

# Instructions for PA-20S/PA-65 Schedule OC

Other Credits

## WHAT'S NEW

The Organ & Bone Marrow Tax Credit has been removed from the Schedule OC.

## GENERAL INFORMATION

### PURPOSE OF SCHEDULE

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.

### 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-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. 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 OR ASSIGNABLE TAX CREDITS

The saleable restricted tax credits include the following:

Credit Program	Sale Provision
Film Production Tax Credit Program	yes
Historic Preservation Tax Credit	yes
Job Creation Tax Credit Program	affiliate entity only
Keystone Innovation Zone	yes
Keystone Special Development Zone Program	yes
Neighborhood Assistance Program	yes
Pennsylvania Research Manufacturing Tax Credit	yes
Research and Development Program	yes
Resource Enhancement and Protection Program	yes

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 2011-03 on the Department of Revenue's website, [www.revenue.state.pa.us](http://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 a 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 NRK-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 following address listing the 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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PO BOX 280701  
HARRISBURG PA 17128-0701

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](http://www.newpa.com) or call DCED Customer Service at 1-800-379-748.

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.

## **TAX CREDITS**

### **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) administers 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 carry forward of unused tax credit against the following Pennsylvania state taxes:

- Corporate net income tax
- Bank shares tax
- Title insurance and trust company shares tax
- Mutual thrift institutions 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, visit the Department of Revenue's website at [www.revenue.state.pa.us](http://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 tax credits are authorized as single-year or multiple-year credits. If the business is a small business (fewer than 100 employees), it needs to increase employment by 10 percent within three years. The amount of tax credit for each job is \$1,000. However, if an unemployed individual (for at least 60 days) is hired, the credit is increased to \$2,500. 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 shares tax
- Mutual thrift institutions tax
- Insurance gross premiums tax
- Utilities gross receipts tax
- Title insurance and trust 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.
- Credit must be claimed by the taxpayer within five years of the effective date on the certificate issued by DCED.
- The entity may claim the tax credit for each new job for a one-, two- or three-year period, except no tax credit may be claimed for more than five years from the date the entity first submits a Job Creation Tax Credit certificate to the Department of Revenue.
- Unused tax credits expire five years from the date the entity submits a Job Creation Tax Credit certificate to the Department of Revenue.
- Tax credits dated July 1, 2001, or later can be assigned (in whole or part) to an entity holding less than a majority of the voting common stock of another related company, or in which both companies are subsidiaries of a third company as defined in IRC §1504 as an affiliated entity.
- Tax credits may not be sold or assigned to any other entities with no relationship or ownership ties to the entity selling or assigning the credit as defined in IRC §1504 as an unaffiliated entity.
- The tax credit can be used to pay liabilities prior to the effective date on the certificate issued by DCED with interest imposed from original return due date to effective date of credit.
- 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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HARRISBURG PA 17128-0701

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, to apply for a Job Creation tax credit, visit the Department of Community and Economic Development's website at [www.newpa.com](http://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.

Effective July 2, 2012, the sunset date has been removed, the cap on the credit is reestablished at \$55 million a year and \$11 million of the credit will be used by qualifying small business.

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
- 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.
- Buyer shall immediately claim the credit in the taxable year in which sale or assignment is made.
- 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. Refer to [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 may pass the tax credit through to entity owners by submitting the claim form with the certification received from the Department of Revenue to:

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BUREAU OF CORPORATION TAXES  
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For more information, to apply for a Research & Development tax credit, visit Revenue's Online Customer Service Center at [www.revenue.state.pa.us](http://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](http://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
- Bank shares tax
- Insurance gross premiums tax (excluding surplus lines, unauthorized, domestic/foreign marine)
- 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. If the credit was purchased in 2013 it can be carried forward to 2014. If the credit was purchased in 2014, it can be carried forward to 2015.

- The entity may carry forward 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. Refer to [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, to apply for a Film Production tax credit, visit the Department of Community and Economic Development's website at [www.newpa.com](http://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](http://www.newpa.com) or call the DCED Customer Service Center at 1-800-379-7448.

### **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 forward 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](http://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 before selling it.

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 shares tax
- Mutual thrift institutions tax
- Title insurance and trust 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 forward 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. Refer to [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 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](http://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.

DCED will prioritize credit applications involving charitable food programs and establish a credit cap of \$18 million.

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 shares tax
- Mutual thrift institutions tax
- Title insurance and trust company shares 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 forward 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. Refer to [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](http://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.

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 shares tax
- Mutual thrift institutions tax
- Title insurance and trust 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, to apply for a Strategic Development Area tax credit visit the Department of Community and Economic Development's website at [www.newpa.com](http://www.newpa.com) or call the DCED Customer Service Center at 1-800-379-7448.

## EDUCATIONAL IMPROVEMENT TAX CREDIT (EITC)

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 shares tax
- Mutual thrift institutions tax
- Title insurance and trust company shares tax
- Insurance gross premiums tax (unauthorized, domestic/foreign marine)
- Surplus lines tax
- 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](http://www.revenue.state.pa.us) and complete REV-1123, Educational Improvement Tax Credit Election Form. The entity must complete a separate REV-1123 each year the tax credit is awarded and not used in whole or in part.
- REV-1123 must be sent to the Revenue's Bureau of Corporation Taxes by the tax return filing due date (including extensions) of the entity. However, 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](http://www.newpa.com) or call the DCED Customer Service Center at 1-800-379-7448.

### **KEYSTONE SPECIAL DEVELOPMENT ZONE TAX CREDIT**

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit. Applications must be submitted to the DCED by Feb.1 of the year for the previous calendar year. Eligibility is based on businesses that build structures on and then employ additional workers in/on land designated as a special industrial area in the Land Recycling and Environment Remediation Standards Act of 1995. Land must have no permanent vertical structures attached prior to July 1, 2011. Credit is \$2,100 for each full-time or full-time equivalent (35 hours or more) new employee working 90 percent within a keystone special development zone over and above each full-time or full-time equivalent employee working prior to Jan. 1, 2012.

For more information, to apply for a Keystone Special Development Zone Tax Credit, visit the Department of Community and Economic Development's website at [www.newpa.com](http://www.newpa.com) or call the DCED Customer Service Center at 1-800-379-7448.

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 shares tax
- Mutual thrift institutions tax
- Title insurance and trust company shares tax
- Personal income tax

### **Guidelines for the Keystone Special Development Zone Tax Credit**

- The tax credit can be earned for ten years of a 15-year period beginning July 1, 2012 through June 30, 2026.
- The entity decides if the tax credit will be applied towards corporation tax and/or passed through to its partners, members or shareholders (owners).
- The tax credit may be carried forward, sold, assigned and is not refundable.
- Purchased or assigned tax credits may be applied to no more than 75 percent of the tax liability of the purchaser or assignee.
- The purchaser or assignee shall claim the tax credit in the year in which the purchase or assignment is made.
- The entity can pass through in whole or part unused tax credits to its owners. The amount of the tax credit passed through to owners is based on the percentage of income distribution from the entity receiving the tax credit. The owner must use the tax credit in the year it is passed through.
- The applicant/awardee cannot be an employer constructing the improvements in the Keystone Special Development Zone.
- An employer may not claim both Keystone Opportunity Zone and Keystone Special Development Zone tax credit.
- If the company fails to maintain operations for five years from submission of certificate to the Department of Revenue, the company shall be required to refund the total amount of tax credits granted, with interest and a

penalty of 20 percent of the amount of credits granted.



**NOTE:** Do not pass through more than is needed to entity owners for this or any other restricted tax credit and do not purchase or assign more than can be used of this tax credit or any other restricted tax credit for purchase or assignment.

### **OPPORTUNITY SCHOLARSHIP TAX CREDIT**

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to businesses who contribute to IRC §501(c) opportunity scholarship organizations approved by DCED. Scholarship organizations can provide scholarships to eligible students living within the boundary of the lowest-achieving 15 percent of elementary and lowest-achieving 15 percent of secondary schools as published by the Department of Education.

The program will give low- and moderate-income students in low-achieving schools the option to obtain a scholarship to attend a participating public or nonpublic school.

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

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

For more information, to apply for an Opportunity Scholarship Tax Credit, or to pass-through a credit, visit the DCED's website at [www.newpa.com](http://www.newpa.com), or call the DCED Customer Service Center at 1-800-379-7448.

For tax questions, please contact the Department of Revenue at 717-772-3896.

### **Guidelines for the Educational Opportunity Scholarship 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.
- Credit cannot be applied for any tax withheld by an employer from an employee.
- To make an irrevocable election to pass through an Opportunity Scholarship tax credit to partners, shareholders or members, a business should visit the Department of Revenue's website at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) and complete REV-1123, Educational Improvement Tax Credit Election Form, which is also used for the Educational Improvement Tax Credit program. The entity must complete a separate REV-1123 each year the tax credit is awarded and not used in whole or in part.
- REV-1123 must be sent to the Revenue's Bureau of Corporation Taxes by the tax return filing due date (including extensions) of the entity. However, 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 liability or 100 percent of the entity owners' liabilities.

### **HISTORIC PRESERVATION INCENTIVE TAX CREDIT**

Effective July 2, 2013, this program provides tax credits for qualified taxpayers to rehabilitate a qualified historic structure that is approved by the PA Historical & Museum Commission.

Qualified taxpayers may apply the credit against the following Pennsylvania state taxes:

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

For more information, to apply for a Historic Preservation Tax Credit or to sell/assign/pass-through a credit, visit the DCED's website at [www.newpa.com](http://www.newpa.com), or call the DCED Customer Service Center at 1-800-379-7448.

For tax questions, please contact the Department of Revenue at 717-772-3896.

### **Guidelines for the Historic Preservation Incentive Tax Credit**

- The tax credit shall be applied against the qualified entities liability for the current taxable year as of the date on which the tax credit was issued 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 forward any unused tax credits to no more than the seven 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. Refer to [Passing Through Tax Credit To Entity Owners](#).

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

### COMMUNITY-BASED SERVICES TAX CREDIT

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit. Effective July 1, 2013, this program provides tax credits for contributions made by business firms to non-profit providers of community-based services to individuals with intellectual disabilities or mental illness.

Qualified businesses may apply the credit against the following Pennsylvania state taxes:

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

For more information or to apply for a Community-Based Services Tax Credit or to sell/assign/pass-through a credit, visit the DCED's website at [www.newpa.com](http://www.newpa.com), or call the DCED Customer Service Center at 1-800-379-7448.

For tax questions, please contact the Department of Revenue at 717-772-3896.

### Guidelines for the Community-Based Services Tax Credit

- The tax credit shall be applied against the qualified entities liability for the current taxable year as of the date on which the credit was issued.
- The tax credit cannot be sold or assigned or 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.
- The tax credit may be applied to 100 percent of the entity's liability.

## COMPLETING PA SCHEDULE OC

### Business Name

Enter the complete name of the entity or business as shown on the PA-20S/PA-65 Information Return.

### FEIN

Enter the nine-digit federal employer identification number (FEIN) of the entity or business as shown on the PA-20S/PA-65 Information Return.

### 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 of 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 corporate 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 corporate 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.

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

To calculate the amount of Pennsylvania resident credit, multiply the amount of income apportioned to the other state by the Pennsylvania personal income tax rate of 3.07 percent. The credit is the lesser of this calculated amount or the actual amount of tax paid to the other state.

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.

<b>EXAMPLE</b>	
Total income from everywhere	<b>\$100,000</b>
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

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

**LINE 6**

**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 Keystone Innovation Zone tax credit. If the entity sells or assigns the Keystone Innovation Zone tax credit it is reported as a gain on PA-20S/PA-65 Schedule D.

**LINE 7**

**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 8**

**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 9**

**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 10**

**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 11**

**Keystone Special Development Zone 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 Keystone Special Development Zone Tax Credit.

**LINE 12**

**Opportunity Scholarship Tax Credit**

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

**LINE 13**

**Historic Preservation Incentive Tax Credit**

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

**LINE 14**

**Community-Based Services Tax Credit**

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

**LINE 15**

**Other Restricted Credits Not Listed Above**

Restricted credits are tax credits which are included in Pennsylvania legislation and must be applied for with specific Pennsylvania agencies. If a restricted credit is not shown on PA-20S/PA-65 Schedule OC, enter the type of credit in the space provided and the amount of credit received from the awarding Pennsylvania government agency.

**LINE 16**

**Total Pennsylvania Other Credits**

Add Lines 1 through 15. Enter the total credits here and on the PA-20S/PA-65 Information Return, Part V, Line 13a.