pennsylvania
DEPARTMENT OF REVENUE

CORPORATION TAX BULLETIN 2008-04

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Determining the taxable portion of a corporate taxpayer's cash balance in the calculation of the single factor exemption for manufacturing, processing or research and development

Section 1. Introduction

The single fraction apportionment method employs a single taxable assets fraction to compute the Capital Stock or Foreign Franchise Tax. The taxable assets fraction is a fraction, the numerator of which is the average book value of taxable assets owned by the taxpayer during the taxable year and the denominator of which is the average book value of the total assets owned by the taxpayer during the taxable year. Taxable assets are total assets less exempt assets. Exempt assets are assets owned by a taxpayer which are exempt from property taxation for constitutional, statutory or public policy reasons. *See* 72 P.S. § 1896; 61 Pa. Code § 155.10. An exempt asset must be used for a manufacturing, processing or research and development purpose during the tax year in question.

The Department of Revenue may require the monthly or daily averaging of book values of real and tangible and intangible personal property owned by the taxpayer during the taxable year where the averaging is reasonably required to reflect the average value of the taxpayer's property. The Department may require or the taxpayer may request a monthly or daily averaging if substantial property is acquired or disposed of during the taxable year. *See* 61 Pa. Code § 155.10(e).

This bulletin reflects the general rule for determining the taxable portion of a corporate taxpayer's cash balance in the calculation of the single fraction manufacturing exemption. The Pennsylvania Department of Revenue has used this method since 1982 with minimal changes. *See Fizzano Brothers, Inc. v. Commonwealth*, 165 Pa. Commonwealth Ct. 479, 645 A.2d 431, (1994) and *Fry Communications, Inc. v. Commonwealth*, 61 Pa. Commonwealth Ct. 278, 433 A.2d 601 (1981)
The Department reserves the right to utilize an alternative method of determining the taxable portion of cash when it determines that balances are being manipulated for the purpose of tax avoidance.

Section 2. Use of the lowest end of month balance of the interest generating accounts

When utilizing the single fraction manufacturing exemption in the calculation of the Capital Stock or Foreign Franchise Tax, the taxpayer must provide a schedule of the balance of each interest generating account at the end of each month.

The construction of the taxable assets fraction will include the lowest end of month balance of the interest generating accounts as an asset not used in the exempt activity during the year. If the lowest monthly balance is zero, then all cash will be exempt in calculating the exemption. In cases where a taxpayer has multiple interest generating accounts, the taxable portion will be based on the total balance of all interest generating accounts at the end of each month.

Section 3. Examples

Example 1:

ABC, Inc. is engaged in an activity which qualifies as manufacturing. When calculating its Capital Stock Tax, ABC, Inc. elected to use the single factor manufacturing exemption. During the year, ABC, Inc. had three interest generating accounts. The balance at the end of each month for these accounts is shown below:

Month	Account 1	Account 2	Account 3	Total
January	$ 1,000	$ 5,000	$ 7,000	$13,000
February	$10,000	$ 3,000	$ 8,000	$21,000
March*	***$ 6,000***	***$ 0***	***$ 4,000***	***$10,000***
April	$ 0	$20,000	$ 5,000	$25,000
May	$ 500	$15,000	$ 3,000	$18,500
June	$10,000	$ 5,000	$ 800	$15,800
July	$ 1,000	$ 5,000	$ 7,000	$13,000
August	$10,000	$ 3,000	$ 8,000	$21,000
September	$ 6,000	$ 1,000	$ 4,000	$11,000
October	$ 0	$20,000	$ 5,000	$25,000
November	$ 500	$15,000	$ 3,000	$18,500
December	$10,000	$ 5,000	$ 800	$15,800

An analysis of this schedule shows that ***March*** has the lowest end of month balance of interest generating accounts. When calculating the single factor manufacturing exemption, the numerator will include $10,000 of cash not used in the exempt activity during the period. This would be in addition to any portion of the average cash that would not be exempt for any other reason.

Example 2:

The facts in Example 2 are the same as the facts in Example 1 except for the following:

The average cash balance for this period is $30,000.

During this period, 10% of ABC, Inc.'s sales were derived from the sale of goods not manufactured by the taxpayer. Based on these facts, the taxable portion of interest generating accounts would be calculated as follows:

Lowest Balance of Interest Generating Accounts		$10,000
Average Cash Balance	$30,000	
Less: Cash not used in Exempt Activity	10,000	
Remainder	$20,000	
Percent of sales of non-manufactured goods	10%	
Cash associated with sales of non-manufactured goods		2,000
Cash balance included in Total Taxable Assets (Numerator)		$12,000