deferred, or welfare benefit plans; percentage depletion; direct expensing of organizational expenses, start-up costs, intangible drilling costs or syndication fees; losses from the sale of property where PA basis is different than federal basis; and any other income or expenses where there is a specialized federal treatment that is not specifically addressed or allowed by PA personal income tax law that might involve additional expensing, expensing verses capitalization, carry back or carry forward of losses, income recognition, or other special treatments.

Line Instructions

Identification Information. Complete each line.

Owner's Name. Enter the name of the business owner. If you are married and you jointly owned the business with your spouse, enter both names. If you and your spouse have separate business activities, complete separate PA Schedule(s) C.

Federal NAICS Code. Provide your Federal NAICS Code as identified on your Federal Schedule C.

Social Security Number (SSN). Enter the SSN of the business owner. If you are married and you jointly owned the business, enter the SSN that you entered first on your PA tax return.

A. **Main Business Activity.** Describe the business or professional activity that provided your principal source of income for Line 1. Use the same description you use for your Federal Schedule C. Enter the principal business or professional code you use on your Federal Schedule C.
B. **Business Name.** Enter the name of the business as you registered with the IRS.
C. **Taxpayer Identification Numbers.** Enter the Federal Employer Identification Number (FEIN) assigned to the business. If you do not have an FEIN for your Federal Schedule C, leave this space blank. Enter the Sales Tax License number if you have one, or leave this space blank.
D. **Business Address.** Enter the complete address of the business.
E. **Closing Inventory Valuation.** Fill in the appropriate oval. Submit an explanation if necessary.
F. **Accounting Method.** Fill in the oval for the accounting method you use for this business. Submit an explanation if necessary.
G. **Inventory Changes.** Check "Yes" or "No" for this question. Submit an explanation if necessary.
H. **Office In-Home.** Check "Yes" if you deduct expenses for an office in-home. Check "No" if you do not deduct expenses for an office in-home.
I. **Out of Business.** If the business is out-of-existence at the end of the tax year for which you are filing, fill in the oval.

Part I. Income

Use generally accepted accounting principles and practices to maintain your books and records, and report your income from your business or professional activity.

Line 1a. Gross receipts or sales. Include all amounts you received in operating your business or profession. PA law does not contain provisions for statutory employees. A statutory employee reports his or her PA taxable income on Line 1a, PA-40, and uses PA Schedule UE to deduct his or her allowable employee business expenses.

Installment Sales. You may use the installment method for sales of inventory. Include interest on such sales in gross receipts.

Land and Buildings. For PA purposes, you may not include the sales of land and buildings on PA Schedule C unless the property sold is replaced. When the property sold is not replaced, the department deems such sales as dispositions of a segment of a business to be reflected on PA Schedule D.

Line 1b. Returns and allowances. This amount is the same for both Pennsylvania and federal purposes. If you report a different amount for Pennsylvania, submit an explanation.

Line 2. Cost of goods sold. This amount is the same for Pennsylvania and federal purposes. If you report a different amount for Pennsylvania, submit an explanation.

Line 4. Other income. Enter gross proceeds you may have to report elsewhere on your federal tax return, including but not limited to:

- The sale of business assets when you reinvest the proceeds in business operations;
- The gain (loss) on replacing business property, including land or buildings used in operating your business or profession; and
- Interest and dividend income from short-term investments to generate working capital.

Submit a statement explaining the amount you enter. See the PA PIT Guide for an explanation of allocable interest, dividends and gains to business or professions. Include other income you enter on Line 6, Federal Schedule C, but not refunds of federal taxes and credits you did not deduct for PA purposes.

Part II. Deductions

Use generally accepted accounting principles and practices to maintain your books and records and report your expenses from your business or professional activity. PA law does not impose dollar or percentage limitations on allowable expenses. You may deduct 100 percent of the PA allowable business or professional expenses incurred during the taxable year.

NOTE: You may have incurred other expenses for entertainment facilities (boat, resort, ranch, etc.), living accommodations (except for employees on business) or vacations for yourself, your employees or their families. Reduce your total business expenses in Part II by the total of these personal expenses.

Generally, you may usually use your Federal Schedule C expenses for PA PIT purposes. See the other Pennsylvania and federal income tax differences explanation beginning on Page 1 of the instructions for more information.

You may not use federal amounts after making certain elections to accelerate or defer expenses or spread expenses over more than one taxable year. These instructions explain those expense categories where PA PIT rules and federal rules differ.

Line 7. Amortization. Pennsylvania generally follows federal rules. You have the option to use any amortization method allowable under generally accepted accounting principles and practices.

Line 10. Car and truck expenses. You may deduct 100 percent of your actual vehicle expenses or you may use the federal standard mileage rate. If you use the federal standard mileage rate, you may not deduct any actual operating expenses, including depreciation and lease costs. Follow the Federal Schedule C rules for these expenses. If you use your car or truck for both business and personal travel, you may only deduct the business portion of your expenses.

Line 13a. Regular depreciation. Use any depreciation method permissible under generally accepted accounting principles and practices as long as you consistently apply the method.

NOTE: PA PIT law does not permit the bonus depreciation elections added to the Internal Revenue Code in 2002, 2003, 2008 and 2009.

For each asset, you must also report straight-line depreciation, unless not using an optional accelerated depreciation method. You need straight-line depreciation to take advantage of Pennsylvania's Tax Benefit Rule when you sell the asset. See the PA PIT Guide for the Tax Benefit Rule.

PA Law 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.

Line 13b. Section 179 expense. PA PIT law limits IRC Section 179 current expensing to the expensing allowed at the time you placed the asset into service or in effect under the IRC of 1986 as amended to Jan. 1, 1997. The maximum deduction that PA Income Tax law permits under IRC Section 179 is $25,000. Pennsylvania follows the federal definitions for listed property.

Line 14. Dues and publications. You may deduct dues and publications, but only to the extent directly used for ordinary business purposes. You must exclude any personal use of such expenses.

Line 15. Employee benefit programs other than on Line 23. You may not deduct any payments you make for your own personal coverage. Pennsylvania does not allow any personal expenses on any PA tax return.

Line 17. Insurance. You may deduct life insurance on yourself or your spouse only if the business is the beneficiary (not your spouse, other family members or other persons). The business must use the insurance proceeds to continue business operations. If deducting insurance premiums, the proceeds are business income on Line 4 of Part I.

Line 18. Interest on business indebtedness. Deduct interest on business debt only. If you personally borrow money to acquire a business interest or to improve your business, you may not deduct the interest on any PA schedule or PA tax return.

Line 20. Legal and professional services. Only deduct those expenses you incur in operating your business or profession. You may not deduct any personal expenses. You may include business accounting and tax return preparation expenses, but not the costs for personal accounting and tax returns.

Line 21. Management fees. Include any management fees paid in conjunction with the operation of the business to any related or non-related entity.

Line 23. Pension and profit-sharing plans for employees. Only deduct those expenses directly related to pension and profit-sharing plans for employees. You may not deduct any pension or profit-sharing expenses for your own personal retirement benefits.

Line 25. Rent on business property. Only deduct those expenditures you incurred in the operation of your business or profession.

Line 27. Subcontractor fees. Deduct subcontractor fees that were not included in your calculation of cost of labor from Line 3 of Schedule C-1. Also include any fees paid to payees not included as employees to whom regular wages were paid.

Line 29. Taxes. Deduct tax expenses other than taxes based on income. You may not deduct taxes based on net income, federal income taxes or the one-half of self-employment taxes the IRS allows. Do not deduct taxes paid to other states or foreign countries based on income. Do not deduct estate, inheritance, legacy, succession or gift taxes. Assessments for betterments and improvements are not allowed. Business privilege taxes and/or gross receipts taxes are acceptable deductions.

Line 31. Travel and entertainment. PA law does not follow federal law. Deduct 100 percent of your allowable travel and entertainment expenses. You may never deduct the personal portion of your travel and entertainment expenses, whether for yourself, your spouse, your dependents or any other person. You may use the federal standard meal allowance.

Line 32. Utilities. 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 commercial purposes. If you are including electricity, natural gas, fuel oil, or kerosene in your calculation of the business use of your home, you should report use tax due on the prorated expense amount on Line 25 of the PA-40 or on the sales tax returns you file with the department.

Line 33. Wages. Do not reduce your wage expense for any federal credits you claim. Add back any wage expense excluded in order to claim a federal credit. Do not deduct the costs of your own participation.

Line 34. Other expenses. Deduct any other costs of doing business or providing professional services if such costs are permitted under generally accepted accounting principles and practices. Itemize the additional expenses you claim, and enter the total on Line 34, Total other expenses. You may deduct:

- 100 percent of the PA sales tax paid on a depreciable business asset. However, on disposition, your Pennsylvania basis and federal basis for that asset will be different.
- Charitable contributions made from your business account and acknowledged publicly by the recipient. Personal charitable contributions are not allowed.
- Expenses using the capitalization rules established by your trade, profession, or industry, under its generally accepted accounting principles and practices. Once elected, use this method consistently.
- 100 percent of expenses incurred for removing barriers to individuals with disabilities and the elderly. This is not a credit but a direct expense in arriving at the net income or loss.
- Home office expenses. Pennsylvania generally follows the federal rules for a home office.
- Any other expenses allowed under generally accepted accounting principles or financial accounting standards board rules but are not allowable or limited under federal rules. Itemize these expenses.

Line 35. Total deductions. Add Lines 6 through 34.

Line 36. Other business credits. If you claimed one or more of these credits, reduce total expenses by costs to qualify for the credit:

- PA Employment Incentive Payments Credit
- PA Job Creation Tax Credit
- PA Research and Development Tax Credit

If you did not claim one of these business credits, enter zero on Line 36.

Line 37. Total Adjusted Expenses. Reduce Line 35 by Line 36.

Line 38. Net profit or loss. Subtract Line 37 from Line 5. In calculating net profit or loss from your business or profession, report your entire loss in this taxable year.

Schedule C-1 – Cost of goods sold and/or operations

Generally, if you engaged in a trade or business in which the production, purchase or sale of merchandise was an income-producing factor, you must consider inventories at the beginning and end of your tax year.

In determining inventory value, use the cost, lower of cost or market or other method allowable under generally accepted accounting principles and practices. If you change methods of valuing inventory, restate the value at the beginning of the year based on the changed method, and include an explanation. There is no provision under PA PIT law similar to IRC Section 481(a) that permits taxpayers to spread the income effect of a change in method over a specified period. PA PIT rules also do not permit valuing inventory using uniform capitalization rules under IRC section 263 A (a) and (b) and inventories calculated using this method for federal purposes must be recalculated for PA PIT purposes.

Schedule C-2 – Depreciation

Complete this schedule if you are using a depreciation method other than federal depreciation reported on your Federal Schedule C. See the instructions for Line 13 on Page 3.