COMMONWEALTH OF PENNSYLVANIA
REV-1200 PA CORPORATION TAX INSTRUCTION BOOK 1996
For Calendar Year 1996 and fiscal years beginning in 1996

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PLEASE CAREFULLY REVIEW THESE "HIGHLIGHTS" BEFORE COMPLETING ANY TAX REPORTS OR SCHEDULES.

HIGHLIGHTS

- The Net Operating Loss (NOL) carryforward limitation is $1,000,000. However, no more than $500,000 can be claimed from tax periods 1988 through 1994. Also, be sure to complete schedule RCT-103 in this booklet to support your claim for an NOL. (Read the RCT-103 instructions carefully.)

- A tax credit program has been created to help promote and secure job creating economic development in the Commonwealth. For more information on the Jobs Creation Tax Credit, refer to the instructions in this booklet.

- As part of the Secretary of Revenue's ongoing effort toward improved Taxpayer Assistance, the PA Department of Revenue now maintains information and tax forms via the Internet at: http://www.revenue.state.pa.us or at our e-mail address: parev@epix.net.

  In February 1997, a toll-free service will be available to assist taxpayers with general information, tax forms and schedules. For help call 1-888-PATAXES (1-888-728-2937).

- It is imperative that you file ONLY Department of Revenue approved forms and schedules. The Department employs sophisticated imaging and scanning technology to expedite the processing of tax returns, coupons and payments. Non-approved forms must be processed manually and could delay the updating of a taxpayer's account. This may result in unnecessary notices and collection action or even the imposition of penalties.

- When filing your PA Corporate Tax Report, Form RCT-101, make sure that all necessary forms are filed with this report such as the Federal Tax Report, RCT-106, Form 1120 and all supporting schedules, etc. (Read all instructions in this book carefully.) Also, please follow instructions on page 1 on how to assemble these forms to complete the PA Corporate Tax Report, Form RCT-101 Package. If you file an "incomplete" report it may not be accepted by the Department or may result in a "jeopardy settlement," which will force the taxpayer to pursue further resolution through the appeal process.

- To notify the Department of a change in EIN, Filing Period or Address, use the REV-854 change coupon which is included in your REV-857I coupon book covering the 1997 estimated tax period. It is imperative that all businesses and practitioners file a REV-854 coupon with the Department to ensure our files reflect the complete, accurate and CURRENT address, EIN and filing period. No other form or coupon should be used to notify the Department of a change. If our files are incomplete or outdated, then important notices, requests for information and correspondence needed for settling a corporate tax report will not reach the taxpayer. This can result in the imposition of jeopardy settlements and penalties to decide all unreconciled differences in favor of the Commonwealth. The taxpayer will then be forced to pursue further resolution through the appeal process.

- To request an extension of time to file your 1996 Annual Corporation Tax Report (RCT-101), use the REV-853 Annual Extension Request coupon which is included in your REV-857I coupon book covering the 1997 estimated tax year period.

- Please review the RCT-101, STEP E completion instructions beginning on page 6, especially if one or more tax types are overpaid and the remaining tax types are underpaid. If any tax type is overpaid (RCT-101 STEP D, Column C amount is negative), you must complete the RCT-101 STEP F Overpayment section to instruct the Department how to transfer and/or refund the overpaid portion, even if other tax types are underpaid and you are making a payment when filing the RCT-101.

- Ensure that an officer of the company signs the RCT-101 on page 1 at STEP G. Unsigned annual reports will not be accepted and will be returned for signature.

- Your coupon book for the estimated tax period beginning in 1997 was mailed separately to you during the first month of your estimated tax year. If you are not required to make payments via EFT, you must always file the proper REV-857 Estimated Tax Payment Coupon with each quarterly payment made by check.

NOTE TO TAXPAYERS: If your RCT-101 Annual Report will be completed by a tax preparer, please forward this label and book to your preparer.

REV-1200 CT (9-96) I

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
DEPT. 280705
HARRISBURG, PA 17128-0705

BULK RATE
U.S. POSTAGE
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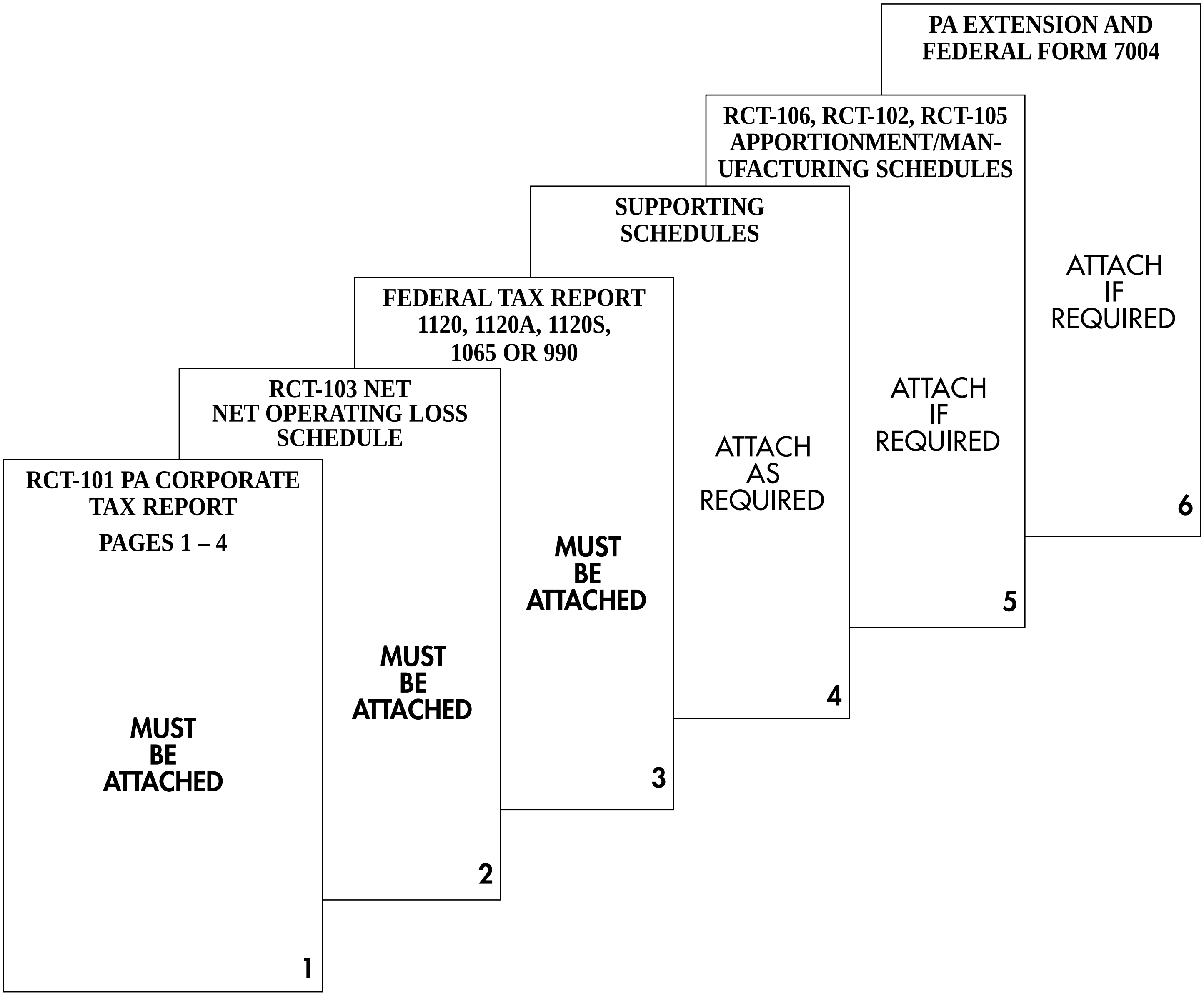
NOTE TO TAXPAYERS:
FORWARD THIS LABEL AND BOOK TO YOUR TAX REPORT PREPARER

ASSEMBLY OF THE COMPLETED PA CORPORATE TAX REPORT RCT-101 PACKAGE



Assemble the completed 1996 PA Corporate Tax Report in the following order:

Sequence	Description	Filing Requirements
1	RCT-101 PA Corporate Tax Report pages 1 through 4 completed and assembled in order.	ALL TAXPAYERS MUST INCLUDE A COMPLETE RCT-101.
2	RCT-103 Net Operating Loss Schedule.	ALL TAXPAYERS MUST INCLUDE A COMPLETE RCT-103 TO CLAIM A NET OPERATING LOSS DEDUCTION/CARRY-FORWARD.
3	Federal Form 1120, 1120A, 1120S (Income statement, balance sheet and other schedules, including details of taxes expensed and Schedule M adjustments), 1065 or 990.	ALL TAXPAYERS MUST INCLUDE A COPY OF THE FEDERAL REPORT - SEE ABOVE.
4	Supporting schedules to the Federal and PA Corporate Tax Reports, including a Consolidated Balance Sheet.	AS REQUIRED (To support specific adjustments and computations on the RCT-101.)
5	RCT-106 Insert Sheet RCT-102 Single-Factor Manufacturing Exemption RCT-105 Three-Factor Manufacturing Exemption	IF REQUIRED (Those claiming exemptions or using three-factor apportionment must include schedules.)
6	PA Extension Approval Letter and Federal Form 7004	IF REQUIRED (Those who obtain a Pennsylvania approved extension to file.)

GENERAL INSTRUCTIONS

S CORPORATIONS

If a corporation has elected to be taxed as an S corporation for federal tax purposes, but has not made an election to be taxed as a PA S corporation, it must: (1) complete Section C of RCT-101, (2) attach a copy of Federal Form 1120S to the PA Corporate Tax Report and (3) attach a schedule reflecting adjustments to Line 21 of Federal Form 1120S for the pass-through items on Schedule K (Shareholders' Share of Income, Credits, Deductions, etc.). These adjustments should produce taxable income similar to that for a C corporation and must be reported in Section C, Line (1) of the RCT-101.

Inactive Corporations. Inactive corporations must complete and file form RCT-101-I located in this book. Only skeleton corporations - those performing no business activity and owning no assets anywhere - may use the RCT-101-I. Corporations which have business activity outside of Pennsylvania must complete and file the common PA Corporate Tax Report, RCT-101. A copy of the Federal Form 1120 must be attached and apportionment fractions reported.

Inactive corporations (no assets and no stock) are permitted to file composite returns covering more than one taxable period. Active corporations must file a separate report for each taxable period.

PRIOR PERIOD FORMS ARE NOT ACCEPTABLE. "DO NOT use a 1996 RCT-101 for any period other than 1996."

COPY OF FEDERAL FORM 1120 or 1120S

A copy of the U.S. Corporation Income Tax Return - Form 1120, 1120A, 1120S, 1065 or 990 or other applicable federal form must be attached to the PA Corporate Tax Report.

Pennsylvania does not allow consolidated filing of corporate tax reports. In the case of a corporation participating in the filing of a consolidated return to the federal government, it will be necessary to include the following:

1. Separate Company income statement reflecting taxable income which would have been returned to and ascertained by the federal government, if a separate return had been made to the federal government.

2. Separate Company balance sheet reflecting financial position of the taxpayer at the beginning and end of the taxable period, if a separate return had been made to the federal government. A corporation with subsidiaries also must include a consolidated balance sheet.

3. Schedules reflected on the Federal Form 1120 or 1120S on a separate company basis, including a schedule of taxes expensed.

WHERE TO FILE/PAY

Submit PA Corporate Tax Reports (RCT-101) and payments to PA Department of Revenue, Bureau of Corporation Taxes, Dept. 280427, Harrisburg, PA 17128-0427. S Corporations, submit PA Corporate Tax Reports (RCT-101 and PA-20S) and payments to PA Department of Revenue, Bureau of Corporation Taxes, Dept. 280428, Harrisburg, PA 17128-0428. If the total taxes you must pay as a result of filing this report are less than $20,000, make your check payable to the PA Dept. of Revenue and use the preaddressed return envelope contained in the Instruction Book to mail the tax report. If the total taxes you must pay are $20,000 or more, you must pay using an Electronic Funds Transfer (EFT) Method. (See next section.)

EFT PAYMENT REQUIREMENT

The PA Departments of Treasury and Revenue have implemented a program which enables taxpayers to pay certain taxes through Electronic Funds Transfer (EFT). Taxpayers remitting a payment of $20,000 or more must make such payments by one of the EFT payment methods available (ACH Debit or ACH Credit). This applies to payments required to be made on or after July 1, 1992. To participate in the EFT program, the Department first must receive your completed Authorization Agreement. For more information on these requirements and for EFT registration material, call the Department's EFT Unit at 1-800-892-9816 (EFT calls only).

DUE DATE OF REPORT AND PAYMENT

The PA Corporate Tax Report (RCT-101) is due annually on April 15 of the year following the year for which the report is submitted for a calendar year reporting corporation, or 30 days after the federal due date for LLCs and corporations reporting to the federal government on a fiscal year basis. For corporations reporting on a 52-53 week basis, the last day of the month, rather than the varying 52-53 week date nearest the end of the month, should be considered the last day of the year. Corporations which close their year on any of the last seven days in December or the first seven days of January are deemed calendar year taxpayers with a year ending date of December 31. Domestic International Sales Companies (DISC) must file on or before the 15th day of the 10th month following the close of the fiscal year.

FILING REQUIREMENTS

First reports of domestic corporations must begin with the date of incorporation. All domestic corporations are required to file annual reports even though no business activity was conducted during the taxable period.

First reports of foreign corporations must begin with the date of the issuance of the Certificate of Authority or the date of the commencement of activities in Pennsylvania, whichever date is earlier. All corporations are required to file annual reports even though no business activity was conducted within the Commonwealth during the tax period. (See below)

OUT OF EXISTENCE/WITHDRAWAL

Domestic corporations desiring to be marked "Out of Existence" and foreign corporations desiring to be marked "Withdrawn" on the records of the Bureau of Corporation Taxes should note the following:

A PA corporation that has ceased doing business and completely or totally divested itself of ALL assets, or a foreign corporation that has ceased to do business in Pennsylvania and liquidated ALL PA assets may be relieved of the responsibility of filing corporate tax reports by completing the "Out of Existence/Withdrawal Affidavit" (REV-238) that is included in this book. (Note: Active solicitation of sales in Pennsylvania qualifies an account as being subject to tax.) This affidavit must be notarized and attached immediately behind the RCT-101 and before any other attachments to the report filed with the PA Department of Revenue.

Final reports should be identified by checking the "LAST REPORT" block in STEP C of page 1 of the RCT-101.

To qualify for the "Out of Existence" or "Withdrawn" status, the corporation must:

1. File all corporate tax reports and pay all taxes due the Commonwealth up to and including the date of cessation of activities and divestiture of assets. Where capital assets have been sold prior to liquidation, complete in detail a schedule reflecting the gain or loss realized as a result of the sale.

2. Include with the corporate tax reports a "Distribution of Assets" (reverse side of REV-238) which must reflect the date or dates of divestiture of <u>all</u> assets. Where a distribution of assets is made directly by the corporation to its shareholders in return for their stock, attach to the "Distribution of Assets" a copy of Federal Form 1099-DIV.

PA corporations that never have transacted business or held title to assets, or foreign corporations that never have transacted business in Pennsylvania, are required to file annual tax reports until they file a final return and qualify for "Out of Existence" or "Withdrawn" status (see above). Such inactive corporations should mail the executed affidavit directly to:

PA Department of Revenue
Bureau of Compliance
Business Clearance Section
Dept. 280947
Harrisburg, PA 17128-0947

REINSTATEMENT

A corporation that has been marked "Out of Existence" through the acceptance of an affidavit may reinstate with the PA Department of Revenue by: (1) confirming with the PA Department of State, Corporation Bureau, that the corporation name currently is available for use, and (2) filing a composite tax report (one report for more than one year of inactivity). This information can be confirmed by calling (717) 787-1057.

RECORDING DOLLAR AMOUNTS

All tax computations must be shown in whole dollar amounts. Any amount less than 50 cents is eliminated and any amount that is 50 cents or more is increased to the next dollar.

All negative amounts should be enclosed in parentheses.

COMPLETING TAX REPORTS

The completed reports must either be typewritten or printed in ink. Pencil copies are not accepted by the Department.

Affix the peel-off identification label to the top of page 1 of the RCT-101 (STEP B). The label is found on the cover of the Instruction Book. Use of the identification label contributes to timely and accurate processing by the Department. In the event that a label is not available, carefully print the corporation name and address, Account ID and Entity ID (EIN) in the designated area of the RCT-101.

The completed tax report must be signed and dated by a corporate officer. Other corporate employees such as a secretary, clerk or staff accountant should not sign the report.

The preparer signature block must be completed by someone who has charged a corporation for the completion of the tax report. In addition to the signature of the preparer, the preparer's name, firm name, address and Entity ID (EIN) or Social Security Number must be typed or printed in the appropriate blocks provided in STEP H of the RCT-101.

FILING PERIOD

Reports must be filed on the same filing basis as reported to the federal government. Where a change in filing period has occurred, insert the new month, day and year in the designated area on form REV-854 EIN/Filing Period/Address Change Coupon from the REV-857I Estimated Payment Coupon Book. Indicate a permanent change in filing period on the RCT-101, if the REV-854 has not been filed.

EXTENSION OF TIME TO FILE

A request for an Extension of Time to File must be submitted on or before the due date of the PA Corporate Tax Report. A request for a federal extension does not automatically qualify the corporation for a PA extension. Extension requests must be submitted on REV-853 Annual Extension Request Coupon included in the REV-857I Estimated Payment Coupon Book.

After receipt and review by the PA Department of Revenue, you will receive written notice as to whether your extension request was approved or denied.

If you have requested or intend to request an automatic six month extension of time to file Federal Form 1120 or 1120S, place an "X" in the block noted "180 days." You must attach a copy of both the PA Extension Approval Letter and the Federal Form 7004 to your Annual PA Corporate Tax Report at the time of filing.

Do not submit a RCT-101 annual tax report based on estimated figures when submitting the extension request.

Make sure you are using the correct REV-853 coupon to request an extension by ensuring that the month and year displayed in the Period Ending block on the REV-853 coupon exactly matches the month, day and year end of the tax period for which you want the extension.

No extensions of time are granted for the payment of annual taxes or the payment of estimated taxes. Also use the REV-853 Annual Extension Request Coupon to record the annual tax payments due and to send the check in payment of these taxes, if the taxes being paid total less than $20,000.

If the taxes total $20,000 or more, you must request the extension and make the required payment in an EFT payment method. Do not file the REV-853 coupon.

PENALTIES IMPOSED FOR FAILURE TO FILE REPORTS WHEN DUE

10% of first $1,000 of settled tax

5% of next $4,000 of settled tax

1% of settled tax over $5,000

If a report is filed late, the taxpayer should wait until billed by the Department to remit the penalty amount. Interest does not accrue on penalties. Do not include penalty with tax amounts reported on form RCT-101.

INTEREST

Taxpayers should not precalculate and remit interest, but should wait until an interest settlement is issued by the PA Department of Revenue. Do not include interest with the tax amounts reported on form RCT-101.

REFUNDS OF CORPORATE TAXES

After completing STEP D "Tax Summary" on page 1 of the RCT-101 Annual Report, if an overpayment exists on any line (tax type) in Column C "Calculation," you must instruct the Department as to how you want this overpayment to be transferred and/or refunded. You provide these instructions to the Department by selecting only one of the options available at STEP F "Overpayment." YOU MUST SELECT ONE OF THESE STEP F OPTIONS if any STEP D, Column C amount is a negative number (meaning overpaid), even if the Column C TOTAL amount is a zero or positive amount (meaning a payment is still due).

Requests for refunds and/or transfers of overpayments in a year not covered by the annual report being filed should be made on the REV-855 Custom Refund/Transfer Request Coupon included in the REV-857I Estimated Payment Coupon Book.

ASSIGNMENT OF CREDIT (OVERPAYMENT)

As an alternative "use" of a credit (overpayment), a corporate taxpayer can assign the credit to other taxpayers for their use. However, assignment of credit can only be executed by use of a very controlled process. Credits CANNOT be assigned via the normal methods' taxpayers use to instruct the Department of Revenue as to how credits should be applied, transferred, and/or refunded. These normal techniques are:

- Completing STEP F "Overpayment" on page 1 of the RCT-101 Annual Corporate Tax Report; or
- Completing the REV-855 Custom Refund/Transfer Request coupon (included in the REV-857I Estimated Payment Coupon Book).

Rather, assignment of credit can only be accomplished by both the assignor and assignee executing the form REV-774 Assignment of Tax Credit. Furthermore, only credits that meet the following criteria/conditions can be assigned:

- All corporate taxes, additions to the tax, penalties and interest must be paid in full (except those under active appeal or still appealable).
- All other taxes, additions, penalties and interest owed by the taxpayer (assignor) must be paid in full (except those under active appeal or still appealable). Other taxes include sales/use tax, employer withholding tax, liquid fuels tax, etc.
- Credits to be assigned must have originated from cash payments by the taxpayer. Restricted credits CANNOT be assigned. Restricted credits are those originating from special tax credit programs such as Neighborhood Assistance, Employment Incentive Payments, Mortgage Emergency Assistance Fund and Jobs Creation Tax Credit.
- The REV-774 Assignment of Credit must be completely executed by both the assignor and assignee.

The assignment of credits is discussed in the Department regulation entitled "Credits" (61 Pa. Code 151.21-151.22).

Call the Bureau of Corporation Taxes' Accounting Division at (717) 787-1355, TDD# (717) 772-2252 (Hearing Impaired only) if you have any questions concerning credit assignment and to request the REV-774 assignment form.

DEPARTMENT GENERATED STATEMENTS

1. ACCOUNT REVIEW STATEMENT - A summary of a corporate taxpayer's account is mailed automatically with each significant event occurring during the year. Such events include receipt of a tax report and its subsequent settlement or resettlement(s). Information contained on the Account Review is categorized under the following captions.
   - SETTLED - Reported tax which has been reviewed by the Department of Revenue and approved by the Department of the Auditor General.
   - NONSETTLED - Tax report(s) filed, but pending review/settlement.
   - ESTIMATED/TENTATIVE - Prepayments on an account in anticipation of a tax for which the tax report(s) have not been filed.
2. DELINQUENT STATEMENT - This statement is a billing notice for settled unpaid taxes not under appeal. Such a statement may accompany an Account Review or could be mailed as a reminder of unpaid obligations. The Delinquent Statement is designed as a mail-back document to assure that payment is credited correctly to the account.
3. INTEREST - Interest due the Commonwealth is assessed at the time of a late payment or credit transfer. As the payment or the credit transfer posts to your account, a Notice of Interest Settlement will be printed. Interest is imposed from the appropriate due date through and including the date of payment.
4. ADDITION OF TAX - Only accounts which have not made adequate prepayments of the safe harbor or estimated amount of the current year's tax are subject to an Addition to the Tax. A replacement Notice of Settlement for such additions is generated with each settlement or resettlement, allowing for both increases and decreases in the original Addition to Tax.
5. NOTICE OF CREDIT - This notice informs the taxpayer when a significant event (such as filing of an annual report or settlement of a tax report) creates a TAX overpayment/credit. This notice will explain the source of the credit, confirm your instructions on how the overpayment should be transferred/refunded, or seek transfer/refund instructions from you if you did not previously do so (such as in STEP F on Form RCT-101).

KEEPING YOUR ACCOUNT CURRENT

Upon receipt of a tax report, the Department will carry out your instructions (STEP F option selected) in order to transfer and/or refund all overpayments in the tax period covered by the annual report filed. Upon settlement, increases/decreases in your self-assessed tax are brought to your attention through the Account Review. Use the REV-855 Custom Refund/Transfer Request Coupon to direct the PA Department of Revenue to transfer available credits to pay outstanding liabilities, or refund any overpayments, thereby keeping your account current.

AMENDED REPORTS

The RCT-101X, Amended PA Corporate Tax Report (1996) must be filed to amend the Capital Stock/Foreign Franchise, Loans or Corporate Net Income Taxes previously reported for tax period 1996.

An amended report which is received prior to settlement of the original tax report generally will be considered by the Department of Revenue in making the settlement. Also, the Department may resettle the original report based on verification of information contained in an amended report. However, an amended report filed within 90 days after the mailing date of the original settlement will not be acted upon within this 90 day period to preserve the corporation's right to file a Petition for Resettlement. The Department may not resettle a tax report beyond a three year period beginning on the date of the original settlement.

The Amended PA Corporate Tax Report, RCT-101X, only should be filed if an original PA Corporate Tax Report, RCT-101, was filed previously for the same tax period. Federal Form 1120X must be attached, if applicable, and all changes must be fully documented. The instructions used in completing the RCT-101 apply here except:

1. On page 1 of the RCT-101X, STEP D is expanded to include the self-assessed tax liabilities as set forth in the original report in Column A. The amended tax liabilities are reported in Column B.
2. STEP E reflects the application of the payment required with the amended report.
3. On pages 2, 3 and 4 of the RCT-101X, only enter changes which are made from the original report. These changes should be incorporated in the calculation of the amended tax. Do not complete specific tax sections in which no changes are made from the original report.
4. Changes in taxable income based on federal audits must be submitted on Form RCT-128B (for tax years prior to 1981) or RCT-128C (for tax years 1981 and thereafter).

REPRODUCTION OF FORMS

Authority to reproduce the various forms in the annual PA Corporate Tax Report package must be requested and approved in writing by the Department prior to use. To be approved, the reproduction (including computer-produced forms) must be identical to the PA Corporate Tax Report provided by the Department of Revenue. However, the coupons from the REV-857I coupon book package CANNOT BE REPRODUCED UNDER ANY CIRCUMSTANCES - the official coupons provided by the PA Department of Revenue must be used in all cases.

To request approval to reproduce forms in the annual report package, write to:

PA Department of Revenue
Bureau of Corporation Taxes
Annual Report Forms - Reproduction
Dept. 280700
Harrisburg, PA 17128-0700

QUESTIONS ON FILING FORMS

Questions regarding the filing of PA Corporation Tax forms, including forms from the REV-857I PA Corporation Tax Estimated Payment Book, should be directed in writing to:

PA Department of Revenue
Bureau of Corporation Taxes
CT Forms
Dept. 280701
Harrisburg, PA 17128-0701

or by telephoning:

Number	Topic
(717) 783-1751	Estimated Payments
(717) 787-2632	Extension to File Annual Report
(717) 787-6256	Transfer/Refund of Overpayments
TDD# (717) 772-2252	(Hearing Impaired Only)

Please call between the hours of 8:00 a.m. and 4:00 p.m. Monday through Friday (state holidays excluded).

REV-857I PA CORPORATION TAX ESTIMATED PAYMENT COUPON BOOK

The REV-857I coupon book is mailed separately from the tax instruction book to each corporation at the beginning of the taxable period. The package mailed to taxpayers includes coupons and instructions, along with return envelopes for filing each of the coupons.

Corporations must use the preprinted coupons included in the REV-857I. Photocopies or other facsimiles, including computer-generated forms, or reproductions of the computer generated coupon scan lines, are not acceptable. Use of the forms provided by the PA Department of Revenue will enhance the accuracy and timeliness of processing. Use of the REV-856 or REV-856A is no longer acceptable. To order the REV-857I coupon book, call (717) 783-8839, between the hours of 8:00 a.m. and 4:00 p.m., Monday through Friday (state holidays excluded).

The PA Corporation Tax Estimated Payment Coupon Book (REV-857I) contains coupons which permit a corporation to:

- Make up to four (4) estimated payments;
- Request an extension for filing the annual tax report while making payment of the balance due;
- Direct the Department to refund or transfer overpayments from taxable periods other than that covered by the annual report;
- Notify the Department of changes in address, filing period and EIN; and
- Update the names of corporate officers.

To order up to five (5) PA Corporation Tax forms, write to:

PA Department of Revenue
Bureau of Corporation Taxes
CT FORMS
Dept. 280703
Harrisburg, PA 17128-0703

or telephone:

(717) 783-6035, TDD# (717) 772-2252 (Hearing Impaired Only), between the hours of 8:00 a.m. and 4:00 p.m. Monday through Friday (state holidays excluded). Also see telephone numbers listed in “Questions on Filing Forms” on this page.

ADDITIONAL FORMS ORDERING

You may order any Pennsylvania tax forms or schedules by calling the special 24-hour answering service numbers for forms ordering: In PENNSYLVANIA 1-800-362-2050; outside Pennsylvania and within local Harrisburg area (717) 787-8094. In February 1997, the Department will also provide toll-free assistance through recorded messages at 1-888-PATAXES (728-2937). Within the local Harrisburg area, call (717) 772-9739.

Address written requests to:

PA Department of Revenue
Tax Forms Service Unit
2850 Turnpike Industrial Drive
Middletown, PA 17057-5492

All material will be mailed directly to you.

SPECIFIC INSTRUCTIONS

LINE BY LINE INSTRUCTIONS FOR THE RCT-101 PA CORPORATE TAX REPORT RCT-101 - PAGE 1.

STEP A TAX PERIOD

Line (1). Enter month and day (MM DD 96) for the tax period beginning and month, day and year (MM DD YY) for tax period ending. The 1996 PA Corporate Tax Report is for use only with the tax periods beginning in 1996. For corporations reporting on a 52-53 week basis, see instructions on page 2, "Due Date."

STEP B LABEL/ADDRESS AND FILING PERIOD CHANGES

Line (2). Affix the peel-off identification label from the cover of the Instruction Book to the designated area on the RCT-101. Use of this label will enhance the PA Department of Revenue's processing of the report. If the label is not available, print or type the corporation name, complete address, Account ID and Entity ID (EIN).

Line (3). If the label is not affixed to the tax return, check the block o if the printed or typed address is a change. First year corporations which are not using a label always should check the block. Be sure to file Form REV-854.

Line (4). Check the block o if the filing period (tax period ending) is a permanent change. Be sure to file Form REV-854.

Line (5). Check the block o if you only require a label next year.

STEP C CHECK SPECIAL FILING STATUS

Line (6). Check the block o if the corporation has approved PA S status for this tax period. A copy of Federal Form 1120S (U.S. Income Tax Return for an S Corporation) must accompany the PA Corporate Tax Report (RCT-101).

Line (7). Check the block o if this is a first report

Line (8). Check the block o if this is a last report

If not previously filed, complete REV-238 Out of Existence/Withdrawal Affidavit and attach this form immediately after the RCT-101 and prior to the copy of the federal return, if applicable.

Line (9). Check the block o if the corporation filing the annual report is a parent to one or more subsidiary corporations. Attach Federal Form 851 to the federal return. Also submit a Consolidated Balance Sheet.

Line (10). Check the block o if the corporation is a registered LLC. Make sure the proper forms and/or schedules are enclosed with this report (i.e., Federal Form 1065). Refer to Corporation Tax Bulletin No. 118 for further instructions.

Line (11). Check the block o if the corporation is a 52-53 week filer.

Line (12). Check the block o if the corporation is a family farm and is not subject to the Capital Stock/Foreign Franchise Tax.

Line (13). Check the block o if the corporation is a <u>registered</u> first class corporation and is not subject to the Capital Stock/Foreign Franchise Tax.

Line (14). Check the block o if the corporation is a <u>qualified</u> Holding Company AND is electing to use the special 10% apportionment for Capital Stock/Foreign Franchise tax. (See general instructions.)

Line (15). Check the block o if the corporation is a Regulated Investment Company. Refer to the General Instructions in this booklet.

STEP D TAX SUMMARY

Line (16). Column A. Tax Liability. Carry tax liabilities from pages 2 and 3, Section A, B and C, to page 1:

- Line (18), Section A for Capital Stock/Foreign Franchise Tax (on page 2).
- Line (4), Section B for Loans Tax (on page 2).
- Line (14), Section C for Corporate Net Income Tax (on page 3).

Enter whole dollars only; enclose negative amounts with parentheses.

Add the individual tax type amounts, and enter the sum on the TOTAL line of Column A.

Column B. Estimated Payments and Credits on Deposit for the Current Period. For each tax, enter the total of estimated payments and credits applied to the current period. If you want to use credits from a prior year to pay the current period's tax, complete and separately file the REV-855 Custom Refund/Transfer Request Coupon. Do not include any payments not yet transferred in this column.

Add the individual tax type amounts and enter this sum on the TOTAL line of Column B.

Column C. Calculation. Subtract the amounts in Column B from those in Column A and enter the results in Column C. Amounts less than zero should be placed in parentheses.

The Column C TOTAL should equal both the Column C sum of the three tax amounts and the amount calculated by subtracting Column B TOTAL from the Column A TOTAL.

Line (17). If the Column C TOTAL is greater than "0," a payment or transfer of credit is required. STEP E must be completed.

Line (18). If the Column C TOTAL is less than "0" or if any amount in Column C is negative, an overpayment exists. STEP F must be completed.

Line (19). If the Column C TOTAL is "0," skip to STEP G.

STEP E TAX PAYMENT APPLICATION

Line (20). If the Column C TOTAL is greater than "0," this step must be completed or transfer of credit instructions must be provided. Indicate the amount being paid with this report for each tax. Also indicate the TOTAL PAYMENT which is the sum of the payments for all three taxes.

If the STEP D, Column C calculations for any of the tax types is less than "0," the credit(s) should be applied toward any other current period tax balance. The net tax due and any zero balance tax must be shown in STEP E. The Column C TOTAL from STEP D must equal the TOTAL PAYMENT of STEP E (plus transfer of credit). See the example on the following page.

Enter whole dollars only.

Reminders:

- TOTAL PAYMENT from STEP E must equal Column C TOTAL from STEP D less transfers of credit.

Example of Tax Payment Application (STEPS D and E, Page 1, RCT-101):

STEP D
Tax Summary

16. Compute tax liability for Capital Stock/Foreign Franchise, Loans and Corporate Net Income Taxes on pages 2 and 3 then complete this tax summary.

	A. TAX LIABILITY FROM TAX REPORT	B. ESTIMATED PAYMENTS AND CREDITS ON DEPOSIT FOR THE CURRENT PERIOD	C. CALCULATION COL. A MINUS COL. B POSITIVE OR (NEGATIVE)
CAPITAL STOCK FOREIGN FRANCHISE TAX n	500	200	300
LOANS TAX n	100	– 0 –	100
CORPORATE NET INCOME TAX n	1400	1500	(100)
TOTAL n	2000	1700	300

ENTER WHOLE DOLLARS ONLY

17. If Column C TOTAL is greater than zero, complete STEP E.
18. If Column C TOTAL is less than zero, an overpayment exists. Skip to STEP F.
19. If Column C TOTAL is zero, no payment is due. Skip to STEP G.

STEP E n
Tax Payment Application

20. Apply Column C TOTAL from STEP D by tax. The payment amount for each tax must be zero or greater.

DEPARTMENT USE ONLY	
I	P

	PAYMENT
CAPITAL STOCK FOREIGN FRANCHISE TAX	200 n
LOANS TAX	100 n
CORPORATE NET INCOME TAX	– 0 – n
TOTAL PAYMENT	300 n

ENTER WHOLE DOLLARS ONLY

TOTAL PAYMENT MUST EQUAL THE COLUMN C TOTAL FROM STEP D.
MAKE CHECK FOR THIS AMOUNT PAYABLE TO:
"PA DEPT. OF REVENUE"

Please check this block **only** if the TOTAL PAYMENT amount shown to the right has been (or will be) paid by Electronic Funds Transfer (EFT). O

- The amount of payment entered for each tax must be "0" or greater.
- Do not include payments for late filing penalty, interest and additions to tax. These items will be computed and separately billed by the PA Department of Revenue.
- If the combined tax due payment with your RCT-101 is less than $20,000, make a check in the amount of the total payment payable to the "PA Department of Revenue." Use whole dollars only. Attach the check to page 1 of the RCT-101 at the space indicated.
- If the combined tax due payment with your RCT-101 is equal to $20,000 or more, you must make payment through an Electronic Funds Transfer (EFT) Method. Additionally, the block in STEP E, Tax Payment Application must be checked indicating the payment was made through EFT. For more information on EFT call 1-800-892-9816. (EFT calls only)

STEP F OVERPAYMENT

Line (21). If any tax type is overpaid (if any amount is negative at Column C of STEP D), you must select one of the STEP F options.

By selecting one of these options, you are instructing the Department of Revenue how you want the overpayment applied and/or refunded.

Taxpayers have three options for handling overpayments of tax in the current period. Check the block which directs the Department to handle the overpayment for the current tax period as desired. TAXPAYERS MUST SELECT ONE, AND ONLY ONE, OF THE OPTIONS LISTED BELOW:

A. If this option is selected, any overpayment in the current tax period is transferred automatically to offset underpaid taxes in the current tax period and the remaining portion of the credit is applied to the next tax period for Estimated Tax purposes.

B. If this option is selected, the amount of the overpayment to be transferred to the next tax period for Estimated Tax purposes must be entered. Any overpayment in the current tax period is transferred automatically to offset any underpaid taxes in the current period. Secondly, the designated amount of the overpayment to be applied to the next period will be transferred automatically. Finally, the remaining portion of the overpayment will be refunded.

C. If this option is selected, any overpayment in the current tax period is transferred automatically to offset any underpaid taxes in the current tax period and the remaining portion of the overpayment will be refunded.

STEP G SIGNATURE

Line (22). A corporate officer must sign the report Otherwise, the report will not be accepted and will be returned to the taxpayer for signature. The signature must be an original one, no photocopies or faxes please. The telephone number and title of the signer must be provided, along with the date signed.

STEP H SETTLEMENT NOTICE MAILING ADDRESS

Line (23). Check the block o if the Notice of Settlement resulting from the review of this tax report, as well as any request for additional information needed to settle this report, is to be mailed to the preparer's address which must be entered on Line 24. If the block is not checked, the Notice of Settlement will be mailed to the corporation's address.

Line (24). Paid preparers must sign and date all tax returns. The preparer's name, complete address and telephone number along with the Entity ID (EIN) or Social Security Number and the date prepared must be typed or printed in the appropriate blocks.

RCT-101 - PAGE 2.
SECTION A: CAPITAL STOCK/FOREIGN FRANCHISE TAX

AVERAGE BOOK INCOME:

History of Earnings: The history of earnings should include all taxable periods within the last five years regardless of when PA activity commenced. Due to short tax periods, there may be more than five tax periods in the last five years; however, the beginning of your oldest period should not go back more than five full years.

Enter the taxable period's beginning and ending dates by inserting the two digits representing the month (MM), day (DD), and year (YY) in the appropriate spaces. Enter the data for the oldest period in the first line of the history of earnings. Continue entering the dates and book income (loss) of each taxable period up through the immediate prior taxable period. (Losses) should be indicated by parentheses. Skip lines not required for completing the history of earnings.

Line (1). Enter the dates and book income (loss) of the current tax period. Book income is determined by taking the change in retained earnings plus any distributions.

Line (2). Add/subtract each book income (loss) entry, and enter the total on Line (2).

Line (3). Enter in years (including fractional part if necessary) the length of the taxable years in the corporation's history of earnings, carried three places to the right of the decimal point.

a If a corporation has existed for more than five full years, and there has been no change in its filing period during this time, enter 5.000.

b If a corporation has existed for less than five years, or if it has changed its filing period, enter the number of full years to the left of the decimal point. To the right of the decimal point, enter the result of dividing the number of days in the short period by the number of days in the full year. All taxable periods falling completely within the last five years must be included in the history of earnings.

NOTE: First-year corporations must use the fractional part of the year actually in existence as the divisor.

EXAMPLE: Assume BJM Corporation has a fiscal year end of June 30 from 1992 through 1995. On January 16, 1996, it is purchased by VMJ Corporation and changes to a calendar year end. On December 31, 1996, its five year history of earnings would include the following:

	BEGINNING	ENDING
Oldest Period	070192	063093
	070193	063094
	070194	063095
	070195	011596
Current Tax Period	011696	123196

The fiscal year ending June 30, 1992 is excluded since it would extend the history of earnings beyond five years. Since the history of earnings is 4-1/2 years in length, a four (4) is placed to the left of the decimal point. The period extending beyond the four full years is 184 days.

Therefore, 184 ÷ 365 = .504 which is placed to the right of the decimal point. The entry on Line (3) would be 4.504.

Line (4). Divide the amount on Line (2) by the amount on Line (3).

Line (5). Enter the amount on Line (4), but not less than "0".

Line (6). Capitalize the average book income by dividing Line (5) by .095.

EXAMPLE: If average book income on Line (5) is $100,000, Line (6) would be

$1,052,632. (100,000 ÷ .095 = 1,052,632).

NET WORTH:

Line (7). Enter the end of the period net worth. To determine net worth, add capital stock, paid-in capital and retained earnings, and subtract treasury stock. All values are determined as of the end of the year. If negative, use negative numbers.

A corporation with one or more subsidiaries must use consolidated net worth in computing its capital stock value, and should attach a consolidated balance sheet that includes all foreign and domestic subsidiaries.

Line (8). Enter the beginning of the period net worth. [See Line (7) above.] If negative, use negative numbers.

Line (9). Enter the amount on Line (7) unless:

a Line (7) is more than 2 times greater than Line (8)

-OR-

b Line (7) is less than one-half of Line (8).

If either (a) or (b) is true, add the end of the period net worth sum [Line (7)] to the beginning of the period net worth sum [Line (8)] and divide by 2. If either Line (7) or Line (8) is less than 0, raise the value to zero (0) before averaging. Enter the amount on Line (9).

Line (10). Enter the amount on Line (9) or 0, whichever is greater.

Line (11). Multiply Line (10) by 0.75.

CAPITAL STOCK VALUE:

Line (12). Add Line (6) to Line (11).

Line (13). Divide Line (12) by 2.

Line (14). The $100,000 valuation deduction has been inserted on the RCT-101.

Line (15). The $100,000 valuation deduction Line (14) is subtracted from Line (13) to determine capital stock value. On Line (15) enter this amount or 0, whichever is greater.

TAXABLE VALUE AND TAX CALCULATION:

Line (16). Enter the proportion from Schedule A-1, Line (5). See instructions for Schedule A-1 below. If there are no exempt assets and all business is conducted in Pennsylvania, make no entry on Line (16).

Line (17). If Line (16) is blank, enter the amount from Line (15). If there is an entry on Line (16), multiply Line (15) by the proportion on Line (16) to determine Line (17). If negative, enter "0."

EXAMPLE:

1 Assume BJM, Inc. has a capital stock value of $200,000, has no exempt assets and is not eligible to apportion. Line (16) would be left blank and $200,000 would be entered on Line (17).

2 Assume VMJ, Inc. has a capital stock value of $200,000 with a 75% manufacturing exemption. Line (16) would be .250000 and Line (17) would be $50,000 ($200,000 x .250000 = $50,000).

Line (18). Multiply Line (17) by .01275 (1.275%), and enter this amount on Line (18). Taxpayers filing reports for short periods may prorate the tax based on the number of days in the tax year.

MINIMUM TAX: All entities subject to the Capital Stock or Foreign Franchise Tax are required to pay annually a minimum tax of $300. The minimum tax can be prorated by taxpayers filing short period reports for the actual number of days in the short period.

Domestic and foreign corporations engaged in manufacturing, processing or research and development activities in Pennsylvania, holding companies and regulated investment companies are subject to the $300 minimum tax, unless the actual computation results in a higher tax. Family farm corporations and corporations of the first class do not have to pay the minimum tax.

SCHEDULE A-1 APPORTIONMENT SCHEDULE FOR CAPITAL STOCK/FOREIGN FRANCHISE TAX

THREE-FACTOR

Lines (1-3). Eligible corporations electing to use three-factor apportionment should complete these lines. Those claiming the manufacturing exemption should transfer the numerators and denominators for the property, payroll and sales factors from form RCT-105 to Schedule A-1. Corporations not claiming the manufacturing exemption should obtain this information from form RCT-106, page 2.

SINGLE-FACTOR

Line (4). Corporations electing to use the single-factor taxable assets proportion should complete this line. Those claiming the manufacturing exemption should transfer the numerator and denominator from form RCT-102 to Schedule A-1. Corporations not claiming the manufacturing exemption should obtain this information from form RCT-106, page 1. Reminder: Foreign corporations electing to use the single-factor must compute the fraction exactly like domestic corporations. (See the instructions for "Additional Schedules for Apportionment of Franchise Tax.")

Line (5). For the apportionment proportion, enter either the three-factor or the single-factor proportion, but do not combine the two approaches.

a Three-Factor: Sum the decimals on Lines (1c), (2c) and (3c), and divide by three (3) if all three proportions apply. A factor is ignored if both the numerator and denominator are zero. Divide the sum by two (2) if only two of the proportions apply, or by one (1) if only one proportion applies. Enter the resulting decimal on Line (5). Carry to six (6) decimal places.

- OR -

b Single-Factor: Divide Line (4a) by (4b) and enter the result on Line (5). Carry to six (6) decimal places.

For corporations using special apportionment, see Special Apportionment Fractions Instructions section of this Instruction Book.

SECTION B: LOANS TAX

Line (1). Enter the nominal value of taxable indebtedness as computed in Schedule B-1, page 4 of the RCT-101. The nominal value is computed by dividing the interest paid during the year by the interest rate applicable to the debt on which the interest was paid.

Line (2). Multiply Line (1) by .004.

Line (3). Compute and enter treasurer's commission. This amount is computed as follows: 5% on first $1,000 of tax or fractional part thereof; 1% on amount of tax over $1,000 but not exceeding $2,000; 1/2 of 1% on amount of tax over $2,000.

Line (4). The tax liability is determined by subtracting Line (3) from Line (2).

SCHEDULE B-1: CORPORATE LOANS TAX INFORMATION (Page 4, RCT-101)

Column 4 – Enter the interest actually paid to Pennsylvania individual resident or resident partnership during the current tax period.

Column 5 – Enter the interest rate used to compute the interest reported in Column 4.

Column 6 – Enter the "nominal value of taxable indebtedness" determined by dividing the interest paid in Column 4 by the interest rate in Column 5.

The total nominal value is entered on RCT-101, page 2, Section B, Line (1).

RCT-101–PAGE 3. SECTION C: CORPORATE NET INCOME TAX

SECTION C DOES NOT APPLY TO CORPORATIONS WITH APPROVED PA S STATUS

A copy of Federal Form 1120 or other applicable form (U.S. Corporation Income Tax Return) must accompany the PA Corporate Tax Report (RCT-101) and be attached immediately following the PA Corporate Tax Report (RCT-101) and before apportionment schedules, manufacturing schedules and extension request documents, if an extension has been approved.

DEDUCTIONS FROM AND ADDITIONS TO INCOME:

Line (1). Income represents "taxable income as returned to and ascertained by the federal government before the net operating loss deduction and special deductions." (Line 28 of Federal Form 1120.)

Line (2). a Corporate Dividends received. Dividends received from United States corporations are deductible to the same extent as allowed to arrive at the federal dividend deduction as indicated on Federal Schedule C, Column C. An additional deduction will be allowed for dividends received from foreign corporations and reported on Lines 13 and 14 of the Federal Schedule C plus a deduction will be allowed for dividends received under Section 78 (foreign dividend gross-up) of the Internal Revenue code of 1986. Taxpayer must complete Schedule C-2, PA Dividend Deduction Schedule. Specific instructions for Schedule C-2 are shown on page 11 in this booklet.

b Interest on United States Securities. Interest on U.S. securities is deductible, but must be reduced by:

- Any interest on indebtedness incurred to carry the securities;
- Any expenses incurred in the production of such interest income;
- Any other expenses deducted on the Federal Income Tax Return that would not have been allowed under Section 265 of the Internal Revenue Code of 1986, if the interest were exempt from Federal Income Tax.

However, interest from repurchase agreements is not considered interest from U.S. Securities. Therefore, it is not deductible.

To compute the "net" U.S. Interest Deduction on Line (2b):

- Enter the Gross (total) Amount of U.S. Interest received in the GROSS INTEREST block; and
- Enter the Total Expenses attributed to this U.S. Interest Income in the EXPENSES block; and
- Enter the "net" U.S. Interest Deduction (GROSS INTEREST less EXPENSES) in block "b" in the column headed "Taxpayer Use."

Pennsylvania allows a pass-through exemption from Corporate Net Income for interest or dividend income received from a regulated investment company to the extent such distribution or dividend is derived from obligations free from state taxation. Such obligations include those issued by the U.S. Government, the Commonwealth of Pennsylvania, any public authority, commission, board or other agency created by the Commonwealth, any political subdivision of the Commonwealth, or any public authority created by any such subdivision.

To support any claim for a pass-through deduction for corporate net income tax purposes, the taxpayer must submit evidence that the income was received from a regulated investment company. A schedule must be submitted indicating the percentage of income applicable to exempt obligations and the percentage of income applicable to nonexempt obligations, including repurchase agreements, obligations of the Federal National Mortgage Association, (Fanny Mae), the Government National Mortgage Association (Ginnie Mae) and any other obligations that were not actually issued by the U.S. Government.

All income claimed to be exempt must be reduced by any expenses incurred in the production of such income and this information must be included to support all entries on Line 2b.

c Other allowable deductions (attach schedule). As an example, certain charitable contributions may be deductible for a subsidiary corporation which has income on a separate company basis. Targeted Jobs credit wages is another deductible item. If issued prior to February 4, 1994, net gains on the sale of U.S. or PA securities are deductible.

The 50% of travel and entertainment expense that is disallowed on the federal form is not permitted as a deduction for Pennsylvania purposes.

Insert the sum of Lines 2a, 2b and 2c on Line (2).

Line (3). Line (1) less Line (2).

Line (4). a Enter the total amount of taxes imposed on or measured by net income and deducted on the attached copy of the federal tax return. Include a schedule of taxes expensed even though this schedule is not required for federal purposes. (NOTE: The Capital Stock/Foreign Franchise Tax is not a tax measured by net income.)

b Enter the total of the tax preference items as defined in Act No. 2 of March 4, 1971, as amended, to the extent that such preference items are not included in "Taxable Income" as returned to and ascertained by the federal government. A copy of Federal Form 4626 must be attached to the report even though the tax preference items do not exceed the applicable federal deductions. The Accelerated Cost Recovery deduction under Section 57(a)(12)(B) of the Internal Revenue Code (Recovery Property which is 15 year realty) is a tax preference item. It should be included on this line, but only to the extent it is not included in taxable income as returned to and ascertained by the federal government.

See the table (Page 12) at the end of these line instructions for a suggested format for the supporting schedule.

c EMPLOYMENT INCENTIVE PAYMENT CREDIT ADJUSTMENT. In computing wages as a cost for tax purposes, Employment Incentive Payment Credits, claimed under the provisions of the Welfare Reform Act of April 8, 1982, shall be deducted, reducing the wages cost item by any Employment Incentive Payment Credit taken by the corporation. Attach PA Schedule W to the RCT-101.

d OTHER ADDITIONS (Attach Schedule).

Insert the sum of Lines 4a, 4b, 4c and 4d on Line (4).

Line (5). Line (3) plus Line (4).

If all business is transacted in Pennsylvania, skip Lines (6) through (10). Enter the amount from Line (5) on Line (11).

APPORTIONMENT AND ALLOCATION:

A taxpayer must have income from business activities taxable by Pennsylvania and at least one other state to allocate and apportion income. For purposes of allocation and apportionment of income, a taxpayer is taxable in another state if in that state the corporation is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business or a corporate stock tax, or that state has jurisdiction to subject the taxpayer to a net income tax regardless of whether, in fact, the state does or does not.

"Business income" is income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. "Nonbusiness income" is all income other than business income. Page 2 of the "Insert Sheet" (RCT-106) must be completed by all taxpayers allocating "nonbusiness income" and apportioning "business income." A rider reflecting the basis for nonbusiness income must be attached.

Refer to the "Corporate Net Income Tax Basis" portion of the booklet for more detail.

Line (6). Enter the total amount of nonbusiness income (or loss) from Column C, Table 4, of page 2 of the Insert Sheet (RCT-106).

Line (7). Enter the amount of income to be apportioned by adding the loss or subtracting the income reflected on Line (6) to or from Line (5).

Line (8). Enter the apportionment proportion (carried to 6 decimals) from the computation in Schedule C-1, Line (5) of RCT-101. Carefully read the instructions for Schedule C-1 below.

Line (9). Enter the income apportioned to Pennsylvania by multiplying Line (7) by Line (8).

Line (10). Enter the total amount of nonbusiness income (or loss) allocated to Pennsylvania from Column A, Table 4 of page 2 Insert Sheet (RCT-106).

Line (11). Add the income or deduct the (loss) reflected on Line (10) to or from Line (9). If the entire business is transacted in Pennsylvania, enter the amount from Line (5) on Line (11). If a loss, add to form RCT-103.

Line (12). Net Operating Loss Deduction. (Enter the total of Column 3 from form RCT-103.) Complete form RCT-103 included in this booklet and attach the form to your RCT-101.

DETERMINATION OF TAX

Line (13). PA Taxable Income or Net Loss. Line (13) must equal Line (11) minus Line (12). If the amount is less than zero, enter "0."

Line (14). Compute and enter the PA Corporate Net Income Tax by multiplying the amount reflected on Line (13) by the current rate of 9.99% (.0999). All taxes due should be shown in whole dollar amounts.

SCHEDULE C-1: APPORTIONMENT SCHEDULE FOR CORPORATE NET INCOME TAX

Line (1a). Enter the "total average value" from RCT-106, page 2, Table 1, Column A, of property within Pennsylvania.

Line (1b). Enter the "total average value" from RCT-106, page 2, Table 1, Column B, of property within and outside Pennsylvania.

Line (1c). Divide Line (1a) by Line (1b). The decimal should be computed to six places. (Table 1, Line (C), from RCT-106, page 2.)

Line (2a). Enter the "Total Payroll" from RCT-106, page 2, Table 2, Column A, Payroll within Pennsylvania.

Line (2b). Enter the "Total Payroll" from RCT-106, page 2, Table 2, Column B, payroll within and outside Pennsylvania.

Line (2c). Divide Line (2a) by Line (2b). The decimal should be computed to six places. (Table 2, Line (C) from RCT-106, page 2.)

Amount for Interest, Rents and Royalties should be summed and reflected on the appropriate line of Table 3, page 2 of the Insert Sheet (RCT-106).

Gross sales price of assets sold excluding securities (not gains or losses) should be reflected on the appropriate line. All remaining income items should appear on the "Other Income" line. Do not list non-receipts such as discounts or receipts from sales of securities unless a security dealer.

Line (3a). Enter the "Total" from RCT-106, page 2, Table 3, Column A, sales within Pennsylvania.

Line (3b). Enter the "Total" from RCT-106, page 2, Table 3, Column B, sales within and outside Pennsylvania.

Line (3c). Divide Line (3a) by Line (3b) and multiply the result by two (2). The decimal should be computed to six places. (Table 3, Line (D), from RCT-106, page 2.) This is the result of the Double Weighted Sales Factor legislation signed into law on July 1, 1995.

Only corporations required to use special apportionment (such as railroad, truck, bus, airline, pipeline, natural gas and water transportation companies - refer to instructions) should complete Line (4). Others should skip to Line (5).

Line (4a). Enter PA revenue miles (or other special factor).

Line (4b). Enter total revenue miles (or other special factor).

Line (5). For the apportionment proportion, enter either the three-factor or the special apportionment, but do not combine the two approaches.

a Three-Factor Apportionment–Sum the decimals on Lines (1c), (2c) and (3c), and divide by four (4) if all three proportions apply. A factor is ignored if both the numerator and denominator are zero. If only two of the proportions apply and neither one is the Sales Factor, divide the sum by two. If only two of the proportions apply and one of them is the Sales Factor, divide the sum by three. If only one of the proportions apply (not the Sales Factor), divide by one. If only the Sales Factor applies divide by two. Enter the resulting decimal on Line (5). Carry to six (6) decimal places.

- OR -

b Special Apportionment–Divide Line (4a) by (4b) and enter the result on Line (5), carry to six (6) decimal places.

SCHEDULE C-2: PA DIVIDEND DEDUCTION SCHEDULE

This Schedule must be completed by all taxpayers claiming a Corporate Dividend Deduction on Line 2 of Section C.

Line (1). Enter from Federal Schedule C, Line 20 total deductions.

Line (2). Enter Federal Schedule C, Line 15 Foreign Dividend Gross-Up (Section 78 total Column A).

Line (3). Enter dividends from less than 20% owned foreign corporations listed on Lines 13 and 14 of Federal Schedule C times 70%.

Line (4). Enter dividends from 20% or more owned foreign corporations listed on Lines 13 and 14 of Federal Schedule C times 80%.

Line (5). Enter dividends listed on Lines 13 and 14 of Federal Schedule C from foreign corporations that meet the 80% voting and value test of IRC § 1504(a)(2) and otherwise would qualify for 100% deduction under IRC 243(a)(3) if they were from a domestic corporation.

Line (6). Enter the total PA Dividend Deduction by adding Lines 1, 2, 3, 4 and 5. Enter on RCT-101, page 3, Section C, Line (2a).

DEPRECIATION OF REAL PROPERTY UNDER SECTION 1250 OF THE INTERNAL REVENUE CODE ON AN ACCELERATED DEPRECIATION BASIS. [See instructions for Section C, Line 4(b), Tax Preference Items.]

All taxpayers depreciating real property under Section 1250 of the Internal Revenue Code on an accelerated depreciation basis (which includes leasehold improvements qualifying as Section 1250 assets) should complete, and include with the filing of their PA Corporate Tax Report, a schedule for the purpose of allowing a buildup to straight line depreciation and reflecting amounts above straight line depreciation. If the schedule is not completed, any amount above straight line will result in an increase in taxable income as determined by the Department and no adjustment decreasing taxable income by depreciation below straight line will be allowed. A suggested format for this schedule is set forth below:

Description Of IRC 1250 Real Property	Type of Depreciation (eg., DB, DDB, SYD)	Amount of S.L. Depreciation	Depreciation Expense in This Report	Amount Above S.L.	Amount Below S.L.

STATUTORY BASIS AND EXPLANATION OF THE TAXES

CAPITAL STOCK TAX (DOMESTIC CORPORATIONS)

CAPITAL STOCK TAX - BASIS

This tax is imposed upon the value of capital stock of domestic corporations.

A domestic entity is defined for purposes of the Capital Stock Tax as any, "...corporation having capital stock, every joint-stock association, limited partnership and every company whatsoever, now or hereafter organized or incorporated by or under any laws of the Commonwealth, other than corporations of the first-class, nonprofit corporations and cooperative agricultural associations not having capital stock and not conducted for profit, banks, savings institutions, title insurance or trust companies, building and loan associations and insurance companies."

Effective January 1, 1995 the terms "domestic entity" and "foreign entity," as defined for Capital Stock/Foreign Franchise tax have been amended to include "every business trust (excluding REITs and RICs) to which 15 PA C.S. Ch. 95 (relating to business trusts) applies and that for federal income tax purposes is taxable as a corporation." Similarly, effective January 1, 1995, all Limited Liability Companies (LLCs) except those registered as Restricted Professional Companies (RPCs) will be taxed as corporations and their members will be taxed as shareholders in a corporation.

ADDITIONAL SCHEDULES FOR APPORTIONMENT/EXEMPTIONS

The taxpayer must complete Section A of page 2 of the RCT-101. In addition, where a claim is made for exempt tangible and/or intangible assets, this claim must be supported by completing the first page of RCT-106, Insert Sheet. A corporation claiming the manufacturing, processing or research and development exemption also is required to complete RCT-102, "Capital Stock Tax Manufacturing Exemption Schedule." The applicable part of RCT-106 must be completed if any constitutional, public policy or other statutory exemption is claimed.

APPORTIONMENT OF CAPITAL STOCK TAX

A domestic corporation is permitted to compute and pay its Capital Stock Tax by employing the three (3) apportionment fractions; namely, tangible property, payroll and sales which are applicable to Foreign Franchise Tax in lieu of the single-factor apportionment formula. A domestic corporation (as well as a 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. Page 2 of RCT-106 must be completed by companies electing to compute their taxable value of capital stock by utilizing the three-factor apportionment. However, companies claiming the manufacturing, processing or research and development exemption and electing to utilize the three-factor apportionment formula should complete RCT-105, "Three-Factor Capital Stock/Foreign Franchise Tax Exemption Schedule."

EXEMPTIONS TO CAPITAL STOCK TAX

Because the tax is imposed upon property, constitutional restrictions require that certain property be exempted in arriving at a taxable value. A taxable proportion is determined by a fraction, the numerator of which is the average value of nonexempt assets and the denominator of which is the average value of total assets. When the total value of a corporation's capital stock is multiplied by the taxable proportion fraction, the taxable value results.

The following exemptions are allowable:

CONSTITUTIONAL EXEMPTIONS

1. Tangible property located outside Pennsylvania. Retention of lien or title as security interest is not considered tangible property. Movable tangible personal property must acquire an out-of-state tax situs to be considered exempt.

2. Shares of stock of other PA corporations subject to Capital Stock Tax or Bank Shares Tax. National bank shares only if subject to the PA Shares Tax.

3. U.S. Government obligations, including obligations issued by Bank for Cooperatives, Commodity Credit Corp., Export Import Bank, Farmers Home Administration, Federal Deposit Insurance Corp., Federal Farm Credit Bank Consolidated System Wide Notes, Federal Financing Banks, Federal Home Loan Bank Notes and Consolidated Bonds, Federal Housing Administration Mutual Mortgage Insurance Fund Debentures, Federal Intermediate Credit Bank Bonds, Federal Land Bank Bonds and Federal Land Bank Association Bonds, Federal Reserve Stock, Federal Savings & Loan Insurance Corporation, General Insurance Fund, Guam Bonds, Production Credit Association, Puerto Rico Bonds, Sales of Securities under Agreements to Repurchase, Small Business Administration Notes, Student Loan

Marketing Association, Tennessee Valley Authority Power Program Bonds, United States Postal Service, United States Treasury Notes, Bonds, Bills, Obligations and Certificates, Virgin Islands Bonds, Zero Coupon bonds and notes.

STATUTORY EXEMPTIONS

1. Manufacturing, Processing or Research and Development Exemptions. That portion of the capital stock value of corporations organized for manufacturing, processing or research and development purposes which is invested in and actually and exclusively employed in carrying on manufacturing, processing or research and development within Pennsylvania (except those corporations which enjoy and exercise the right of eminent domain) is exempt. That portion of capital stock value invested in any property or business not [strictly incident or appurtenant] directly related to the manufacturing, processing or research and development business remains taxable.

   Corporations entitled to the manufacturing, processing or research and development exemption should refer to the instructions reflected on page 1 of RCT-102, "Capital Stock Tax Manufacturing Exemption Schedule."

2. "Pollution Control Devices." Equipment, machinery, facilities and other tangible property employed or utilized within the Commonwealth of Pennsylvania for water and air pollution control or abatement devices which are being employed or utilized for the benefit of the general public. The pollution control devices exemption is limited to tangible property only; intangible property is not exempt.

   Corporations claiming this exemption should exclude the average net book value from the numerator of the taxable proportion if the single apportionment formula is used. The value of the "Pollution Control Devices" excluded should be reflected in the appropriate space on page 1, Line B of the Insert Sheet (RCT-106). Corporations electing to use the three-factor apportionment formula should exclude the original cost value from the numerator of the property factor (does not apply to Corporate Net Income Tax Apportionment).

   All claims for exemptions must be accompanied by a schedule reflecting a description of the pollution control device, location and value. In addition, a copy of the certification issued by the PA Department of Environmental Resources must be submitted initially in support of the exemption claimed for each and every new device.

3. Obligations issued by the Commonwealth of Pennsylvania, any public authority, commission, board or other agency created by the Commonwealth, any political subdivision of the Commonwealth or any public authority created by any such subdivision.

4. Stock of foreign corporations in which the taxpayer owns more than 50 percent of the outstanding shares of voting stock.

5. Shares of stock of cooperative agricultural associations.

6. A corporation which qualifies as a Family Farm Corporation is exempt from Capital Stock or Foreign Franchise Tax provided that the corporation actually is engaged in the business of agriculture in Pennsylvania. For the purposes of this exemption, the business of agriculture means commercially cultivating the ground to produce products in fields or in large quantities, including the preparation of soil; the planting of seeds; the raising and harvesting of crops; the business of operating a commercial greenhouse; the business of horticulture and floriculture; beekeeping; the rearing, feeding, breeding and management of livestock. The business of agriculture also shall include aquaculture, which is defined as the raising of fish and other aquatic animals for direct commercial use as food or other products.

The following activities are not considered to be the business of agriculture:

a. Recreational activities such as, but not limited to, hunting, fishing, camping, skiing, show competition or racing;

b. The raising, breeding or training of game animals or gamebirds, cats, dogs or pets, or animals intended for use in sporting or recreational activities;

c. Fur farming;

d. Stockyard and slaughterhouse operations;

e. Manufacturing or processing operations of any kind.

For a corporation to qualify for the family farm exemption, the following conditions must be met:

a. At least 75% of the family farm corporation's assets must be devoted to the business of agriculture and employed within Pennsylvania. The original cost of such assets is utilized in determining whether a corporation meets the asset test unless the taxpayer can show by clear and convincing evidence that the market value is different. To qualify as assets used in the business of agriculture, the assets must be owned and used directly by the corporation claiming the exemption, be devoted principally to the business of agriculture and be property of the sort commonly utilized in such business.

b. At least 75% of all shares of stock issued by the corporation must be owned by individuals who are members of the same family to satisfy the stock ownership test. Members of the same family mean an individual, his brothers and sisters, the brothers and sisters of the individual's parents and grandparents, the ancestors and lineal descendants of any of them, and a spouse of any of them. Individuals related by the half blood or by legal adoption are treated as if they were related by the whole blood. Stock of the family farm corporation owned, directly or indirectly, by or for a partnership, trust or estate shall be considered as owned proportionately by its partners or beneficiaries. If stock of the family farm corporation is owned by another corporation, such stock shall be considered owned by a family member in that proportion which the stock of such other corporation owned by family members bears to all of the stock in such other corporation, providing that family members own 50% or more of the stock of such other corporation. Where more than one class of stock is issued, the 75% stock ownership test must be met for each class of stock issued.

Corporations claiming the family farm exemption must file annually with the corporate tax report a schedule reflecting the following:

a. A brief description of the agriculture business;

b. A listing of all assets reflecting their original cost and designating which are and which are not used principally in the corporation's agricultural business; and

c. A listing of all owners of stock including the number of shares of stock owned, the class of stock and the relationship of each stockholder within the family.

FOREIGN FRANCHISE TAX (FOREIGN CORPORATIONS)

FOREIGN FRANCHISE TAX - BASIS

This tax is imposed upon the exercise of the corporate franchise in Pennsylvania by a foreign entity. A foreign entity for Foreign Franchise Tax purposes is defined as any, "...corporation (effective January 1, 1995 this includes business trusts that for federal purposes are taxed as corporations, limited liability companies except REITs and

RICs that are organized as trusts), joint-stock, association, limited partnership and company whatsoever, now or hereafter incorporated or organized by or under the law of any other state or territory of the United States, or by the United States, or by or under the law of any foreign government, and doing business in and liable to taxation within the Commonwealth or carrying on activities in the Commonwealth including solicitation or either owning or having capital or property employed or used in the Commonwealth by or in the name of any limited partnership or joint-stock association, copartnership or copartnerships, person or persons, or in any other manner doing business with and liable to taxation within the Commonwealth other than nonprofit corporations, banks, savings institutions, title insurance or trust companies, building and loan associations and insurance companies." Although the exercise of the corporate franchise is the incidence of the tax, the capital stock value is the measure by which the tax is determined.

Act 77 of 1986 has added solicitation to the list of activities which subjects a foreign corporation to Foreign Franchise Tax.

ADDITIONAL SCHEDULES FOR APPORTIONMENT/EXEMPTIONS

Foreign corporations are subject to the Foreign Franchise Tax. The mechanics of calculating this tax are the same as the computation of the Capital Stock Tax paid by domestic corporations.

APPORTIONMENT OF FOREIGN FRANCHISE TAX

Corporations claiming apportionment for Foreign Franchise Tax purposes and electing to utilize the three (3) factor formula must complete page 2 of form RCT-106, Insert Sheet. To qualify to use the three-factor apportionment, a corporation must be taxable outside Pennsylvania and be transacting business outside the Commonwealth.

Those corporations claiming the manufacturing exemption and using three-factor apportionment should use the RCT-105. In either case, the numerators and denominators of the property, payroll and sales factors should be carried forward to Schedule A-1, page 2 of RCT-101. Do not Double Weight the Sales Factor!

Special apportionment fractions must be utilized only by railroad, truck, bus and airline companies, pipeline or natural gas companies and water transportation companies as indicated in the instructions in lieu of three-factor apportionment.

Foreign corporations may elect to use the single-factor apportionment formula in apportioning their capital stock value in lieu of the three-factor formula. If this election is made, page 1 of RCT-106, Insert Sheet, must be completed to support this computation. A foreign corporation electing to use the single-factor formula should compute its fraction exactly as if it were a domestic corporation. Its numerator will be the difference between the value of its average total assets and the value of its average exempt assets and its denominator will be the average value of all its assets. The value of intangible assets, unless specifically exempt, must be included in the numerator.

THREE-FACTOR APPORTIONMENT

Page 2 of the Insert Sheet (RCT-106) is used to compute the three-factor apportionment. All amounts, not in agreement with information on Federal Form 1120 or 1120S, must be reconciled. If used, the RCT-106 must be attached immediately after the PA Corporate Tax Report (RCT-101).

Property Factor

The numerator of the fraction 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 of the fraction 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, but the PA 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 interest in a partnership or similar association shall be included in the apportionment fraction as a direct interest of the partner in the assets of the partnership. A portion of the partnership's real and personal property, both 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 "Other Tangible Property" line of Table 1, page 2 of the "Insert Sheet" (RCT-106).

The rented and used property should be reflected on the line titled "Partnership Tangible Property Rented."

A copy of the partnership's Federal Form 1065 along with a detailed description of all partnership activity must be attached to the "Insert Sheet" (RCT-106).

Payroll Factor

The numerator of the fraction is the total amount paid in Pennsylvania during the tax period by the taxpayer for compensation and the denominator of the fraction 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 to have been paid.

Compensation is paid in this state if:

a The individual's service is performed entirely within Pennsylvania;

b The individual's service is performed both within and outside Pennsylvania, but the service performed outside the state is incidental to the individual's service within the state; or

c 1 Some of the service is performed in the state and the base of operations is in the state;

  2 If there is no base of operations, the place from which the service is directed or controlled is in 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 in 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 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 "Other" line of Table 2, page 2 of the "Insert Sheet" (RCT-106).

Sales Factor

The numerator of the fraction is the total Gross Receipts of the taxpayer in this state during the tax period, and the denominator is the total Gross Receipts of the taxpayer everywhere during the taxable period.

Sales of tangible personal property are in this state if the property is delivered or shipped to a purchaser within this state.

The partnership's Gross Receipts shall be included in the denominator of the taxpayer's sales factor to the extent of the taxpayer's interest in the partnership. The amount of such Gross Receipts attributable to Pennsylvania shall be included in the numerator of the sales factor. These figures should be reflected on the "Other Income" line of Table 3, page 2 of the "Insert Sheet" (RCT-106).

Sales, other than sales of tangible personal property, are in this state if:

a The income-producing activity is performed in this state; or

b The income-producing activity is performed both in and outside this state and a greater proportion of the income-producing activity is performed in this state than in any other state, based on costs of performance.

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

Nonbusiness Income

The case of Welded Tube Company of America v. Cmwlth. 515 A2d 988 (1986) has become the basis for the determination of whether income is business or nonbusiness income.

TRC §401(3)2.(a)(1)(A) as applied by Commonwealth Court in Welded Tube determines business income by using two tests. Under the "transactional test" business income is income "...arising from transactions and activity in the regular course of a taxpayer's trade or business..." Under the "functional test," income is business income if the acquisition, management, and disposition of the property other than in liquidating situations constitute integral parts of the taxpayer's regular trade or business operations. Under this test a gain arising from the sale of an asset is business income if the asset produced business income while held by the taxpayer.

Rents and royalties from real or tangible personal property, gains, interest, patent or copyright royalties, to the extent that they constitute nonbusiness income, are allocated as reflected below:

1 Net rents and royalties from real property located in this state are allocable to this state.

2 Net rents and royalties from tangible personal property are allocable to this state if and to the extent that the property is utilized in this state, or in their entirety if the taxpayer's commercial domicile is in this state and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized. "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

   The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction. The numerator of the fraction is the number of days of physical location of the property in the state during the rental or royalty periods in the taxable period. The denominator of the fraction is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable period. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental or royalty payer obtained possession.

3 Interest is allocable to this state if the taxpayer's commercial domicile is in this state.

4 Patents and copyright royalties are allocable to this state if and to the extent that the patent or copyright is utilized by the payer in this state, or if and to the extent that the patent or copyright is utilized by the payer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this state.

   A patent is utilized in a state to the extent that it is employed in production, fabrication, manufacturing, or other processing in the state or to the extent that a patented product is produced in the state. If the basis of receipts from patent royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the patent is utilized in the state in which the taxpayer's commercial domicile is located.

   A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

NOTE: Nonbusiness income of railroad, truck, bus or airline companies, pipeline or natural gas companies, and water transportation companies operating on high seas or inland waters also is allocated as noted above.

SPECIAL APPORTIONMENT FRACTIONS

n Railroad, Truck, Bus or Airline Companies:

   All business income of railroad, truck, bus or airline companies shall be apportioned to the Commonwealth of Pennsylvania by multiplying the income by a fraction. The numerator of the fraction is the taxpayer's total revenue miles within the Commonwealth 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" means 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 both persons and property, the revenue mile fractions attributable to each such class of transportation are computed separately; and the average of the two fractions, weighted in accordance with the ratio of total receipts from each such class of transportation everywhere to total receipts from both such classes of transportation everywhere, is used in apportioning business income to the Commonwealth.

n Pipeline or Natural Gas Companies

   All business income of pipeline companies is apportioned to the Commonwealth 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 the Commonwealth 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 companies subject to regulation by the Federal Power Commission or by the Pennsylvania Public Utility Commission is apportioned to the Commonwealth of Pennsylvania by multiplying the income by a fraction. The numerator of the fraction is the cubic foot capacity of the taxpayer's pipelines in the Commonwealth. 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 Companies Operating on High Seas:

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

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

- Water Transportation Companies Operating on Inland Waters:

  All business income of water transportation companies operating on inland waters is apportioned to the Commonwealth of Pennsylvania by multiplying the business income by a fraction. The numerator of the fraction is the taxpayer's total revenue miles within the Commonwealth 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 between the Commonwealth and another state shall be considered Commonwealth miles. A revenue mile means the revenue receipts derived from the transportation by the taxpayer of persons or property one mile.

EXEMPTIONS TO FOREIGN FRANCHISE TAX

Pollution Control Devices are exempt from the Foreign Franchise Tax. Equipment, machinery, facilities and other tangible property employed or utilized within the Commonwealth of Pennsylvania for water and air pollution control or abatement devices which are being employed or utilized for the benefit of the general public are exempt. Effective January 1, 1991, Act 22 of 1991 limited the Pollution Control Devices exemption to tangible property only; intangible property is not exempt. Corporations claiming this exemption should exclude the original cost value from the numerator of the property factor and attach an appropriate schedule to the Insert Sheet (RCT-106). This schedule should reflect a description of the pollution control device, location and value. A copy of the certification issued by the PA Department of Environmental Resources must be submitted initially in support of the exemption claimed for each and every new device.

DETERMINATION OF THE CAPITAL STOCK VALUE: FIXED FORMULA (DOMESTIC AND FOREIGN CORPORATIONS)

The valuation of capital stock of all domestic corporations and all foreign corporations doing business in Pennsylvania is computed using a fixed formula.

The definition of "Capital Stock Value" for Capital Stock Tax and Foreign Franchise Tax purposes reads: "The amount computed pursuant to the following formula: the product of one-half times the sum of the average book income capitalized at the rate of 9.5% plus 75% of net worth from which product shall be subtracted $100,000, the algebraic equivalent of which is:

(.5 x [(average net income ÷ .095) + (.75) (net worth)]) - $100,000

EXAMPLE:	Corporation with $190,000 average book income and $3,000,000 net worth.				
Average Book Income					
$190,000 ÷ .095	=	$2,000,000			
	+				
Net Worth					
$3,000,000 x .75	=	$2,250,000			
		$4,250,000			
					Capital Stock Value
$4,250,000 ÷ 2	=	$2,125,000	- $100,000	=	$2,025,000

"Average Book Income" for Capital Stock Tax and Foreign Franchise Tax purposes is the sum of the net book income or loss for each of the current and immediately preceding four years divided by five. If the entity has not been in existence for a period of five years, the average income shall be the average book income for the number of years that the entity actually has been in existence beginning with the date of incorporation. In computing average book income, losses shall be entered as computed, but in no case shall average book income be less than zero. The book income or loss of the entity for any taxable period shall be the amount set forth as income per books on the income tax return filed by the entity with the federal government for such taxable period or, if no such return is made, as would have been set forth had such a return been made, subject, in either case, to any correction thereof for fraud, evasion or error. In the case of an entity which has an investment in another corporation, the net book income or loss shall be computed on an unconsolidated basis exclusive of the net

These computations should be reflected when the taxpayer completes Lines (7) through (10) of Section A, Page 2 of RCT-101.

EXAMPLES:										
FIRST YEAR CORPORATION										
	1-1-96		12-31-96							
Capital Stock	0		$ 50,000							
Retained Earnings	0		150,000							
	0	+	$200,000	=	$200,000	÷	2	=	$100,000	Average Net Worth
GOING CONCERN #1										
	1-1-96		12-31-96							
Capital Stock	$ 50,000		$ 50,000							
Retained Earnings	150,000		450,000							
	$200,000	+	$500,000	=	$700,000	÷	2	=	$350,000	Average Net Worth
GOING CONCERN #2										
	1-1-96		12-31-96							
Capital Stock	$ 50,000		$ 50,000							
Retained Earnings	(150,000)		450,000							
	($100,000)	+	$500,000							
	0	+	$500,000	=	$500,000	÷	2	=	$250,000	Average Net Worth
FINAL REPORT										
	1-1-96		12-31-96							
Capital Stock	$ 50,000		0							
Retained Earnings	150,000		0							
	$200,000	+	0	=	$200,000	÷	2	=	$100,000	Average Net Worth

book income or loss of such other corporation, but shall include dividends received.

Corporations which are liquidating under IRC Section 337 must include the gains on sale of assets in book income in the history of earnings. Forgiveness of debt shall also be included in book income.

"Net Worth" for Capital Stock Tax and Foreign Franchise Tax purposes is the sum of the entity's issued and outstanding capital stock, surplus and undivided profits set forth on the books for the close of the taxable period as reported on the income tax return filed by the entity with the federal government, or if no such return is made, as would have been set forth had such return been made, subject, in either case, to any correction thereof for fraud, evasion or error. In the case of any entity which has investments in the common stock of other corporations, the net worth shall be the consolidated net worth of such entity computed in accordance with generally accepted accounting principles. Net worth shall in no case be less than zero.

If net worth as determined under the above definition for the last day of the current taxable period is greater than twice or less than one-half of the net worth which would have been calculated as of the first day of the current taxable period, then net worth for the period shall be the average of these two amounts. If the end of period net worth or the beginning of period net worth is less than zero (0), the period value must be raised to zero (0).

REGULATED INVESTMENT COMPANIES

Every domestic corporation and every foreign corporation registered to do business in Pennsylvania and (1) which maintains an office in Pennsylvania, (2) has filed a timely election to be taxed as a regulated investment company with the federal government and (3) duly qualifies to be taxed as a regulated investment company under the provisions of the Internal Revenue Code of 1954, as amended, shall be taxed as a regulated investment company, and the Capital Stock or Foreign Franchise Tax shall be the sum of:

1. $75 multiplied by the quotient, rounded to the nearest whole number, produced by dividing the net asset value by one million.

   "Net asset value" is determined by adding the net asset values as of the last day of each month during the taxable period and dividing the total sum by the number of months involved.

   Each monthly net asset value shall be the actual market value of all assets owned without any exemptions or exclusions, less all liabilities, debts and other obligations. (See example below.)

2. Apportioned undistributed personal income tax income of the regulated investment company multiplied by the personal income tax rate for the same period. (See example below.)

"Personal income tax income" includes compensation, net profits from the operation of a business (investment), profession or farm, interest income, dividends, net gains or income from the sale or disposition of property, rents, royalties, patents and copyrights, income from estates or trusts and gambling and lottery winnings.

"Undistributed personal income tax income" means all personal income tax income, other than personal income tax income undistributed on account of the Capital Stock or Foreign Franchise Tax, less all personal income tax income distributed to shareholders. At the election of the company, income distributed after the close of a taxable period, but deemed distributed during the taxable period for Federal Income Tax purposes, shall be deemed distributed during that period. If a company in a taxable period has both current income and income accumulated from a prior period, distributions made during the year shall be deemed to have been made first from current income.

Undistributed personal income tax income is apportioned to Pennsylvania by a fraction. The numerator of the fraction is all income distributed during the taxable period to shareholders who are PA resident individuals, estates or trusts. The denominator of the fraction is all income distributed during the taxable period. Resident trusts shall not include charitable, pension or profit-sharing or retirement trusts.

Personal Income Tax income and other income of a company each shall be deemed either to be distributed to shareholders or undistributed in the proportion each category bears to all income received by the company during the taxable period.

Regulated investment companies should reflect their self-assessed tax on Line 18, Section A on page 2 of RCT-101 and insert the abbreviation "Reg. Inv. Co." on the dotted line area on Lines (11) through (14). The tax is not prorated for short periods.

A schedule reflecting the data utilized in arriving at the Capital Stock or Foreign Franchise Tax must be attached to the RCT-101 PA Corporate Tax Report

EXAMPLE:

	Total of Monthly Net Asset Values		No. of Months		Net Asset Value								
(1)	$633,000,000	÷	12	=	$52,750,000	÷	$1,000,000	=	$53*	x	$75	=	$3,975 (A)

*Rounded to the nearest whole number.

	Undistributed Personal Income Tax Income		Income Distributed to Pennsylvania Individuals Estates or Trusts ÷ by Total Income Distributed During Period		Apportioned Undistributed Personal Income Tax Income		Personal Income Tax Rate (1996 2.8%)
(2)	$500,000	x	$1,000,000 / 50,000,000	=	$10,000	x	.028 = $280 (B)

	(A)		(B)		Total Tax
(3)	$3,975	+	$280	=	$4,255

HOLDING COMPANIES

Any holding company may elect to compute the Capital Stock or Foreign Franchise Tax by applying the tax rate upon each dollar to 10% of the capital stock value. If exercised, this election shall be in lieu of any other apportionment or allocation to which such company would otherwise be entitled.

A holding company is any corporation which meets both of the following tests: (1) the company must have gross income at least 90% of which must be derived from dividends, interest, gains from the sale, exchange or other disposition of stock or securities and the rendition of management and administrative services to subsidiary corporations, and (2) the company must have assets and at least 60% of the actual value of the ending total assets must consist of stock, securities or indebtedness of subsidiary corporations. This two part test must be met annually.

Holding companies should enter the elected taxable proportion of ".100000" on Line (5) of Schedule A-1 on page 2 of RCT-101 and insert the abbreviation "Hldg. Co." on the dotted line area on Lines (11) through (14) of Section A.

CORPORATE LOANS TAX

This tax is not actually imposed upon corporations, but upon certain classes of holders of corporate indebtedness. The corporations by statute are designated as the Commonwealth's agents for withholding the tax from the interest payable on the indebtedness.

LOANS TAX—BASIS

This tax is imposed upon intangible personal property restricted to corporate obligations owned by individual residents of Pennsylvania and/or resident partnerships in Pennsylvania. All domestic private corporations issuing, assuming and paying interest on taxable indebtedness and all foreign private corporations doing business in the state which issue, assume and pay interest on taxable indebtedness and have resident treasurers or other comparable officers within the state are required to file the reports and withhold and pay the tax determined to be due.

Nonprofit corporations, mutual savings institutions, mutual casualty and fire insurance companies, cooperative agricultural associations, life insurance companies and building and loan associations are not required to withhold the tax under the provisions of the Law.

Taxable indebtedness includes script, bonds, certificates, or other evidences of indebtedness assumed by a corporation on which interest is paid; e.g., notes, mortgages, debentures, bonds, trust certificates, etc. Bank notes or notes discounted by any bank or banking institution, savings institution or trust company, interest bearing accounts in any bank, banking institution, savings institution, employee's thrift or savings institution or trust company, ground rents and bailment leases are examples of exempt forms of indebtedness.

Tax is payable only in the event a corporation pays interest on indebtedness during the year. No tax is imposed when holders of corporate indebtedness are domestic or foreign corporations, residents of other states, banks, savings institutions, title and trust companies, savings institutions without capital stock, building and loan associations, charity institutions, pension or profit sharing trusts exempt under the Internal Revenue Code, fire companies and fire relief associations, life insurance companies and mutual casualty and fire insurance companies, secret and beneficial societies, labor union and labor union relief associations, beneficial organizations paying sick or death benefits and certain cooperative associations.

CORPORATE NET INCOME TAX (DOES NOT APPLY TO CORPORATIONS WITH <u>APPROVED</u> PA S STATUS)

CORPORATE NET INCOME TAX—BASIS

The Corporate Net Income Tax is imposed on domestic and foreign corporations for the privilege of doing business, carrying on activities, having capital employed or used or owning property in Pennsylvania. Certain entities are specifically excluded from the tax including building and loan associations, banks, bank and trust companies, national banks, savings institutions, trust companies, insurance and surety companies and PA S Corporations.

ADDITIONAL SCHEDULE FOR APPORTIONMENT THREE-FACTOR APPORTIONMENT

Refer to the explanation of <u>Apportionment</u> in the section for Capital Stock Tax and Foreign Franchise Tax. All provisions and schedules for Three-Factor Apportionment and Special Apportionment are the same except that, effective with tax periods beginning on or after January 1, 1995, a Double Weighted Sales Factor MUST be used to apportion a taxpayer's Pennsylvania taxable income or losses. On form RCT-106, Page 2, Table 3, Line D is the computation of the Double Weighted Sales Factor which is then carried over to form RCT-101, Schedule C-1.

NET OPERATING LOSSES

Effective for tax periods beginning on or after January 1, 1995, taxpayer's are again permitted to offset Pennsylvania taxable income with carry overs of net operating losses (NOLs). The allowable NOL carryforward can not exceed $1,000,000 in any tax period. Also, no more than $500,000 of the NOL carryforward can be comprised of previously unused and suspended NOL's from tax periods 1988 through 1994. (Act 22-91 previously suspended the NOL carryforward provision.) In addition, the unused NOL's from tax periods 1988 through 1994 are subject to special carryforward provisions as to what years they may be applied. Refer to form RCT-103, Net Operating Loss Schedule, for further instructions.

TAX CREDITS

The following tax credits are available through the agencies and/or procedures listed at the end of each credit description.

NEIGHBORHOOD ASSISTANCE CREDIT

Neighborhood Assistance is a program of credits which reduce state corporate taxes for businesses which contribute money or other resources to improve programs which help needy people, families or communities in an impoverished area. Credits also are available to each "private company" which makes a qualified investment to rehabilitate, expand or improve buildings or land located within portions of impoverished areas which have been designated as enterprise zones.

A "private company" is one engaged in agricultural, industrial, manufacturing, research and development and commercial enterprise activities. A qualified investment is an investment made by a private company which promotes community economic development in accordance with a plan which has been developed in cooperation with and approved by a neighborhood organization operating pursuant to a plan for the administration of tax credits approved by the Department of Community and Economic Development.

Up to 50% of the contribution of a business firm or 20% of qualified investments by a private company can be used as a credit against the Corporate Net Income, Capital Stock and Foreign Franchise Taxes. The total tax credit for any one corporation is limited to $250,000 a year. Neighborhood Assistance Tax Credits can be applied only against the specific business taxes set forth in the law which created this credit. But Neighborhood Assistance Tax Credit cannot be applied against taxes such as PA Sales and Use Tax, Liquid Fuels Tax or Unemployment Compensation Taxes. Furthermore, the value of Neighborhood Assistance Tax Credits used cannot exceed the tax liability against which it is applied. Unused credits can be carried over to the next five succeeding calendar or fiscal years until the full credit has been used, but any excess/unused credit cannot be refunded.

For further information regarding the Neighborhood Assistance Program, contact the Department of Community and Economic Development, Office of Community Empowerment & Development, Room 377, Forum Building, Harrisburg, PA 17120, or telephone (717) 787-4140.

EMPLOYMENT INCENTIVE PAYMENT CREDIT

Act No. 48 of 1994 extended a program for tax credits to corporations for hiring eligible Public Assistance clients under an Employment Incentive Payments (EIP) program. Employers can receive as much as $1,800 in tax credits for hiring an eligible employee in the first year of employment, $1,200 in tax credits for the second year of employment, and $600 in tax credits for the third year of employment. The credit for each welfare recipient hired shall be equal to, but may not exceed 30% of the first $6,000 of qualified first year wages for the first year of employment, 20% of the first $6,000 of qualified wages for the second year of employment, and 10% of the first $6,000 of qualified wages for the third year of employment.

Additional tax credits for providing child care services for the child (or children) of eligible assistance clients also are available in flat amounts of $600 per employee for the first year of employment, $500 per employee for the second year of employment and $400 per employee for the third year of employment.

An employer may not use credits exceeding 90% of its tax liability in any given year. Any unused credit may be applied to any of the three (3) immediate succeeding years as long as the total credits used do not exceed 90% of the tax liability for that particular year.

The tax credits can be applied against the Corporate Net Income Tax by corporations or Personal Income Tax by individuals but are <u>not</u> available for application against Capital Stock Tax or Foreign Franchise Tax.

Employers interested in hiring qualified Public Assistance clients and participating in the Employment Incentive Payment program should contact their nearest Commonwealth Job Service Office, County Assistance Office, or Department of Revenue District Office. The employer must forward "Copy B" of the EIP Certificate to the PA Department of Revenue for each qualified hire. These certificates must be received by the Department of Revenue within 30 days following the date of issue. To claim a credit, copies of the certificate for all appropriate employees and a copy of PA Schedule W must be attached to the PA Corporate Tax Report (RCT-101). The tax credit will not appear on the corporation's ledger in the PA Department of Revenue until the Corporate Net Income Tax has been settled by the Department and audited and approved by the PA Department of the Auditor General.

For more information call the Department of Labor and Industry Tax Credit Hotline at 1-800-553-5818.

TAX CREDIT FOR CONTRIBUTIONS TO MORTGAGE EMERGENCY ASSISTANCE FUND

Tax credits are available against the Corporate Net Income Tax (<u>not</u> available for application against Capital Stock Tax or Foreign Franchise Tax) for contributions made to the Pennsylvania Mortgage Emergency Assistance Fund. A tax credit is available equal to 70% of the corporation's contribution to the fund and any tax credit not used in the period the contribution was made may be carried over for the next succeeding calendar or fiscal year until the full credit has been allowed.

Questions relative to contributions made to the Mortgage Emergency Assistance Fund should be directed to the Pennsylvania Housing Finance Agency, 2101 North Front Street, Harrisburg, PA 17105, or telephone (717) 780-3940.

JOBS CREATION TAX CREDIT

Tax credits are available for a Jobs Creation Tax Credit (JCTC) to help promote and secure job creating economic development in the Commonwealth. The tax credit will make it more desirable and more feasible for existing businesses to expand operations as well as attract new businesses to the state. To be eligible, a business must agree to create within the Commonwealth of Pennsylvania at least 25 new full-time equivalent jobs or to increase its number of employees by at least 20%, within three years from the "start date." (The "start date" will be the very first day of the employment/calendar quarter in which the company's application to receive Jobs Creation Tax Credit is approved by the newly formed Department of Community and Economic Development.) To be counted as a new-time employee under the program, the new employee must earn an average hourly wage rate of at least 150% of the federal minimum wage, excluding benefits. Also, the business must agree to maintain operations in the Commonwealth for a period of five years from the start date.

A business can earn a maximum of $1,000 in tax credits for each new job created and qualified under the terms of the program. The process begins with the business filing the appropriate application with the Department of Community and Economic Development (DCED). The DCED will evaluate the applications in which the business must demonstrate a number of things including, but not limited to, its ability to create the number of jobs specified in the application within three years from the start date, leadership in the application, development or deployment of leading technologies in its operations as well as the financial stability of the business and project viability. Approved credits can be used to offset liabilities against any or any combination of the following taxes administered by the Pennsylvania Department of Revenue: Pennsylvania Capital Stock/Foreign Franchise Tax, Pennsylvania Corporate Net Income Tax, Pennsylvania Gross Receipts Tax, Pennsylvania Gross Premiums Tax, Pennsylvania Bank and Trust or Title Insurance Company Shares Tax or the Pennsylvania Mutual Thrift Tax. If the applicant is an approved Pennsylvania S Corporation, the credit can also be "passed through" to shareholders to offset the Pennsylvania Capital Stock/Foreign Franchise Tax or Personal Income of its shareholders. A qualified applicant can also use the credit to offset the Pennsylvania Personal Income Tax.

For more information on the Jobs Creation Tax Credit program as well as to request a program guide and/or JCTC application information, please contact the Department of Community and Economic Development, Grants Office, 494 Forum Building, Harrisburg, PA 17120, or telephone (717) 787-7120.

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