

## Instructions for PA-20S/PA-65 Schedule H-Corp

### Corporate Partner Apportioned Business/Income (Loss)

PA-20S/PA-65 Schedule H-Corp (08-15)

#### GENERAL INFORMATION

##### Purpose of Schedule

The PA-20S/PA-65 Schedule H-Corp is for information purposes only. Partnerships are required to complete this schedule and provide a copy of the PA-20S/PA-65 Schedule H-Corp to all partners who are PA S corporations, partnerships, limited liability companies (LLC) and C corporations. All amounts not in agreement with information on federal Form 1065 must be reconciled.

 **Important.** Railroad, truck, bus, airline, pipeline, natural gas or water transportation companies do not use the single sales factor approach shown on PA-20S/PA-65 Schedule H-Corp. Rather, they use a special apportionment at the bottom of the schedule.

For the corporate partner, the partnership uses PA-20S/PA-65 Schedule H-Corp to calculate the apportionment for Line 14 of the PA-20S/PA-65 Schedule CP if they are required to file a PA-65 Corp for nonfiling C corporation(s).

For the partner who is a partnership, the PA-20S/PA-65 Schedule H-Corp ensures that if the partnership, as an owner, has corporate partners, the corporate partners will have the necessary documentation for apportionment to calculate PA corporate net income tax, capital stock/foreign franchise tax.

For a limited liability company and PA S corporation, the PA-20S/PA-65 Schedule H-Corp is used to calculate capital stock/foreign franchise tax.

The PA-20S/PA-65 Schedule H-Corp sales factor for this entity should be included with the other respective sales factors at the corporate level to determine the applicable corporate net income tax associated with the distributive share from the entity.

 **Important.** Do not use PA-20S/PA-65 Schedule H-Corp to arrive at the calculations for non-corporate owner's income.

#### APPORTIONMENT FOR TAX TYPE

Certain types of entities – such as limited liability companies and business trusts – are generally subject to the capital stock/foreign franchise tax even though they may not be subject to the corporate net income tax consistent with their federal income tax classification as a partnership or disregarded entity.

In situations where a corporate taxpayer has an investment in a limited liability company or other business entity subject to capital stock/foreign franchise tax but not subject to corporate net income tax, the apportionment factors used in the calculation of corporate net income tax will include the sales of the limited liability company or business trust. However, the activity of the limited liability company will not be included in the apportionment factors used for the calculation of capital stock/foreign franchise tax.

Accordingly, a limited liability company or business trust that is subject to the capital stock/foreign franchise tax but not subject to the corporate net income tax, should check the box for "Corporate Net Income Tax Only" when reporting its apportionment factors to corporate partners and provide a second PA-20S/PA-65 Schedule H-Corp marked "Capital Stock/Foreign Franchise Tax Only" reporting zeros for each factor.

A partnership with investments in these types of entities is also required to provide two PA-20S/PA-65 Schedules H-Corp: one for "Corporate Net Income Tax Purposes Only" including the activity of the underlying limited liability companies and business trusts, and another for "Capital Stock/Foreign Franchise Tax Only" excluding the property, payroll and sales of those entities.

##### Non Filing Corporate Partner

If the partnership is required to withhold corporate net income tax for nonfiling corporate partner(s), it must complete PA-20S/PA-65 Schedule CP. The apportionment figure used to calculate the corporate net income tax withholding should be the Pennsylvania apportionment figure derived from PA-20S/PA-65 Schedule H-Corp prepared for the corporate net income tax.

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#### APPORTIONED BUSINESS INCOME (LOSS) FOR CORPORATE PARTNERS ONLY

If the partnership derives business income from sources within and outside Pennsylvania or totally within Pennsylvania, complete this form.

The entity calculates a decimal figure from a formula, which consists of a single sales factor apportionment only.

 **Note.** A partnership with no Pennsylvania activity (no Pennsylvania-source income and/or no Pennsylvania assets) is still required to complete the PA-20S/PA-65 Schedule H-Corp showing the total property, payroll and sale of the partnership.

When completing this form, enter the name, (FEIN) federal employer identification number and date the taxable period ended for the partnership.

#### COMPLETING PA SCHEDULE H-CORP

##### Apportionment for (Tax Type)

Check the appropriate box for the type of tax the entity is reporting.

See Apportionment for Tax Type.

##### 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.

## Revenue ID

The Revenue ID is a unique, 10-digit number assigned by the Department of Revenue to replace the seven-digit Tax Account ID number. The seven-digit Tax Account ID number may be used if the 10-digit Revenue ID number is not known. One of these numbers must be provided.

 **IMPORTANT:** If using the seven-digit Tax Account ID number, left justify and do not use additional zeros to fill the space. This is not the same number as the seven-digit Entity ID issued by the Department of State.

## TABLE INSTRUCTIONS

### APPORTIONMENT OF TAXABLE INCOME

For tax years beginning on or after Jan. 1, 2013, unless the taxpayer is required to use a special apportionment method, the apportionment factor used in the calculation of the PA taxable income will consist only of sales attributable to PA divided by total sales of the taxpayer.

 **Note.** This only applies to the calculation of the corporate net income tax.

### APPORTIONMENT OF CAPITAL STOCK AND FOREIGN FRANCHISE TAX

A corporation is permitted to calculate and pay its capital stock/foreign franchise tax by employing the three-factor apportionment. A domestic or foreign corporation can use the three-factor apportionment only if it qualifies. To qualify, the corporation must be taxable outside Pennsylvania and be transacting business outside the commonwealth.

 **Important.** When calculating capital stock/foreign franchise tax, the three factors are equally weighted.

### THREE-FACTOR APPORTIONMENT

Table 1, Table 2 and Table 3 are used to calculate the three-factor apportionment for Capital Stock/foreign Franchise tax.

## TABLE 1

### Property Factor (Real Estate and Tangible Property)

## LINES 1A AND 1B

### Property Factor

The numerator is the average value of the taxpayer's real and tangible personal property, owned and used or rented and used, in Pennsylvania during the taxable period.

The denominator is the average value of all the taxpayer's real and tangible personal property, owned and used or rented and used, during the taxable period.

Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from subrentals.

The average value of property is determined by averaging the values at the beginning and ending of the taxable period. The Pennsylvania Department of Revenue may require the averaging of monthly or daily values during the taxable period if reasonably required to properly reflect the average value of the taxpayer's property.

A corporation's ownership interest in a partnership or other unincorporated entity (hereinafter referred to as a partnership) shall be included in the apportionment fraction as a direct interest of the corporation in the assets of the partnership. A portion of the partnership's real and personal property, owned and used or rented and used during the taxable period, to the extent of the taxpayer's interest in the partnership, shall be included in the numerator and denominator of the taxpayer's property factor.

The owned and used property should be reflected on the Partner's Share of Property Owned by Partnerships line of Table 1. The rented and used property should be reflected on the line titled Partnership Tangible Property Rented.

A complete copy of the partnership's federal Form 1065 or PA Schedule H-Corp issued by the partnership along with a detailed description of all partnership activity must be attached to the Insert Sheet (RCT-106). Amounts applicable to an ownership interest in an LLC or business trust that is a part-

nership or disregarded entity for federal income tax purposes must be included only for PA corporate net income tax. The value of construction in progress included in any amounts reported on Table 1, Property Factor, must be entered on the Less Construction In Progress (if included above) line.

## TABLE 2

### Payroll Factor (Wages, Salaries, Commissions, and Other Compensation)

## LINES 2A AND 2B

### Payroll Factor

The numerator is the total amount paid in Pennsylvania during the tax period by the taxpayer for compensation, and the denominator is the total compensation paid everywhere during the tax period. If the taxpayer has adopted the accrual method of accounting, all compensation properly accrued shall be deemed paid. Compensation is paid in this state if:

- a. The individual's service is performed entirely inside Pennsylvania;
- b. The individual's service is performed inside and outside Pennsylvania, but the service performed outside the state is incidental to the individual's service inside the state; or
- c.
  1. Some of the service is performed inside the state and the base of operations is inside the state;
  2. If there is no base of operations, the place from which the service is directed or controlled is inside the state; or
  3. The base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is inside this state.

Compensation means wages, salaries, commissions and any other form of remuneration paid to employees for personal service.

The partnership's payroll shall be included in the denominator of the taxpayer's payroll factor to the extent of the taxpayer's ownership interest in the partnership. The amount of such payroll attributable to Pennsylvania shall be

included in the numerator of the payroll factor. These figures should be reflected on the Partner's Share of Payroll from Partnerships line of Table 2. Amounts applicable to an ownership interest in an LLC or business trust that is a partnership or disregarded entity for federal income tax purposes must be included only for PA corporate net income tax.

**TABLE 3**

**Sales Factor (Sales)**

**LINES 3A AND 3B**

**CORPORATE NET INCOME TAX APPORTIONMENT**

**Sales Factor**

The numerator is the total gross receipts of the taxpayer inside this state during the tax period, and the denominator is the total gross receipts of the taxpayer everywhere during the taxable period. Gross receipts are net of returns and allowances. The partnership's gross receipts shall be included in the denominator of the taxpayer's sales factor to the extent of the taxpayer's ownership interest in the partnership. The amount of such gross receipts attributable to Pennsylvania shall be included in the numerator of the sales factor.

Dividends and income from U.S. securities and receipts from sales of securities (unless a securities dealer) must be excluded from both the numerator and denominator of the sales factor.

For information on market sourcing and the sourcing of the sales of service to the Commonwealth of Pennsylvania, see Corporation Tax Information Notice 2014-01 dated December 12, 2014.

**PENNSYLVANIA APPORTIONMENT**

Divide Line 3A by Line 3B from Table 3 of the Sales Factor only. Calculate to six decimal places.

**⚠ Important.** Only the sales factor applies to calculating the apportionment factor for corporate net income tax purposes. It represents 100 percent of the corporate net income tax apportionment. However, all three factors continue to apply for purposes of the capital stock/foreign franchise tax.

**Example**

Transportation of Persons PA Rev Miles \$ 40,000	X	Receipts for Transportation of persons \$ 400,000	=	.040000
<u>Total Rev Miles \$400,000</u>		<u>Total Receipts \$1,000,000</u>		
Transportation of Property PA Rev Miles \$ 120,000	X	Receipts for Transportation of property \$ 600,000	=	.120000
<u>Total Rev Miles \$600,000</u>		<u>Total Receipts \$1,000,000</u>		

Company A's apportionment for the current tax period is 0.040000 + 0.120000 or 0.160000.

**SPECIAL APPORTIONMENT TO BE COMPLETED ONLY BY RAILROAD, TRUCK, BUS, AIRLINE, PIPELINE OR NATURAL GAS, AND WATER TRANSPORTATION ENTITIES**

Enter as (A) the numerator, which is the total revenue miles in Pennsylvania. Enter as (B) the denominator, which are the total revenue miles everywhere. Divide and enter the result to six decimal places.

**• Railroad, Truck, Bus or Airline Entities**

All business income of railroad, truck, bus or airline entities is apportioned to Pennsylvania by multiplying the income by a fraction. The numerator of the fraction is the taxpayer's total revenue miles within Pennsylvania during the taxable period. The denominator of the fraction is the total revenue miles of the taxpayer everywhere during the taxable period. A revenue mile is the average receipts derived from the transportation by the taxpayer of persons or property one mile.

Where revenue miles are derived from the transportation of persons and property, the revenue mile fractions attributable to each class of transportation are calculated separately. The average of the two fractions, weighted in accordance with the ratio of total receipts from each class of transportation everywhere to total receipts from both such classes of transportation everywhere, is used to apportion business income to Pennsylvania.

**Example.** Company A is in the business of transporting persons and property. During the current tax period Company A reported receipts of \$1 million, \$400,000 from transportation of persons and \$600,000 from the transportation of property. Company A's Pennsylvania revenue miles for the transportation of persons is \$40,000. The Pennsylvania revenue miles from the transportation of property are \$120,000.

The special apportionment fraction for Company A for the current tax period is calculated as shown above.

**• Pipeline or Natural Gas Entities**

All business income of pipeline entities is apportioned to Pennsylvania by multiplying the income by a fraction. The numerator of the fraction is the revenue ton miles, revenue barrel miles, or revenue cubic feet miles of the taxpayer in Pennsylvania during the tax period. The denominator is the revenue ton miles, revenue barrel miles, or revenue cubic feet miles of the taxpayer everywhere during the tax period. A revenue ton mile, revenue barrel mile, or revenue cubic feet mile means, respectively, the receipts derived from the transportation by the taxpayer of one ton of solid property, one barrel of liquid property or one cubic foot of gaseous property transported one mile.

All business income of natural gas entities subject to regulation by the Federal Power Commission or by the Pennsylvania Public Utility Commission is apportioned to Pennsylvania by multiplying the income by a fraction. The numerator of the fraction is the cubic foot capacity of the taxpayer's pipelines in Pennsylvania. The denominator of the fraction is the cubic foot capacity of the

taxpayer's pipelines everywhere, at the end of the taxable period. Determine the cubic foot capacity of a pipeline by multiplying the square of its radius (in feet) by its length (in feet).

- **Water Transportation Entities Operating on High Seas**

All business income of water transportation entities operating on high seas is apportioned to Pennsylvania by multiplying the business income by a fraction. The numerator of the fraction is the number of port days spent inside Pennsylvania. The denominator of the fraction is the total number of port days spent outside and inside Pennsylvania.

Port days does not include periods when ships are not in use because of strikes, withheld from service for repair or out of use because of seasonal reduction of services. Days in port are calculated by dividing the aggregate number of hours in all ports by 24.

- **Water Transportation Entities Operating on Inland Waters**

All business income of water transportation entities operating on inland waters are apportioned to Pennsylvania by multiplying the business income by a fraction.

The numerator of the fraction is the taxpayer's total revenue miles within Pennsylvania during the taxable period. The denominator of the fraction is the total revenue miles of the taxpayer everywhere during the taxable period. In the determination of revenue miles, one-half of the mileage of all navigable waterways bordering Pennsylvania and another state shall be considered Pennsylvania miles. A revenue mile means the revenue receipts derived from the transportation by the taxpayer of persons or property one mile.