PENNSYLVANIA PERSONAL INCOME TAX GUIDE

CHAPTER 17: CREDITS

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pennsylvania
DEPARTMENT OF REVENUE

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CHAPTER 17: CREDITS

I. RESIDENT CREDIT

A. Resident Credit for Tax Paid to Another State or Country

A Pennsylvania resident taxpayer who has income subject to both Pennsylvania personal income tax ("PA PIT") and the income or wage tax of another state or country on the same income during the same taxable year, can claim all or a portion of the tax paid to the other state or country as a credit against his or her Pennsylvania personal income tax. However, Act 2013-52 effective Jan. 1, 2014, eliminates the resident credit for personal income tax paid to foreign countries.

B. Amount of Credit

The amount of the allowable credit is the lower of:

1. The actual amount of tax paid to the other state or country for the same taxable year on income subject to Pennsylvania income tax and source-able to the other state or country using Pennsylvania sourcing rules; or

2. The product of the Pennsylvania personal income tax rate for the tax year in which the credit is being claimed multiplied by the amount of income subject to Pennsylvania income tax and source-able to the other state or country using Pennsylvania sourcing rules.

   Note. Pennsylvania does not permit a resident credit for income taxes or wage taxes paid to another state or country on Pennsylvania source income or income from intangible sources that cannot be sourced to any state or country using Pennsylvania sourcing rules.

C. PA-40 Schedules G-R, G-S and G-L

If a taxpayer claims a credit for taxes paid to other states or countries, the taxpayer must complete *PA-40 Schedule G-S or G-L.* The taxpayer must also submit with the *PA-40, Individual Income Tax Return* a copy of the income tax return (see 61 PA Code §111.5) and W-2(s) filed with the other state or country. The credit will be disallowed if the taxpayer does not provide the tax return from the state listed on *PA-40 Schedule G-S or G-L*, Line 1. Individual taxpayers submitting PA-40 Schedule G-S or G-L must also submit PA-40 Schedule G-R; however, this schedule does not apply to fiduciary taxpayers or pass through entities.

If the taxpayer is claiming a credit for taxes paid in more than one state or country (not including Pennsylvania), the taxpayer must complete a *PA-40 Schedule G-S or G-L* for each state or country and list all items on PA-40 Schedule G-R. The credits from each schedule should be totaled and the total entered on the *PA-40, Individual Income Tax Return*, Line 22.

In the event that more than one state or country imposes tax on income subject to Pennsylvania income tax, the credit may not be claimed twice. The credit is limited to a maximum 3.07%.

D. Grantor Trusts

Pennsylvania does not follow Federal grantor trust rules. For federal income tax purposes, the income of the grantor trust is treated as income of the settlor. Income of a grantor trust is taxable income to the trust for Pennsylvania purposes. Because of this discrepancy, when a Pennsylvania resident trust receives income sourced to another state that follows a federal income tax base, Pennsylvania will tax the income as income of the grantor trust and the other state will tax the income as income of the trust settlor. Because the trust and the settlor are different taxpayers for Pennsylvania income tax purposes, the trust cannot claim a resident credit for taxes paid to the other state on the trust income.

E. Compensation Earned in Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia by Residents

A resident credit will not be granted for taxes paid to Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia on compensation earned in those states. These states do not impose tax on compensation of Pennsylvania residents.

Note**.** Ohio Reciprocal Compensation Agreement **-** Commencing Jan. 1, 2004, remuneration paid to a Pennsylvania resident 20 percent shareholder-employee of an Ohio S corporation for services performed in Ohio is not covered by the Pennsylvania/Ohio Reciprocal Compensation Agreement and is (can be) subject to tax in Ohio.

F. Tax Paid to Political Subdivisions of Other States

No resident credit will be granted for taxes paid to political subdivisions of other states or countries. A taxpayer may, however, be allowed to claim a credit against his or her local income tax for taxes paid on earned income to political subdivisions outside Pennsylvania.

G. Foreign Taxes Paid

The taxpayer must submit a copy of the federal Form 1116, Foreign Tax Credit plus a copy of the statement showing the amount of foreign income and any taxes withheld at the source. Even if the taxpayer does not claim the credit on the federal tax return, the department wants the federal schedule. The department does not have a Pennsylvania schedule for this specific situation.

Note**.** Act 2013-52 effective Jan. 1, 2014, eliminates the resident credit for personal income tax paid to foreign countries.

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II. TAX CREDITS CLAIMED ON SCHEDULE OC

A. General Information

These 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.

Following is general information regarding tax credits:

1. Restricted tax credits claimed on Line 23 of the PA-40, Individual Income Tax Return or Line 14 of the PA-41, Fiduciary Income Tax Return are listed on PA-40 Schedule OC.

2. Married taxpayers who claim PA-40 Schedule OC tax credits must file separate returns, even if both taxpayers claim the tax credits on their returns. Joint filing is only permitted when the tax credit is claimed by the primary taxpayer, and the secondary taxpayer has no taxable income to report on the return.

3. All of the restricted tax credits can be claimed against any class of income.

4. Restricted tax credits are nonrefundable. If applicable, other nonrefundable credits must be applied to the account before restricted credits: resident credit first, followed by tax forgiveness.

   Credits claimed on Schedule OC for an individual taxpayer on his or her PA-40 cannot exceed the tax liability less the resident credit and/or tax forgiveness credit. For example, a taxpayer with a $4,000 tax liability who receives a $3,000 resident tax credit cannot claim credits on Schedule OC that exceed $1,000. If the credits exceed $1,000, a reduction in the amount of the Schedule OC credits will be required.

5. 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 tax year.

6. 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.

7. Generally, Pennsylvania does not limit the deduction of expenses related to the qualifications for a tax credit. However, Pennsylvania does not allow the deduction of certain expenses used to qualify for the Neighborhood Assistance Program (NAP) and the Educational Improvement Tax Credit (EITC).

For additional information, see the specific section for these tax credits.

B. Saleable or 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.

C. Personal Income Tax Reporting Requirements for Sale of Restricted Tax Credits

1. 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-40 Schedule D, PA-41 Schedule D or PA-20S/PA-65 Schedule D. The taxpayer's cost basis in the restricted tax credit sold is usually $0 as the 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 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.

2. 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 on PA-40

Schedule D, PA-41 Schedule D or 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 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 credit cost and no separate reporting of the loss on unused tax credits.

A taxpayer who sells a tax credit and/or offsets their tax liability with a purchased or assigned tax credit does not need to send documentation of sale or assignment with their Pennsylvania tax return. However, the department reserves the right to request this documentation if needed.

Individual taxpayers are reminded that joint tax returns cannot be filed if restricted tax credits are claimed. A separately filed PA-40, Individual Income Tax Return for the taxpayer and spouse are required to report the use of restricted tax credits. Restricted tax credits purchased and used by taxpayers should also have code “PA” entered in the credit description code box for the appropriate line on the PA-40 Schedule OC.

D. Passing Through Tax Credit 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, prior to being passed through to its owners. If the entity has a tax liability for the tax year in which the contribution was made, 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 tax 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 whom a tax credit is transferred shall immediately claim the tax credit in the taxable 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 entity's 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 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 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.

A request to pass through the available tax credits must be returned to-

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
PO BOX 280701
HARRISBURG PA 17128-0701

There are two exceptions. To pass through an Educational Improvement Tax Credit, 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 http://www.newpa.com or call DCED Customer Service at 1-800-379-7448.

For each tax credit's carry-forward and pass through rules, applications, guidelines, and developments, refer to the description and website referenced for each tax credit.

E. Specific Information about Each Tax Credit

1. 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.

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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 Pennsylvania 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

2. 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, effective July 2, 2012. 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 for Pennsylvania Personal Income Tax Purposes

- 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 tax 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 tax 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:

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
PO BOX 280701
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 five 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.

3. Research and Development Tax Credit

The Department of 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 may apply the tax credit against the following Pennsylvania state taxes:

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

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Guidelines for the Research and Development (R & D) Tax Credit for Pennsylvania Personal Income Tax Purposes

- 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 tax 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 tax 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:

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
PO BOX 280701
HARRISBURG PA 17128-0701

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/assign a Research & Development Tax Credit, visit the Department of Community and Economic Development's (DCED) website at www.newpa.com or call the DCED Customer Service Center at 1-800-379-7448.

4. 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. Additional credit is available to individuals or companies that use a "Pennsylvania qualified production facility". Act 2013-52 effective July 1, 2013, requires that Pennsylvania personal income tax shall be withheld by a production company and paid on that portion of Pennsylvania income paid to individual talent through a pass-through entity.

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 for Pennsylvania Personal Income Tax Purposes

- 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' tax 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 2010 it can be carried forward to 2011 and 2012. Act 2013-52 provides that a film production tax credit purchased or assigned in calendar year 2013 may be used in 2014. Act 52 also provides that a film production tax credit purchased or assigned in calendar year 2014 may be used in 2015.

- 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 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 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.

5. Organ and Bone Marrow Donor Tax Credit

The Department of 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 for Pennsylvania Personal Income Tax Purposes

- 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 expired at the end of 2010.

For more information and to apply for an Organ and Bone Morrow Donor Tax Credit, visit the Department of Revenue's website http://www.revenue.state.pa.us at and complete form REV-984.

6. 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 for Pennsylvania Personal Income Tax Purposes

- 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 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 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.

7. Resource and Enhancement Protection Tax Credit

The program is administered by the State Conservation Commission (SCC) under the Pennsylvania 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. The tax credit must be applied to 100% of the individual's personal income tax liability, not including the tax liability of a spouse.

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. Resource Enhancement and Protection Tax Credits (REAP) 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 for Pennsylvania Personal Income Tax Purposes

- 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 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 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:

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
PO BOX 280701
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 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.

8. 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 or provide charitable food programs as part of their community service.

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 for Pennsylvania Personal Income Tax Purposes

- 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 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-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 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.

9. 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 tax 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 for Pennsylvania Personal Income Tax Purposes

- 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.

10. Educational Improvement Tax Credit

The Pennsylvania Department of Community and Economic Development 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 unauthorized, domestic/foreign marine)
- Surplus lines tax
- Personal income tax

Guidelines for the Educational Improvement Tax Credit for Pennsylvania Personal Income Tax Purposes

- 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 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 tax 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.

11. Volunteer Responder Recruitment and Retention Tax Credit

The Volunteer Responder Recruitment and Retention (VRRR) Tax Credit was issued only for tax year 2008 to individual taxpayers who volunteered for qualified volunteer organizations. The tax credit is nonrefundable and cannot exceed $100 per taxpayer. The tax credit may be applied to 100% of the individual's personal income tax liability. The law allows taxpayers who do not use the entire amount of the 2008 tax credit to carry forward the unused balance for three years. However, taxpayers may not apply for a new tax credit for any tax year other than 2008. The tax credit may not be sold or assigned.

This tax credit can be offset only against Pennsylvania personal income tax liabilities. In order to claim the tax credit, taxpayers must submit a completed *PA-40 Schedule OC-V* with the *PA-40, Individual Income Tax Return.*

12. 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.

Qualified businesses, including pass through entities and individuals, can apply the tax credit against the following Pennsylvania state taxes for tax year beginning 2012:

- 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) beginning in 2012.
- The tax credit may be carried forward, sold, or assigned and the tax credit 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 the Keystone Special Development Zone tax credits.

- 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.

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 or call the DCED Customer Service Center at 1-800-379-7448.

13. Opportunity Scholarship Tax Credit

The Pennsylvania Department of Community and Economic Development (DCED) administers the award of this tax credit to eligible businesses and individuals who contribute to IRC §501(C) 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 tuition assistance 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, 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 and complete *REV-1123, Educational Improvement/Opportunity Scholarship 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.
- The election form REV-1123 must be sent to 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.

14. Historic Preservation Incentive Tax Credit

Effective July 1, 2013, this program will provide tax credits for qualified taxpayers to rehabilitate a qualified historic structure that is approved by the PA Historical & Museum Commission. For tax year 2012, only fiscal-year filers can claim this credit.

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, 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.

15. 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 will provide tax credits for contributions made by business firms to non-profit providers of community-based services to individuals with intellectual disabilities or mental illness. For tax year 2012, only fiscal-years filers can claim this credit.

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, 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 entity's liability for the current taxable year as of the date on which the credit was issued.

- The tax credit cannot be sold or assigned.

- 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.

- Credit cannot be applied for any tax withheld by an employer from an employee.

III. RESIDENT CREDIT FOR A PA S CORPORATION TAXED AS A C CORPORATION

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. A C corporation tax return must be submitted.

Only Pennsylvania resident shareholders can claim credit for taxes paid to other states or countries. To claim a credit for taxes paid by a PA S corporation or a partnership to another state on behalf of Pennsylvania resident shareholders or partners, the Pennsylvania resident must submit a copy of the other state's tax return, a *PA-40 Schedule G-L*, a statement from the partnership or S corporation providing the breakdown of the states with the amounts and classes of income subject to tax in each state and a copy of your PA Schedule(s) RK-1.

The other state's tax return must show the payment of tax by the taxpayer and the PA S corporation, including necessary supporting documentation. The *PA-20S/PA-65 Schedule RK-1* may show the applicable portion of the taxes paid to the other state by attachment of a letter of explanation or making a change in Part III, with the necessary supporting documents. If a consolidated return was filed with the other state, a copy of that return must be submitted with a *PA-40 Schedule G-L*.

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 of the PA-20S/PA-65 Schedule OC 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.

EXAMPLE.

Total income from everywhere:	$100,000	
PA-source income	25,000	
Other state's income & tax rate	75,000	x 2.00 percent (0.0200) = $1,500
Other state's income also taxed in PA & PA tax rate	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 paid to Pennsylvania.