

Instructions for PA-20S/PA-65 Schedule OC Other Credits

What's New

For tax year 2010, PA-20S/PA-65 Schedule OC has been separated from PA-20S/PA-65 Schedule T and PA-20S/PA-65 Schedule OC is now a single form.

PA-20S/PA-65 Schedule OC/T will no longer be available.

General Information

Purpose of Form

A PA S corporation, partnership and limited liability company filing as a partnership or PA S corporation for federal income tax purposes uses PA-20S/PA-65 Schedule OC to enter its share for each tax credit received after applying the tax credit to the entity's corporate liability, if any.

A tax credit passed through from another entity can only be applied to tax liability resulting from the RCT-101, PA Corporate Tax Report. Do not report a tax credit passed through from another entity on PA-20S/PA-65 Schedule OC.

Alternative Energy Production Tax Credit

With the changes in 2009 to Act 48 in HB 1531, the Alternative Energy Production tax credit has been suspended for 2009/2010 and 2010/2011 fiscal years.

Reduction in Expenses

Pennsylvania does not allow the deduction of certain expenses used to qualify for the Neighborhood Assistance Program and the Educational Improvement tax credits. If the expenses were deducted in calculating federal-taxable income, the amount should be reported as a reduction in expenses on PA-20 S/PA-65 Schedule M, Part B, Section E, line f. Do not reduce Pennsylvania-taxable income by amounts paid to qualify for the tax credit. For additional information, see the specific section for these tax credits.

Tax Credits Claimed on Schedule OC

Tax credits are often awarded to PA S corporations or partnerships and passed through to entity owners. However,

sometimes they are awarded to individual or fiduciary taxpayers. The PA S corporations and partnerships report tax credits on PA-20S/PA-65 Schedule OC. The individuals and entity owners report tax credits on PA-40 Schedule OC. Different provisions apply to various situations, so please review the specific information for each tax credit.

For each tax credit claimed, the entity must submit with PA-20S/PA-65 Schedule OC and the certificate or notification that approved each tax credit claimed.

Following is some general information regarding tax credits -

- All of the restricted tax credits can be claimed against any class of income.
- Restricted tax credits are nonrefundable. If applicable, other nonrefundable credits must be applied to the account before restricted tax credits.
- The request to pass through tax credit to an entity owner is irrevocable, therefore the entity should not pass through more than the owner can use in any single year.
- Tax credits passed through from pass through entities to other pass through entities or to estates or trusts may not be passed through to owners or beneficiaries.

Saleable of Assignable Tax Credits

The saleable restricted tax credits include Research and Development, Film Production, Neighborhood Assistance Program, Resource Enhancement and Protection, and Keystone Innovation Zone.

The portion of the tax credit that exceeds the tax liability of the awardee of the tax credit may be carried forward unless the awardee elects to sell or assign the tax credit or pass it through to its owners.

Special rules apply for taxpayers that sell/assign restricted tax credits as well as the taxpayers who purchase them or to whom tax credits are assigned. The rules apply to all taxpayers, whether or not they are incorporated. For specific information regarding these rules, review Corporation Tax Bulletin 2008-02 on the Department's website, www.revenue.state.pa.us

Tax credits are often sold through credit brokers; however, a credit broker is not a requirement of sale. For additional information about using purchased or assigned tax credits, see the specific section for each tax credit.

Personal Income Tax Reporting Requirements for Sale of Restricted Tax Credits

Seller of a Restricted Tax Credit

For Pennsylvania personal income tax purposes, the sales of restricted tax credits are taxable as gains on the sale, exchange or disposition of property to the sellers or original awardees of the restricted tax credits.

The taxpayer selling the restricted tax credit reports the sale of the tax credit as a sale of intangible property for Pennsylvania personal income tax purposes on PA-20S/PA-65 Schedule D.

The taxpayer's cost basis in the restricted tax credit sold is usually \$0 as the tax credit is awarded based upon income or expenses already included in the current or a prior year's tax return(s) whereas no adjustment or reduction in income or expenses is required to be made to obtain such tax credit.

A reduction in the sales price may be reported if commissions are paid to an agent or broker for the sale of such restricted tax credits in the amount of the commissions paid that reduce the amount of net proceeds received by the taxpayer.

The taxpayer reports the date of the award of the restricted tax credit as the acquisition date and the date sold as the date the sale was consummated. The gross proceeds the taxpayer receives from the sale of the restricted tax credit less any commissions paid are included as the sales price of the tax credit sold.

Purchaser of a Restricted Tax Credit

A taxpayer who purchases a restricted tax credit at a cost to him or her of less than the full value of the tax credit must also report a gain on the sale, exchange or disposition of property for Pennsylvania personal income tax purposes.

The taxpayer purchasing the restricted tax credit reports the transaction as a sale of intangible property for Pennsylvania personal income tax purposes PA-20S/PA-65 Schedule D. Unlike the sale of a restricted tax credit, the purchaser records as his or her cost basis, the full purchase price of the tax credit (complete sales price of all such tax credits purchased plus any commissions paid by the purchaser). The

taxpayer records the purchase date as the date acquired and records the tax year end date (usually December 31) for the tax year to which the tax credit is applied as the date the restricted tax credit was sold.

The sales price of the tax credit is the full value of the tax credit permitted or allowed to be applied to the tax return of the taxpayer. By recording only the amount of tax credit allowed or permitted as the sales price and the full purchase price of the tax credit as the basis, restricted tax credits purchased and not able to be used due to any tax limitations imposed under the law permitting the use of a purchased tax credit require no pro-ration of tax credit cost and no separate reporting of the loss on unused tax credits.

A taxpayer who sells tax credits and/or offsets their tax liability with purchased or assigned tax credits, does not need to send documentation of sale or assignment with their PA-20S/PA-65 Information Return. However, the department reserves the right to request this documentation if needed.

Passing Through Tax Credit to Entity Owners

Prior to passing tax credits through to entity owners, some tax credits must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is granted. If the entity has a tax liability for the tax year in which the credit is approved for use the tax credit must first be applied to that tax liability. Review the specific information for each tax credit to determine if the tax credit must first be applied to corporate liability.

If an entity does not use all approved tax credits, it may elect in writing to pass through all or a portion of the tax credit to owners, in proportion to the share of the entity's distributive income to which the owner is entitled. In most cases the tax credit may be applied up to the full amount of owners' tax liabilities, minus any other nonrefundable credits that are applied first. See the information regarding specific tax credits to review existing restrictions or limitations.

An owner of a pass through entity to which a tax credit is transferred must immediately claim the tax credit in the tax year in which the transfer is made. The owner may not carry forward, carry back, obtain a refund of, sell, assign or pass through the tax credit again.

Married couples with joint ownership in pass through entities must be separately listed on the entities' pass through of credit request in order for credit to be applied to each individual's tax number.



Example. Husband and wife Jim and Jane jointly own a 50 percent interest in a partnership, and their son John owns the other 50 percent. All income is distributed according to the ownership percentages. The request to

pass through credit must separately list Jim's and Jane's tax numbers, each receiving 25 percent of the credit, and John receiving the remaining 50 percent under his tax number. This method must be followed even though Jim and Jane receive a separate RK-1 or RK-1 from the partnership.

To pass through tax credits to owners, an entity must submit a request on entity letterhead to the Department of Revenue at the address below listing total amount of credit to be distributed to the entity owner(s), the name and address of each owner, amount of tax credit to be passed through to each owner, tax year, tax type and owner's tax identification number. See the [Example](#).

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The statement must be signed by an authorized representative of the entity, and should be submitted before owners file their individual tax returns.

Some tax credit programs provide a claim form, located on the reverse side of the award letter. Credit awardees should use the claim form to indicate the tax accounts to which the tax credit should be applied.

There are two exceptions to the process outlined above for passing through tax credit:

- To pass through an Educational Improvement Tax Credit, the taxpayer must complete and submit form REV-1123, Educational Improvement Tax Credit Election Form.
- To pass through a Keystone Innovation Zone tax credit, visit the Department of Community and Economic Development's (DCED) website at www.newpa.com or call DCED Customer Service at 1-800-379-7448.

For general information pertaining to all restricted tax credits as well as specific details regarding each tax credit individually – including each tax credit's carry-forward and pass through rules, applications and guidelines – review the description in these instructions and Chapter 17 of the Pennsylvania Personal Income Tax Guide.

Specific Information about each Tax Credit

Employment Incentive Payments (EIP) Tax Credit

This tax credit expired Dec. 31, 2009. Although no new tax credits are being issued, carry forward of unused tax credits is allowed.

The Pennsylvania Department of Labor and Industry (L&I) administer the award of this tax credit. Eligibility is based on the

hiring of eligible public welfare recipients and/or individuals receiving or who have received rehabilitation services through a state rehabilitation service program or the Veterans' Administration. The taxpayer receives certification for this tax credit from L&I.

Qualified businesses, including pass through entities, can apply the tax credit against the following Pennsylvania state taxes:

- Corporate net income tax
- Bank and trust company shares tax
- Title insurance company shares tax
- Mutual thrift institutions tax
- Insurance gross premiums tax
- Personal income tax



Note. This tax credit is not applicable against capital stock/foreign franchise tax liabilities.

This tax credit is limited to 90 percent of a business' total tax liability in any given year. Unused tax credits may be applied to one or more of the ten immediate succeeding years, as long as tax credits do not exceed 90 percent of the tax liability in any year.

An employer claims the tax credit by submitting the certification received from Department of Labor and Industry for each employee hired and the PA Schedule W with the appropriate Pennsylvania tax return.

For more information and to apply for an Employment Incentive Payment Tax Credit, visit the Department of Revenue's website at www.revenue.state.pa.us

Job Creation Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit. Eligibility is based on employers creating 25 or more jobs or increasing employment by 20 percent within three years from a negotiated start date. The amount of tax credit for each job is \$1,000. This tax credit can be rescinded if the job is not maintained for 5 years.

Qualified businesses, including pass through entities and individuals, can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/ foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Insurance gross premiums tax
- Utilities gross receipts tax
- Title insurance company shares tax
- Personal income tax

Guidelines for the Job Creation Tax Credit

- The entity decides if the tax credit will be applied towards corporation tax and/or

passed through to its partners, shareholders or members.

- The tax credit cannot be sold or assigned.
- The entity may carry over any unused tax credits to no more than the five succeeding taxable years.
- The tax credit may be carried back but is not refundable. If carried back, interest will be charged.
- The tax credit can be used to offset 100 percent of the entity's tax liabilities or 100 percent of the entity owners' tax liabilities if passed through.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of ownership in the entity receiving the tax credit.
- A company which receives job creation tax credits and fails to substantially maintain existing operations and the operations related to the job creation tax credits in this Commonwealth for a period of five years from the date the company first submits a job creation tax credit certificate to the Department of Revenue shall be required to refund to the Commonwealth the total amount of tax credit or credits granted.
- A company which receives job creation tax credits and fails to create the approved number of new jobs within three years of the start date will be required to refund to the Commonwealth the total amount of tax credit or credits granted.
- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.

An employer claims the tax credit or passes it through to entity owners by submitting the claim form with the certification received from DCED for each job created to:

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If this certification form is not received, the tax credit will not be applied to any tax accounts. The tax credit must be claimed by the taxpayer within 5 years of the effective date.

For more information and to apply for a Job Creation tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Research and Development (R&D) Tax Credit

Revenue's Bureau of Corporation Taxes administers the award of this tax credit to businesses and individuals performing

qualified research in Pennsylvania, to encourage businesses in the commonwealth to conduct research, especially research of a technological or scientific nature.

Qualified businesses, including pass through entities and individuals may apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Personal income tax

Guidelines for the Research and Development Tax Credit

- The tax credit must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is awarded before it can be passed through to its partners, shareholders or members.
- The tax credit can be sold or assigned. Refer to [Saleable or Assignable Tax Credits](#).
- A purchased or assigned tax credit may be applied to no more than 75 percent of the tax liability of the purchaser or assignee.
- The tax credit may not be carried back and is not refundable.
- The amount of the tax credit passed through to partners, shareholders and members is based on the percentage of income distribution from the entity receiving the tax credit.
- As of Jan. 1, 2005, the R & D tax credit can be applied to 100 percent of the recipient's liability. However, any R & D tax credit issued before 2005 may only be applied to 50 percent of the tax liability. See the guidelines under [Passing Through Tax Credit To Entity Owners](#).
- Any R & D tax credit issued before 2006 could be passed through and then carried over if not completely used in the year the tax credit was passed through. However, any R & D tax credit issued after Dec. 31, 2005 that is passed through must be used in the year the credit is passed through.
- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.

The entity claims the tax credit or passes it through to entity owners by submitting the claim form with the certification received from the Department of Revenue to:

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If this certification form is not received, the tax credit will not be applied to any tax accounts. The tax credit must be claimed by the taxpayer within 15 years of the effective date.

For more information and to apply for a Research & Development tax credit, visit Revenue's Online Customer Service Center at www.revenue.state.pa.us and complete form REV-545.

To sell or assign a Research & Development tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Film Production Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to individuals or companies that produce a feature film, television film, television talk or game show series, television commercial, television pilot or each episode of a television series intended as programming for a national audience.

Qualified businesses, including pass through entities and individuals may apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Personal income tax

Guidelines for the Film Production Tax Credit

- The tax credit must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is awarded before it can be passed through to its partners, shareholders or members.
- The tax credit may be applied to 100 percent of the entity's liability, or to 100 percent of the entity owners' liabilities.
- The tax credit can be sold or assigned. Refer to [Saleable or Assignable Tax Credits](#).
- A purchased or assigned tax credit may be applied to no more than 50 percent of the tax liability of the purchaser or assignee.
- The entity may carry over any unused tax credits to no more than the three succeeding taxable years.
- The tax credit may not be carried back and is not refundable.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit. The partner, shareholder or member must use the tax credit in the year it is passed through. See the guidelines under [Passing Through Tax Credit To Entity Owners](#).
- A taxpayer which claims a tax credit and fails to incur the amount of qualified film production expenses agreed to in section 1703-D(c)(3) for a film in that taxable year shall repay to the Commonwealth the

amount of the film production tax credit claimed under this article for the film.

- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.

For more information and to apply for a Film Production tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

To sell/assign the Film Production tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Organ and Bone Marrow Donor Tax Credit

Revenue's Bureau of Corporation Taxes administers the award of this tax credit to eligible businesses that provide paid leave of absences to employees for organ or bone marrow donation.

The amount of the tax credit is equal to the employee compensation paid during the leave of absence, the cost of temporary replacement help and any miscellaneous expenses authorized by regulation incurred with the leave of absence period.

Qualified businesses, including pass through entities can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Title insurance company shares tax
- Insurance gross premiums tax (excluding surplus lines, unauthorized, domestic/foreign marine)
- Personal income tax

Guidelines for the Organ and Bone Marrow Donor Tax Credit

- The entity decides if the tax credit will be applied towards corporation tax and/or passed through to its partners, shareholders or members.
- The tax credit may be applied to 100 percent of the entity's liability or to 100 percent of the entity owners' liabilities.
- The tax credit cannot be sold or assigned.
- The entity may carry over any unused tax credits to no more than the three succeeding taxable years.
- The tax credit may not be carried back and is not refundable.
- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.

- The Organ and Bone Marrow Donor tax credit expires at the end of 2010.

For more information and to apply for an Organ and Bone Marrow Donor tax credit, visit the Department of Revenue's website www.revenue.state.pa.us at and complete form REV-984.

Keystone Innovation Zone (KIZ) Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to businesses and individuals that create designated geographic zones to foster innovation and create entrepreneurial opportunities by aligning the combined resources of educational institutions and the private sector.

Qualified businesses, including pass through entities and individuals with business activity in a KIZ can apply this tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Personal income tax

Guidelines for the Keystone Innovation Zone Tax Credit

- The tax credit must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is awarded before it can be passed through to its partners, shareholders or members.
- The tax credit may be applied to 100 percent of the entity's liability or to 100 percent of the entity owners' liabilities.
- The tax credit may not be carried back and is not refundable.
- The tax credit can be sold or assigned. Refer to [Saleable or Assignable Tax Credits](#).
- A purchased or assigned tax credit may be applied to no more than 75 percent of the tax liability of the purchaser or assignee.
- The entity may carry over any unused tax credits to no more than the four succeeding taxable years. The partner, shareholder or member must use the tax credit in the year it is passed through.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit. This tax credit cannot be passed through using a claim form or a request to the Bureau of Corporation Taxes. An application to pass through the tax credit must be sent to Department of Community and Economic Development.

For more information, to apply for a Keystone Innovation Zone tax credit or to sell/assign/pass through a tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Resource Enhancement and Protection (REAP) Tax Credit

The program is administered by the State Conservation Commission (SCC) under the Department of Agriculture. The program allows farmers and businesses to earn tax credits in exchange for best management practices on agricultural operations that will enhance farm production and protect natural resources.

The REAP tax credit in many cases is granted directly to individual taxpayers and may be carried forward to future tax years for use by that individual. However, many individuals prefer to sell the REAP tax credit instead of carrying it forward. An individual receiving a REAP tax credit must wait a year after the tax credit is awarded.

Qualified businesses, including pass through entities and individuals can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Title insurance company shares tax
- Insurance gross premiums tax
- Personal income tax

For projects to be eligible for the tax credit, farms, farmers and sponsors must apply to the SCC. REAP tax credits can be used by the applicant for up to 15 years, and they are transferable and can be sold or assigned to other taxpayers.

Guidelines for the Resource Enhancement and Protection Tax Credit

- The tax credit must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is awarded before it can be passed through to its partners, shareholders or members.
- The tax credit can be sold or assigned. Refer to [Saleable or Assignable Tax Credits](#).
- A purchased or assigned tax credit may be applied to no more than 75 percent of the tax liability of the purchaser or assignee.
- The entity may carry over any unused tax credits to no more than the 15 succeeding taxable years.
- The tax credit may not be carried back and is not refundable.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit. The partner, shareholder or member must use the tax credit in the year it is passed through. See the guidelines under [Passing Through Tax Credit To Entity Owners](#).
- A business which claims a tax credit and fails to maintain a best management practice for the required period, the owner of the property upon which the project

exists shall return to the PA Department of Revenue the amount of the tax credit originally granted.

- The tax credit may be applied to 100 percent of the entity liability or to 100 percent of the entity owners' liabilities.
- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.

The entity claims the tax credit or passes it through to entity owners by submitting the claim form with the certification received from the Department of Revenue to:

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If this certification form is not received, the tax credit will not be applied to any tax accounts. The tax credit must be claimed by the taxpayer within 15 years of the effective date.

For more information, to apply for a Resource Enhancement and Protection tax credit or to sell/assign a tax credit, visit the Dept. of Agriculture's website at www.agriculture.state.pa.us or call 717-787-8821.

Neighborhood Assistance Program (NAP) Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to businesses and individuals that contribute to neighborhood organizations and engage in activities that promote community economic development in impoverished areas.

The NAP tax credit also includes the Enterprise Zone tax credit. All the same rules for passing through and selling/assigning tax credits apply to both programs.

Qualified businesses, including pass through entities and individuals can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/ foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Alternative bank shares tax
- Mutual thrift institutions tax
- Title insurance company shares tax
- Alternative title insurance companies tax
- Insurance gross premiums tax
- Excise tax on foreign corporations
- Personal income tax

Guidelines for the Neighborhood Assistance Program Tax Credit

- The tax credit must first be applied to the entity's corporate tax liability, if any, for the year in which the tax credit is awarded

before it can be passed through to its partners, shareholders or members.

- The tax credit can be sold or assigned. Refer to [Saleable or Assignable Tax Credits](#).
- A purchased or assigned tax credit may be applied to 100 percent of the tax liability of the purchaser or assignee.
- The entity may carry over any unused tax credits to no more than the five succeeding taxable years.
- The tax credit may not be carried back and is not refundable.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit. The partner, shareholder or member must use the tax credit in the year it is passed through. See the guidelines under [Passing Through Tax Credit To Entity Owners](#).
- Pennsylvania does not allow the deduction of certain expenses used to qualify for the Neighborhood Assistance Program tax credit. If the expenses were deducted in calculating federal-taxable income, the amount should be reported as a reduction in expenses on PA-20 S/PA-65 Schedule M, Part B, Section E, line f. Do not reduce Pennsylvania-taxable income by amounts paid to qualify for the tax credit.

- The tax credit may be applied to 100 percent of the entity liability or to 100 percent of the entity owners' liabilities.

For more information, to apply for a Neighborhood Assistance Program tax credit or to sell/assign a tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Strategic Development Area Job Creation Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to eligible businesses and individuals whose business activities contribute to economic development and foster growth in designated areas.

Job credits are also available for businesses to maintain and create new jobs in these areas. Tax credit is available for tax years beginning on or after Jan. 1, 2008.

Qualified businesses, including pass through entities and individuals can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Title insurance company shares tax

- Insurance gross premiums tax
 - Utilities gross receipts tax
 - Personal income tax
- ### Guidelines for the Strategic Development Area Job Creation Tax Credit

- The tax credit cannot be applied to more than 50 percent of the tax liability of the awardee or of the owner of a pass through entity.
- The entity decides if the tax credit will be applied towards corporation tax and/or passed through to its partners, shareholders or members.
- The tax credit cannot be sold or assigned.
- Any unused tax credits may not be carried back or carried over and are not refundable. The tax credit must be used in the taxable year of the contribution or the taxable year following the year of contribution.
- The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit. See the guidelines under [Passing Through Tax Credit To Entity Owners](#).
- The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.
- The tax credit expires Dec. 31, 2022.

For more information and to apply for a Strategic Development Area tax credit visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Educational Improvement Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to eligible businesses and individuals contributing to scholarship organizations (including pre-kindergarten scholarship organizations) and educational improvement organizations, in order to promote expanded educational opportunities for students in Pennsylvania.

Qualified businesses, including pass through entities and individuals can apply the tax credit against the following Pennsylvania state taxes:

- Capital stock/ foreign franchise tax
- Corporate net income tax
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Title insurance company shares tax
- Insurance gross premiums tax (excluding surplus lines, unauthorized, domestic/foreign marine)
- Personal income tax

Guidelines for the Educational Improvement Tax Credit

- The entity decides if the tax credit will be applied towards corporation tax and/or passed through to its partners, shareholders or members.
 - The tax credit cannot be sold or assigned.
 - Although any unused tax credits may not be carried forward, the entity may elect in writing prior to the due date of the entity's tax return to pass through all or a portion of the tax credit to its owners in the taxable year of the contribution or the taxable year immediately following the year of contributions.
 - To make an irrevocable election to pass through an Educational Improvement tax credit to partners, shareholders or members, a business should visit the Department of Revenue's website at www.revenue.state.pa.us and complete form REV-1123, Educational Improvement Tax Credit Election Form. The entity must complete a separate election form each year the tax credit is awarded and not used in whole or in part.
 - The election form REV-1123 must be sent to the Bureau of Corporation Taxes by the tax return filing due date (including extensions) of the entity. However, form REV-1123 must be sent separately from the entity's tax return.
 - The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit.
 - The tax credit may be applied to 100 percent of the entity's liability or 100 percent of the entity owners' liabilities.
 - Pennsylvania does not allow the deduction of certain expenses used to qualify for the Educational Improvement Tax Credit. If the expenses were deducted in calculating federal-taxable income, the amount should be reported as a reduction in expenses on PA-20S/PA-65 Schedule M, Part B, Section E, line f. Do not reduce Pennsylvania-taxable income by amounts paid to qualify for the tax credit.
 - The tax credit cannot be applied against any tax withheld by an employer from an employee under Article III of the Tax Reform Code.
 - There is no expiration date for the awarding of the Educational Improvement tax credit.
- For more information and to apply for an Educational Improvement tax credit, visit the Department of Community and Economic Development's website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

Line Instructions

Line 1 Employment Incentive Payments Credit

Although no new tax credits are being issued, the carry forward of unused tax credits is allowed. Enter the amount of any carry forward or unused tax credit.

Submit a completed PA Schedule W with all supporting documents.

Line 2 Job Creation Tax Credit

Enter the amount of tax credit that the Pennsylvania Department of Community and Economic Development approved on the certification sent to you. Pennsylvania does not require a reduction in expenses to calculate the Job Creation tax credit.

Line 3 Research and Development Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Revenue certification sent to you.

If the entity has corporate tax liability for the tax year in which the Research & Development tax credit is approved for use, the tax credit must be first applied to the corporate tax liability before it is passed through to the entity's owners.

Consequently if the entity has corporation tax liability, the amount of credit reported on Line 3 must be less the corporate tax liability.

Pennsylvania does not require a reduction in expenses to calculate the Research and Development tax credit. If the entity sells or assigns the Research and Development tax credit it is reported as a gain on PA-20S/PA-65 Schedule D.

Line 4 Film Production Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Revenue or Pennsylvania Department of Community and Economic Development certification sent to you.

If the entity has corporate tax liability for the tax year in which the Film Production tax credit is approved for use, the tax credit must be first applied to the corporate tax liability before it is passed through to the entity's owners.


Consequently if the entity has corporation tax liability, the amount of credit reported on Line 4 must be less the corporate tax liability.

Pennsylvania does not require a reduction in expenses to calculate the Film Production tax credit. If the entity sells or assigns the Film Production tax credit it is

reported as a gain on PA-20S/PA-65 Schedule D.

Line 5 Out-of-State Credits S Corporations Only

Certain S corporations are not taxed as S corporations (taxed as a C corporation) in other states or countries. In such cases an entity must account for taxes paid to other states or countries in order to claim the correct resident tax credit. Note a C corporation return must be submitted.

 Important. Only Pennsylvania resident shareholders can claim credit for taxes paid to other states or countries by the entity.

Calculate all other states' apportioned income using the Pennsylvania tax rate. The result of this calculation cannot exceed the tax paid to the other state. The Pennsylvania-apportioned income and the other states' apportioned income together cannot exceed 100 percent.

The C corporation from another state that is an S corporation for Pennsylvania reports on Line 5 the lesser of the amount of tax paid on the apportioned income as compared to the tax rate of Pennsylvania.

The entity then distributes the amount reported on Line 5 according to ownership percentage.

The amount of credit reported on Line 5 is \$1,500 because it is less than the amount of tax payable to Pennsylvania.

Example

Total income from everywhere	\$ 100.00
PA-Source income	25,000
Other state's income.....	75,000 x 2.00 percent (0.0200)
	= \$ 1,500
Other state's income	
Also taxed in Pennsylvania	75,000 x 3.07 percent (0.0307)
	= \$ 2,302
Lesser of the two	\$ 1,500

Line 6 Organ and Bone Marrow Donor Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Revenue certification sent to you. Pennsylvania does not require a reduction in expenses to calculate the Organ and Bone Marrow Donor tax credit.

Line 7 Keystone Innovation Zone Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Community and Economic Development certification sent to you.

If the entity has corporate tax liability for the tax year in which the Keystone Innovative Zone tax credit is approved for use, the tax credit must be first applied to the corporate tax liability before it is passed through to the entity's owners.

Consequently if the entity has corporation tax liability, the amount of credit reported on Line 7 must be less the corporate tax liability.

Pennsylvania does not require a reduction in expenses to calculate the Film Production tax credit. If the entity sells or assigns the Film Production tax credit it is reported as a gain on PA-20S/PA-65 Schedule D.

Line 8 Resource Enhancement and Protection Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Revenue certification sent to you.

If the entity has corporate tax liability for the tax year in which the Resource Enhancement and Protection tax credit is approved for use, the tax credit must be first applied to the corporate tax liability before it is passed through to the entity's owners.

Consequently if the entity has corporation tax liability, the amount of credit reported on Line 8 must be less the corporate tax liability.

Pennsylvania does not require a reduction in expenses to calculate the Resource Enhancement and Protection tax credit. If the entity sells or assigns the Resource Enhancement and Protection tax credit it is reported as a gain on PA-20S/PA-65 Schedule D.

Line 9 Neighborhood Assistance Program Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Community and Economic Development certification sent to you.

If the entity has corporate tax liability for the tax year in which the Neighborhood Assistance Program tax credit is approved for use, the tax credit must be first applied to the corporate tax liability before it is passed through to the entity's owners.

Consequently if the entity has corporation tax liability, the amount of credit reported on Line 9 must be less the corporate tax liability.

Pennsylvania does not allow a deduction for contributions made to calculate the Neighborhood Assistance Program Tax Credit. If the expenses were deducted in calculating federal-taxable income, the amount should be reported as a reduction in expenses on PA-20S/PA-65 Schedule M, Section E, Line f. Do not reduce Pennsylvania-taxable income by amounts paid to qualify for the tax credit.

If the entity sells or assigns the Neighborhood Assistance Program Tax Credit it is reported as a gain on PA-20S/PA-65 Schedule D.

Line 10 Strategic Development Area Jobs Creation Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Community and Economic Development certification sent to you. Pennsylvania does not require a reduction in expenses to calculate the Strategic Development Area Jobs Creation tax credit.

Line 11 Educational Improvement Tax Credit

Enter the amount of tax credit from the Pennsylvania Department of Community and Economic Development certification sent to you.

Pennsylvania does not allow a deduction for contributions made to calculate the Educational Improvement Tax Credit. If the expenses were deducted in calculating federal-taxable income, the amount should be reported as a reduction in expenses on PA-20S/PA-65 Schedule M, Section E, Line f. Do not reduce Pennsylvania-taxable income by amounts paid to qualify for the tax credit.

Line 12 Total Pennsylvania Other Credits

Add Lines 1 through 11. Enter the total credits here and on the PA-20S/PA-65 Information Return, Part V, Line 13a.