

COMMONWEALTH OF PENNSYLVANIA

**CT-1 PA CORPORATION TAX BOOKLET 2001**

For Calendar Year 2001 and fiscal years beginning in 2001

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

HIGHLIGHTS

- The **CT-1 PA Corporation Tax Booklet** contains all forms and instructions necessary for the preparation of Pennsylvania Capital Stock, Franchise, Corporate Loans and Corporate Net Income (including PA S) tax reporting. Please use the preprinted address label when mailing tax reports to the Department.
- Effective for tax years beginning January 1, 2001, the **Capital Stock/Foreign Franchise Tax** rate has been reduced to **7.49 mills**.
- Effective for tax years beginning January 1, 2001, the **Education Improvement Tax Credit** is available. Refer to Section I, Page 18.
- The Department of Revenue has developed a single information return for PA S corporations and partnerships, the **PA-20S/PA-65 Combined Information Return**, along with combined schedules. This discusses the reporting requirements for PA S corporations and the taxation of the shareholders' income or loss under PA tax law, but also contains references to PA partnerships. The Department provides combined instructions for the **PA-20S/PA-65 Information Return** on its home page at [www.revenue.state.pa.us](http://www.revenue.state.pa.us)
- Effective for tax years beginning on or after January 1, 2000, **tax preparation software** from **approved software vendors** will include, as part of the RCT-101, three additional data sheets. Please assemble as follows: (3) data sheets, **signed RCT-101**, state schedules, supporting state documents and federal returns. Please clip, but do not staple, documents. **A signature on the RCT-101 is always required. Signature is not required on the data sheets. Do not place preprinted label on data sheets.** A list of approved software vendors can be found at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).
- New **processing exemption** change refer to 9 and 19 on **Page 3 of RCT-102**. Changes are effective January 1, 2001.
- Effective for tax years beginning January 1, 2000, the **minimum Capital Stock/Foreign Franchise Tax has been eliminated. Tax reports are still required to be filed.**
- If **net income per books** reported on Line 1, Section A of RCT-101 is different than the **net income per books** as reported on the Federal Income Tax Return, the taxpayer **IS REQUIRED** to provide a schedule showing the calculation of **net income per books** used in arriving at the Capital Stock value along with an explanation of **ALL** differences.
- **Is your tax report acceptable?** When filing your PA Corporate Tax Report (RCT-101) attach all necessary forms with this report, including a complete copy of the Federal Tax Return with all supporting schedules. Ensure that an **officer of the company** signs the RCT-101 on Page 1, Step G. **Failure to submit a properly completed signed report may result in the imposition of late filing penalties and/or estimated settlements (Refer to Corporation Tax Bulletin No. 121, REV-721).** Read all instructions in this booklet carefully. Refer to Section I, Page 1.



REV-1200 CT (7-01)  
PA DEPARTMENT OF REVENUE  
BUREAU OF CORPORATION TAXES  
DEPT. 280705  
HARRISBURG, PA 17128-0705

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REVENUE

**NOTE TO TAXPAYERS:**  
*FORWARD THIS LABEL AND BOOK TO  
YOUR TAX REPORT PREPARER*

**SECTION I (RCT-101)  
TABLE OF CONTENTS**

**GENERAL INSTRUCTIONS**

	PAGE		PAGE
Assembly of the Corporate Tax Report RCT-101	1	Penalties	3
Copy of Federal Form 1120 or 1120S	2	Interest	3
Where to File/Pay	2	Refunds of Corporate Taxes	3
EFT Payment Requirement	2	Assignment of Credit	4
Due Date of Report and Payment	2	Department Generated Statements	4
Filing Requirements	2	Keeping Your Account Current	4
Out of Existence/Withdrawal	2	Amended Reports/Reports of Change	4
Reinstatement	3	Questions on Filing Forms	5
Recording Dollar Amounts	3	Confirmation of Credits/Payments on Deposit for a Non-Reported Year	5
Completing Tax Reports	3	REV-857I Estimated Payment Coupon Book	5
Filing Period	3	Additional Forms Ordering	5
Extension of Time to File	3		

**SPECIFIC INSTRUCTIONS**

	PAGE		PAGE
<b>LINE BY LINE INSTRUCTIONS FOR THE PA CORPORATE TAX REPORT RCT-101</b>	6	<ul style="list-style-type: none"> <li>■ Schedule C-2: PA Dividend Deduction Schedule <ul style="list-style-type: none"> <li>■ Line (1) Total Federal Deductions</li> <li>■ Line (2) Foreign Dividend Gross-Up</li> <li>■ Line (3) Less Than 20% Ownership</li> <li>■ Line (4) Greater Than 20% Ownership</li> <li>■ Line (5) Additional Dividend Deduction</li> <li>■ Line (6) Total PA Dividend Deduction</li> </ul> </li> </ul>	11
■ RCT-101-PAGE 1	6	<b>STATUTORY BASIS AND EXPLANATION OF THE TAXES</b>	12
<input type="checkbox"/> STEP A Tax Period	6	■ CAPITAL STOCK TAX (DOMESTIC CORPORATIONS)	12
<input type="checkbox"/> STEP B Label	6	<input type="checkbox"/> Capital Stock Tax - Basis	12
<input type="checkbox"/> STEP C Special Filing Status	6	<input type="checkbox"/> Additional Schedules for Apportionment/Exemptions	12
<input type="checkbox"/> STEP D Tax Summary	6	<input type="checkbox"/> Apportionment of Capital Stock Tax	12
<input type="checkbox"/> STEP E Tax Payment Application	6	<input type="checkbox"/> Exemptions to Capital Stock Tax	12
<input type="checkbox"/> STEP F Overpayment	7	<input type="checkbox"/> Constitutional Exemptions	12
<input type="checkbox"/> STEP G Paid Preparer's Mailing Address	7	<input type="checkbox"/> Statutory Exemptions	12
<input type="checkbox"/> STEP H Signature	7	■ FOREIGN FRANCHISE TAX (FOREIGN CORPORATIONS)	13
■ RCT-101-PAGE 2		<input type="checkbox"/> Foreign Franchise Tax - Basis	13
SECTION A: CAPITAL STOCK/FOREIGN FRANCHISE TAX	7	<input type="checkbox"/> Additional Schedules for Apportionment/Exemptions	13
■ History of Earnings	7	<input type="checkbox"/> Apportionment of Foreign Franchise Tax	13
■ Line (1) Current Period Book Income	8	<input type="checkbox"/> Three-Factor Apportionment <ul style="list-style-type: none"> <li>■ Property Factor</li> <li>■ Payroll Factor</li> <li>■ Sales Factor</li> <li>■ Nonbusiness Income</li> </ul>	14
■ Lines (2)-(6) Average Book Income	8	<input type="checkbox"/> Special Apportionment	15
■ Lines (7)-(11) Net Worth	8	<input type="checkbox"/> Exemptions to Foreign Franchise Tax	15
■ Lines (12)-(15) Capital Stock Value	8	■ DETERMINATION OF THE CAPITAL STOCK VALUE: FIXED FORMULA	15
■ Lines (16)-(18) Taxable Value/Tax Calculation	8	■ Regulated Investment Companies	16
■ Schedule A-1: Apportionment Schedule for Capital Stock/Foreign Franchise Tax	9	■ Holding Companies	16
■ Lines (1)-(3) Three-Factor Apportionment	9	■ CORPORATE LOANS TAX	17
■ Line (4) Taxable Assets Fraction/ Special Apportionment	9	<input type="checkbox"/> Loans Tax - Basis	17
■ Line (5) Apportionment Proportion	9	■ CORPORATE NET INCOME TAX	17
■ SECTION B: LOANS TAX	9	<input type="checkbox"/> Corporate Net Income Tax - Basis	17
Schedule B-1 Loans Tax Information	9	<input type="checkbox"/> Additional Schedules for Apportionment	17
■ RCT-101-PAGE 3		<input type="checkbox"/> Three-Factor Apportionment	17
SECTION C: CORPORATE NET INCOME TAX	9	<input type="checkbox"/> Net Operating Losses	17
■ Lines (1)-(5) Adjustments to Income	9	<input type="checkbox"/> Unauthorized Insurance	17
■ Lines (6)-(11) Apportionment and Allocation	10		
■ Line (12) Net Operating Loss Deduction	10		
■ Lines (13)-(14) Determination of Tax	10		
■ Schedule C-1: Apportionment Schedule for Corporate Net Income Tax	11		
■ Line (1) Property Factor	11		
■ Line (2) Payroll Factor	11		
■ Line (3) Sales Factor	11		
■ Line (4) Special Apportionment	11		
■ Line (5) Apportionment Proportion	11		

**TAX CREDITS**

■ Keystone Opportunity Zone	18	■ Employment Incentive Payment Credit	18
■ Educational Improvement Tax Credit	18	■ Jobs Creation Tax Credit	19
■ Coal Waste Removal and Ultraclean Fuels Tax Credit	18	■ Waste Tire Recycling Investment Tax Credit	19
■ Neighborhood Assistance Credit	18	■ Pennsylvania Research & Development Tax Credit	19

**SECTION II (PA-20S/PA-65)  
TABLE OF CONTENTS**

**GENERAL INSTRUCTIONS**

	<b>PAGE</b>
■ DIFFERENCES BETWEEN FEDERAL AND PENNSYLVANIA LAW .....	1
■ EFFECT OF PENNSYLVANIA S CORPORATION STATUS .....	1
■ OBTAINING PENNSYLVANIA S CORPORATION STATUS .....	1
■ TERMINATION OR REVOCATION OF PENNSYLVANIA S CORPORATION STATUS .....	3
■ PENNSYLVANIA S REVOCATION OR TERMINATION YEAR .....	3
■ ALLOCATION OF INCOME .....	4
■ CLASSES OF INCOME .....	4
■ BASIS AND GAIN RULES .....	6
■ RECONCILIATION OF FEDERAL TAXABLE INCOME TO PA REPORTABLE INCOME .....	6
■ DIFFERENCES BETWEEN FEDERAL LAW AND PA PIT LAW FOR PA S CORPORATIONS .....	6
■ TAXABLE YEAR .....	6
■ DUE DATE FOR FILING THE PA-20S/PA-65 INFORMATION RETURN .....	6
■ MAILING INSTRUCTIONS .....	7
■ RECORDS RETENTION .....	7
■ EXTENSION OF TIME TO FILE THE PA-20S/PA-65 INFORMATION RETURN .....	7
■ AMENDED PA-20S/PA-65 INFORMATION RETURNS .....	7
■ CLASSES OF INCOME .....	7
■ TAX CREDITS .....	9

**INSTRUCTIONS FOR COMPLETING THE PA-20S/PA-65  
AND ACCOMPANYING SCHEDULES**

**FORM PA-20S/PA-65**

**PAGE**

■ Part I Total PA Taxable Business Income or Loss .....	10
■ Part II Total PA Taxable Business Income or Loss Allocable to Pennsylvania .....	10
■ Part III Noncommercial Income or Loss .....	10
■ Part IV Noncommercial Income or Loss Allocable to Pennsylvania .....	11
■ Part V Total PA S Corporation or Partnership Income or Loss .....	11
■ Part VI Pass-Through Credits .....	11
■ Part VII Distributions .....	11
■ Part VIII Partnerships Only .....	12
■ Part IX PA S Corporations Only-Accumulated Adjustment Account .....	12
■ Part X Nonresident Withholding Payments PA S Corporation and PA Partnership .....	12

**SCHEDULE INSTRUCTIONS**

■ PA Schedule M – Reconciliation of Federal Taxable Income .....	12
■ PA Schedules RK-1 and NRK-1 .....	13
■ PA Schedule H .....	14
■ PA Schedule E .....	16
■ PA Schedule G – Resident Shareholders Only .....	16
■ PA Schedule J – Income from Estates or Trusts .....	16
■ PA-40NRC .....	17

**TAX REPORTS AND SCHEDULES**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>■ RCT-101 PA Corporate Tax Report (2)</li> <li>■ RCT-101-I Inactive PA Corporate Tax Report (1)</li> <li>■ RCT-102 Capital Stock Tax Manufacturing Exemption Schedule (1)</li> <li>■ RCT-103 Net Operating Loss Schedule (1)</li> </ul> | <ul style="list-style-type: none"> <li>■ RCT-105 Three-Factor Capital Stock/Franchise Tax Manufacturing Exemption Schedule (1)</li> <li>■ RCT-106 Insert Sheet (Apportionment Schedule) (1)</li> <li>■ REV-238 Out of Existence/Withdrawal Affidavit (1)</li> <li>■ Label</li> </ul> |
|--|--|

**PA-20S/PA-65 INFORMATION RETURN AND SCHEDULES**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>■ PA-20S/PA-65 PA S Corporation/Partnership Information Return (1)</li> <li>■ PA Schedule RK-1 and NRK-1 (1)</li> </ul> | <ul style="list-style-type: none"> <li>■ PA Schedule M (1)</li> <li>■ PA Schedule E, H and J (1)</li> </ul> |
|--|---|

## **PENNSYLVANIA CAPITAL STOCK AND FRANCHISE TAX MANUFACTURING EXEMPTION INFORMATION**

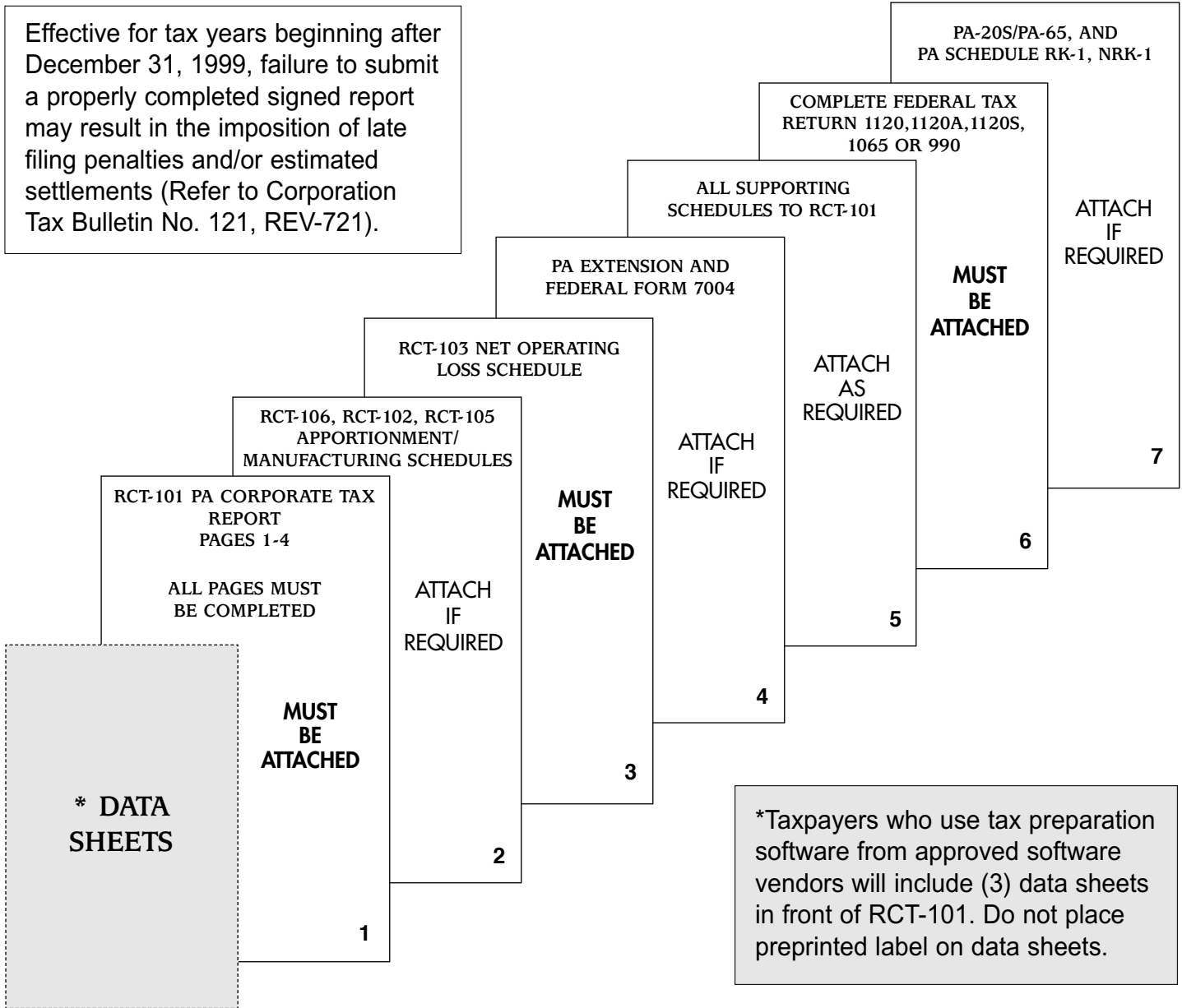
Act 23 of May 2000 has resulted in changes to the Pennsylvania manufacturing exemption. Effective for tax years beginning after December 31, 1998, the numerator of the property or payroll factors shall not include any property or payroll attributable to manufacturing, processing, research or development activities in the Commonwealth and any property or payroll attributable to manufacturing, processing, research or development activities outside of the Commonwealth shall also be excluded.

To claim the exemption for Pennsylvania property or payroll attributable to manufacturing, processing, research or development activities outside of the Commonwealth by the taxpayer, such amounts should **not** be included on RCT-105, Tables 1 and 2 in Column B-1.

Because there is **no** exemption for sales for the years in question, Table 3, Column A(2) has been eliminated. All Pennsylvania sales should be reflected on Table 3, Column A of RCT-105.

To compute the single fraction manufacturing exemption on RCT-102, any amounts that would have been listed in Column F, per prior law, that are attributable to manufacturing, processing, or research or development activities outside of Pennsylvania by the taxpayer should **not** be included in either Column F or H. Include a schedule identifying gross receipts derived from the production of nonmanufactured articles.

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



**Assemble the completed 2001 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.	<b>ALL TAXPAYERS MUST FILE A COMPLETE RCT-101, EVEN IF NO TAX IS DUE.</b>
2.	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.)
3.	RCT-103 Net Operating Loss Schedule	<b>ALL TAXPAYERS MUST INCLUDE A COMPLETE RCT-103 TO CLAIM A NET OPERATING LOSS DEDUCTION/CARRY FORWARD.</b>
4.	PA Extension Approval Letter and Federal Form 7004	IF REQUIRED (Those who obtain a Pennsylvania approved extension to file.)
5.	All supporting schedules to the PA Corporate Tax Reports, <b>including a Consolidated Balance Sheet.</b>	AS REQUIRED (To support specific adjustments and computations on the RCT-101.)
6.	Federal Form 1120, 1120A, 1120S, (Income statement, balance sheet and other schedules, including details of taxes expensed and Schedule M adjustments), 1065 or 990. A balance sheet <b>must</b> be submitted for <b>all</b> taxpayers.	<b>ALL TAXPAYERS MUST INCLUDE A COMPLETE COPY OF THE FEDERAL RETURN.</b>
7.	PA-20S/PA-65, and PA Schedule RK-1, NRK-1.	<b>ALL PENNSYLVANIA S CORPORATIONS MUST FILE A PA-20S/PA-65 WITH SUPPORTING SCHEDULES.</b>

PENNSYLVANIA CORPORATE TAX REPORT  
INSTRUCTIONS FOR FORM RCT-101

**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 booklet. 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 PA Corporate Tax Report, RCT-101. A copy of the federal Form 1120 must be attached and apportionment fractions reported.

Inactive corporations (no activity, no assets and no stock) are permitted to file composite reports 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 2001 RCT-101 for any period other than 2001."

**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.

LLC's that are disregarded entities must attach a pro forma federal return. If the single member of the LLC is a corporation, for Federal Income Tax purposes, the LLC shall attach a pro forma separate company federal Form 1120. If the single member of the LLC is a partnership for Federal Income Tax purposes, the LLC shall attach a pro forma separate company federal Form 1065.

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 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.
4. **Failure to submit a properly completed signed report may result in the imposition of late filing penalties and/or estimated settlements (Refer to Corporation Tax Bulletin No.121, REV-721).**

**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. **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 label contained in the Instruction Booklet 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). 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 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.) In general, PA Corporate Tax Reports are due thirty (30) days after the original due date of the Federal tax return.**

**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 booklet. (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 all 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.** 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 confirming with the PA Department of State, Corporation Bureau, that the corporation name currently is available for use by calling (717) 787-1057. A corporation, which has been marked out of existence/withdrawn, must be reinstated on the Department of Revenue records before its corporate franchise can again be utilized. This can be effected by filing a composite corporate tax report (one report which is filed for a period of more than one year) from the date of out of existence status through the end of the last calendar or fiscal period of no activity. The minimum tax is waived for the years covered by the composite report. The "statement in support of Inactive Report" section of the tax report must be completed when filing a composite tax report. This report must be submitted along with the corporate tax report covering the first year of business activity.

## 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 Booklet. 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 Federal 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 and address must be typed or printed in the appropriate blocks provided in STEP G 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 are requesting an automatic six month extension of time to file federal Form 1120 or 1120S, 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-8571 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-8571 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, Jobs Creation, Waste Tire Recycling Investment, and Pennsylvania Research and Development 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) 705-6225, TT# 1-800-447-3020 (Services for Taxpayers with Special Hearing and/or Speaking Needs) 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. **INTEREST ON UNDERPAYMENT OF ESTIMATED TAX** - Accounts which have not made adequate prepayments of the safe harbor or estimated amount of the current year’s tax are subject to interest for underpayment of estimated tax. A Notice of Settlement for such interest is generated upon receipt of a tax report and reevaluated with each settlement or resettlement, allowing for both increases and decreases in the original interest.
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/REPORTS OF CHANGE

**Amended Reports** – The RCT-101X, Amended PA Corporate Tax Report (2001) must be filed to amend the Capital Stock/Foreign Franchise, Loans or Corporate Net Income Taxes previously reported for tax period 2001. **Amended reports are not intended to take the place of a formal appeal.**

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. Decreases in taxable income must be supported by evidence that the Internal Revenue Service has accepted the changes. 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, complete only the section(s) that reflect a change in tax. 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.



**Reports of Change** – 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). **A copy of the Revenue Agent’s Report showing changes in net income for each year, as well as, a separate company breakdown of the changes must be included.**

**QUESTIONS ON FILING FORMS**

Questions regarding the filing of PA Corporation Tax forms, including forms from the REV-8571 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:

<b>Number</b>	<b>Topic</b>
1-888-PATAXES (728-2937)	Estimated Payments
(717) 787-1064	General Tax Questions
(717) 787-2632	Extension to File Annual Report
(717) 705-6225	Transfer/Refund of Overpayments
TT# 1-800-447-3020	(Services for Taxpayers with Special Hearing and/or Speaking Needs)

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

**CONFIRMATION OF CREDITS/PAYMENTS ON DEPOSIT FOR A NON-REPORTED YEAR.**

You can confirm the amount of payments or credits on deposit for a corporate tax account using your touch-tone phone by dialing 1-888-PATAXES (728-2937). The automated information system will respond with deposits on record in a tax year from 7 a.m. to 6 p.m. each working day.

To use the system, call 1-888-PATAXES, select option 1 for touch-tone service, then option 2 to check on an account, then option 5. You will be asked to enter your seven-digit corporate file Box Number. Once confirmed, the system will respond with your choice of:

1. The total cash and credit on deposit for each tax type within a specific year; or
2. The amount of credit versus cash payments on deposit within each tax type in a given year; or

3. A detailed response of every individual cash payment or credit by tax type.

**REV-8571 PA CORPORATION TAX ESTIMATED PAYMENT COUPON BOOK**

The REV-8571 coupon book is mailed separately from the tax instruction booklet 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-8571. Photocopies or other facsimile, 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. To order the REV-8571 coupon book, call (717) 772-3635, 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-8571) 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.

**ADDITIONAL FORMS ORDERING**

You may order any Pennsylvania tax form or schedule by calling the special 24-hour answering service numbers for forms ordering: Nationwide 1-800-362-2050; or within the local Harrisburg area (717) 787-8094. The Department provides 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  
711 GIBSON BLVD.  
HARRISBURG, PA 17104-3200**

All material will be mailed directly to you.

You also may visit your local Revenue district office to obtain PA tax forms or schedules.

# SPECIFIC INSTRUCTIONS

## LINE BY LINE INSTRUCTIONS FOR THE PA CORPORATE TAX REPORT RCT-101

### RCT-101 - PAGE 1.

#### STEP A TAX PERIOD

**Line (1).** Enter month and day (MM DD 01) for the tax period beginning and month, day and year (MM DD YY) for tax period ending. The 2001 PA Corporate Tax Report is for use **only** with the tax periods beginning in 2001. **For corporations reporting on a 52-53 week basis, see instructions on Section I, 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 Booklet 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 Federal ID (EIN).

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

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

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

#### STEP C CHECK SPECIAL FILING STATUS

**Line (6).** Check the block  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  if this is a **last report**.

**Line (8).** Check the block  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).

**Line (9).** Check the block  if the corporation is a **family farm** and is not subject to the Capital Stock/Foreign Franchise Tax.

**Line (10).** Check the block  if the corporation is a **business trust**.

**Line (11).** Check the block  if the corporation is a **qualified Holding Company AND** is electing to use the special 10% apportionment for Capital Stock/Foreign Franchise tax. (See specific instructions.)

**Line (12).** Check the block  if the corporation is **solicitation only**.

**Line (13).** Check the block  if this is a **first report**.

**Line (14).** Check the block  if the corporation is a **Regulated Investment Company**. (See specific instructions.)

**Line (15).** Check the block  if the corporation is a **52-53 week filer**.

**Line (16).** Check the block  if the corporation has a **KOZ/EIP Credit**.

#### STEP D TAX SUMMARY

**Line (17).** **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 3).
- 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.** (See confirmation of Credits/Payments in Section I, Page 5.) 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 (18).** If the Column C TOTAL is greater than "0," a payment or transfer of credit is required. STEP E must be completed.

**Line (19).** 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 (20).** If the Column C TOTAL is "0," skip to STEP G.

#### STEP E TAX PAYMENT APPLICATION

**Line (21).** 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.
- 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. For more information on EFT call 1-800-892-9816. (EFT calls only.)

**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 Page 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	500	200	300	ENTER WHOLE DOLLARS ONLY
LOANS TAX	100	-0-	100	
CORPORATE NET INCOME TAX	1400	1500	(100)	
<b>TOTAL</b>	<b>2000</b>	<b>1700</b>	<b>300</b>	

17. If Column C TOTAL is greater then 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.

**\*NOTE: Confirmation available by calling 1-888-728-2937 (1-888-PATAXES)**

**STEP E TAX PAYMENT APPLICATION**

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

DEPARTMENT USE ONLY			PAYMENT	
I	P			
		CAPITAL STOCK FOREIGN FRANCHISE TAX	200	ENTER WHOLE DOLLARS ONLY
		LOANS TAX	100	
		CORPORATE NET INCOME TAX	-0-	
		<b>TOTAL PAYMENT</b>	<b>300</b>	

**TOTAL PAYMENT MUST EQUAL THE COLUMN C TOTAL FROM STEP D.**

If your payment exceeds \$20,000 refer to Section 1, Page 2 for Electronic Funds Transfer (EFT) Instructions.

**STEP F OVERPAYMENT**

Line (22). 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 PAID PREPARER'S MAILING ADDRESS**

Line (23). Check the block  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 and the date prepared must be typed or printed in the appropriate blocks.

**STEP H SIGNATURE**

Line (25). **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.

**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. The book income of Limited Liability Companies (LLCs) and Business Trusts that are corporations or partnerships for Federal Income Tax purposes is derived from their federal returns. If the single member of the federal "disregarded entity" LLC is a natural person, the LLC is required to file a schedule of net book income supported by the change in net worth from the beginning to the end of the tax year.

Net book income will be the difference in the net worth of the LLC from the beginning to the end of the year. Any adjustments to this amount, as for capital contributions, should be explained. This method effectively reduces book income for any distributions.

A statement should also be submitted indicating that the single member LLC is owned by a natural person. If this statement is submitted a schedule of "taxable" income is not required.

Effective for tax years beginning 1-1-98, a limited liability company or business trust taxable as a partnership for Federal income tax purposes may adjust their book income for distributions to members deemed to be materially participating in the activities conducted by such limited liability company or business trust for purposes of Section 469 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. §469). For this purpose, distributions which are made to a member of a limited liability company or business trust within thirty (30) days of the end of a given year may be treated as having been made in the preceding year and not in the year in which such distribution is actually made. If net income per books is being adjusted for this item, the taxpayer **IS REQUIRED** to provide a schedule showing the calculation of net income per books as reported on Line 1, Section A of RCT-101. This schedule **MUST** clearly identify the deduction for distributions to materially participating members along with **ANY OTHER** adjustments made to net income per books, as reported on federal Form 1065, Schedule M-1, Line 1.

**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 1996 through 1999. On January 16, 2000, it is purchased by VMJ Corporation and changes to a calendar year end. On December 31, 2000, its five year history of earnings would include the following:

	BEGINNING	ENDING
Oldest Period	070196	063097
	070197	063098
	070198	063099
	070199	011500
Current Tax Period	011600	123100

The fiscal year ending June 30, 1996 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 185 days.

Therefore,  $185 \div 366 = .505$  which is placed to the right of the decimal point. The entry on Line (3) would be 4.505.

**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 ( $100,000 \div .095 = 1,052,632$ ).

#### 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.

1120S filers should submit schedules reconciling beginning and ending retained earning amounts with amounts included on Schedule M-2.

**The net worth for Limited Liability Companies (LLCs) shall be the entity's assets minus its liabilities.**

**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 \$125,000 valuation deduction has been inserted on the RCT-101.

**Line (15).** The \$125,000 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, on the next page. 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 ( $\$200,000 \times .250000 = \$50,000$ ).

**Line (18).** Multiply Line (17) by .00749 (0.749%), 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.

**Effective for tax years beginning January 1, 2000, the minimum Capital Stock/Foreign Franchise Tax has been eliminated. Tax reports are still required to be filed.**

## 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 Booklet.

## SECTION B: LOANS TAX

### SCHEDULE B-1: CORPORATE LOANS TAX INFORMATION (Page 2, 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 3, Section B, Line (1).

**Line (1).** Enter the nominal value of taxable indebtedness as computed in Schedule B-1, Page 2 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).

### RCT-101—PAGE 3.

### SECTION C: CORPORATE NET INCOME TAX

A copy of federal Form 1120 or other applicable form on a separate company basis (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.

LLC's that are disregarded entities must attach a pro forma federal return. If the single member of the LLC is a corporation, for Federal Income Tax purposes, the LLC shall attach a pro forma separate company federal Form 1120. If the single member of the LLC is a partnership for Federal Income Tax purposes, the LLC shall attach a pro forma separate company federal Form 1065.

### 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.)

PA S Corporations and QSSS are subject to PA Corporate Net Income Tax. Their taxable income is their net recognized built-in gains as determined for Federal Income Tax purposes pursuant to IRC Section 1374(d) (2). (Line 28 of Schedule D, Federal form 1120S).

**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. Taxpayers must complete Schedule C-2, PA Dividend Deduction Schedule. Specific instructions for Schedule C-2 are shown on Section I, 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."
- Provide a detailed schedule of investments that generated the exempt interest income.

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. FICA tax obligation on employee tips if taken as a credit for federal purposes are also 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. The portion of Philadelphia Business Tax measured by net income must be included.)

- 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 (Section I, Page 11) 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, 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 on the next page.

**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.

**NET OPERATING LOSS DEDUCTION**

**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.]

**TABLE 3 – SALES FACTOR**

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 three (3). The decimal should be computed to six places. [Table 3, Line (D), from RCT-106, Page 2.] This is the result of the Triple Weighted Sales Factor effective for years beginning 1-1-99.

**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 five (5) 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 four. If only one of the proportions apply (not the Sales Factor), divide by one. If only the Sales Factor applies divide by three. 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. S Corporations must submit a schedule reflecting this information if subject to PA CNI tax.

**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 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 organized or incorporated by or under any laws of the Commonwealth, other than corporations of the first class, 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, 1998, the term "Corporation" includes the following entities: a corporation, a joint-stock association, a business trust and a limited liability company other than a restricted professional company. The term corporation as it applies to domestic and foreign entities has been amended to include **all** business trusts (excluding REITs and RICs).

Effective for years beginning 1-1-98, **homeowner associations** as defined by Section 528(c) of the IRC and membership organizations subject to the federal limitations on deductions from taxable income under section 277 of IRC, but only if no pecuniary gain or profit inures to any member or related entity from the membership organization, are not taxpayers for Capital Stock/Foreign Franchise Tax purposes.

Effective for tax years beginning January 1, 2000, a business trust is not subject to the Capital Stock/Foreign Franchise Tax if all of the following requirements are satisfied: (1) the trust is managed or created by an entity that is subject to the bank shares tax or the mutual thrift institutions tax, or by an affiliate of that entity that shares at least 80 percent common ownership; (2) the trust is created and managed for the purpose of facilitating the securitization of intangible assets; and (3) the trust is classified as a partnership or a disregarded entity for Federal income tax purposes.

### 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 exempt asset function. 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. This includes PA LLCs and Business Trusts that are defined as corporations.
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.
4. A pass-through exemption will be allowed for investments in mutual funds and/or regulated investment companies that invest in Pennsylvania and/or U.S. Government Securities that would qualify as exempt assets if directly owned. The exemption will be granted for the same percentage as the deduction allowed from the taxable income, on a pass-through basis, for purposes of the PA Corporate Net Income Tax. See Section I, Page 10.

## 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 (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 Protection 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% of the outstanding shares of voting stock. This includes LLCs and Business Trusts that are defined as corporations.
5. Shares of stock of cooperative agricultural associations.
6. Student loan assets owned or held by an entity created for the securitization of student loans, or by a trustee on its behalf. Student loans assets includes the following:
  - a. Student Loan Notes.
  - b. Federal, State or Private subsidies; or Guarantees of Student Loans.
  - c. Instruments that represent a guarantee of debt, certificates or other securities issued by an entity created for the securitization of student loans, or by a trustee on its behalf.
  - d. Contract rights to acquire or dispose of student loans and interest rate swap agreements related to student loans.
  - e. Interests in debt obligations of other student loan securitization trusts or entities.
  - f. Cash or cash equivalents representing reserve funds or payments on or with respect to student loan notes, the securities issued by an entity created for the securitization of student loans, or the other student loan related assets. Solely for purposes of this definition, "Cash or cash equivalents" shall include direct obligations of the United States Department of the Treasury, obligations of federal agencies which obligations represent the full faith and credit of the United States, investment grade debt obligations or commercial paper, deposit accounts, federal funds and banker's acceptances, prefunded municipal obligations, money market instruments, and money market funds.
7. 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 game birds, 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.

Effective January 1, 1998, assets devoted to the business of agriculture shall include leasing, to members of the same family, of assets which are directly and principally used for agricultural purposes.

- 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, 1998, includes all business trusts, except REITs and RICs that are organized as trusts) limited liability companies, other than restricted professional companies, and joint-stock associations, 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 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. **Refer to Capital Stock definition for Homeowner Associations & Section 277 entities and securitization trust (Section I, Page 12).**

### 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-I, Page 2 of RCT-101. **Do not Triple 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 exempt asset fraction 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, 1120S, or 1065 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 sub-rentals. The average value of property is determined by averaging the values at the beginning and ending of the taxable period, but the Pennsylvania Department of Revenue may require the averaging of monthly or daily values during the taxable period if reasonably required to properly reflect the average value of the taxpayer's property.

A corporation's ownership interest in a partnership or other unincorporated entity (hereinafter referred to as a partnership) shall be included in the apportionment fraction as a direct interest of the corporation in the assets of the partnership. A portion of the partnership's real and personal property, 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 complete 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). Amounts applicable to an ownership interest in an LLC or Business Trust that is a partnership or disregarded entity for Federal Income Tax purposes must be included only for PA CNI Tax.

#### 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 ownership interest in the partnership. The amount of such payroll attributable to Pennsylvania shall be included in the numerator of the payroll factor. These figures should be reflected on the "Other" line of Table 2, Page 2 of the "Insert Sheet" (RCT-106). Amounts applicable to an ownership interest in an LLC or Business Trust that is a partnership or disregarded entity for Federal Income Tax purposes must be included only for PA CNI tax.

#### 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. Gross Receipts are net of returns and allowances.

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 ownership 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). Amounts applicable to an ownership interest in an LLC or Business Trust that is a partnership or disregarded entity for Federal Income Tax purposes must be included only for PA CNI Tax.

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.

Dividends and income from U.S. securities 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

TRC §401(3)(a)2(a)(1)(A) provides two tests for the determination of whether income is business or nonbusiness income.

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, or disposition of the property 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. Business income includes all income which is apportionable under the Constitution of the United States.

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.
3. 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.

4. Interest is allocable to this state if the taxpayer's commercial domicile is in this state.
5. 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

#### ■ 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.

#### ■ 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 Common-

wealth. 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 Protection 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 \$125,000, the algebraic equivalent of which is:

$$(.5 \times [(average \ net \ income \div .095) + (.75) (net \ worth)]) - \$125,000$$

**EXAMPLE: Corporation with \$190,000 average book income and \$3,000,000 net worth.**

<b>Average Book Income</b>			
\$190,000 ÷ .095	=	\$2,000,000	
	+		
<b>Net Worth</b>			
\$3,000,000 × .75	=	\$2,250,000	
		\$4,250,000	
			<b>Capital Stock Value</b>
\$4,250,000 ÷ 2	=	\$2,125,000	
		\$2,125,000 - \$125,000	=
			\$2,000,000

"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 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). Refer to Section I, Page 8 for Average Book Income and Net Worth regarding details for Limited Liability Companies.

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		1-1-01		12-31-01					
Capital Stock		0		\$ 50,000					
Retained Earnings		0		150,000					
		0	+	200,000	=	\$200,000	÷	2	= \$100,000 Average Net Worth
GOING CONCERN #1									
Capital Stock		1-1-01 \$ 50,000		12-31-01 \$ 50,000					
Retained Earnings		150,000		450,000					
		200,000	+	500,000	=	\$700,000	÷	2	= \$350,000 Average Net Worth
GOING CONCERN #2									
Capital Stock		1-1-01 \$50,000		12-31-01 \$ 50,000					
Retained Earnings		(150,000)		450,000					
		(\$100,000)	+	\$500,000	=	\$500,000	÷	2	= \$250,000 Average Net Worth
FINAL REPORT									
Capital Stock		1-1-01 \$ 50,000		12-31-01 0					
Retained Earnings		150,000		0					
		200,000	+	0	=	\$200,000	÷	2	= \$100,000 Average Net Worth

### 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 on next page.)

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 on next page.)

“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 distrib-

uted 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 prorated for short periods.

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

### 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 and schedules must be attached.

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.

<b>EXAMPLE:</b>						
(1)	<u>Total of Monthly Net Asset Values</u> \$633,000,000	÷	<u>No. of Months</u> 12	<u>Net Asset Value</u> = \$52,750,000	÷	\$1,000,000 = \$53* x \$75 = \$3,975 (A)
*Rounded to the nearest whole number.						
(2)	<u>Undistributed Personal Income Tax Income</u>		<u>Income Distributed to Pennsylvania Individuals Estates or Trusts ÷ by Total Income Distributed During Period</u>		<u>Apportioned Undistributed Personal Income Tax Income</u>	<u>Personal Income Tax Rate (2001 2.8%)</u>
	\$500,000	X	\$1,000,000 \$50,000,000	=	\$10,000	x .028 = \$280 (B)
(3)	<u>(A)</u> \$3,975	+	<u>(B)</u> \$280	=	<u>Total Tax</u> \$4,255	

## 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

### 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 all Limited Liability Companies and Business Trusts that are not classified as corporations for Federal Income Tax purposes. **Refer to Capital Stock definition for Homeowners Association & Section 277 entities (See Section I, Page 12).**

A foreign corporation that conducts business activities in Pennsylvania through a flow-through entity is deemed to be doing business in Pennsylvania to the extent of the activities of the flow-through entity in Pennsylvania. Flow-through entities include any association, business trust, joint venture, limited liability company, limited partner-

ship, partnership or other entity that is not subject to the corporate net income tax.

For taxable years beginning on or after January 1, 1998, in the case of a corporation that is a Pennsylvania S Corporation, as defined in Section 301(N.1), the term "taxable income" shall mean such corporation's net recognized built-in gain to the extent of and as determined for Federal Income Tax purposes under Section 1374(D)(2) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 1374). For purposes of this Article, a Pennsylvania S Corporation and each qualified subchapter S subsidiary, as defined in Section 301(0.3), shall be treated as separate corporations.

### ADDITIONAL SCHEDULE FOR APPORTIONMENT THREE-FACTOR APPORTIONMENT

Refer to the explanation of Apportionment 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, 1999, a Triple 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 Triple 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, taxpayers are permitted to offset Pennsylvania taxable income with carry overs of Pennsylvania net operating losses (NOLs). The allowable NOL carryforward cannot exceed \$2,000,000 effective for tax years beginning 1-1-99 and later. In addition, the unused NOLs are subject to special carryforward provisions. Refer to form RCT-103, Net Operating Loss Schedule, for further instructions.

### UNAUTHORIZED INSURANCE

Under the law, any individual or business purchasing insurance for coverage within Pennsylvania from insurance companies or agents **not** licensed to do business in Pennsylvania must file an Unauthorized Gross Premiums Tax Report (RCT-122) within thirty (30) days of each purchase or renewal and pay a 2% Premiums Tax for life insurance (the rate is applied against the premium).

With increasing insurance concerns and the demand for coverages (e.g., life, fire, casualty, malpractice, environmental, etc.) insurance purchases can be made through companies that are not registered in Pennsylvania. Insurance purchased from non-licensed foreign carriers is also subject to Premiums Tax.

Any questions on the reporting and payment of Unauthorized Insurance Gross Premiums Tax can be directed to:

Unauthorized Insurance  
Bureau of Corporation Taxes  
Specialty Taxes  
Dept. 280704  
Harrisburg, PA 17128-0704



# TAX CREDITS

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

## KEYSTONE OPPORTUNITY ZONE CREDIT

Keystone Opportunity Zones (KOZ) are geographic areas that are virtually free of state and local taxes for up to twelve years beginning January 1, 1999. For tax years that begin on or after January 1, 1999, a corporation that qualifies as a qualified business under this act may claim a credit against the tax imposed by Article IV (Corporate Net Income Tax), Article VI (Capital Stock/Franchise Tax) of the Tax Reform Code of 1971 for the taxable year to the extent of the tax liability attributable to business activity conducted within a Keystone Opportunity Zone in the taxable year. The business activity must be conducted directly by a corporation in the Keystone Opportunity Zone in order for the corporation to claim the tax credit. Please include copy of Department of Community and Economic Development (DCED) KOZ approval letter.

For tax years that begin on or after January 1, 2001, the Keystone Opportunity Zone (KOZ) and Keystone Opportunity Expansion Zone (KOEZ) Job Creation Tax Credit provides tax credit relief for created job in a KOZ/KOEZ by a qualified business that operates as a railroad, truck, bus, airline, pipeline, natural gas or water transportation company within a KOZ/KOEZ. Similar to the original KOZ credit, the Job Creation Tax Credit may be claimed against Article IV or VI.

Taxpayers filing for KOZ credit shall check the KOZ credit box and mail their annual corporate report with KOZ schedule included. For more information, please call (717) 787-1064.

## EDUCATIONAL IMPROVEMENT TAX CREDIT

The Department of Revenue shall grant a tax credit against any tax due under Article IV, VI, VII, VII-A, VIII, VIII-A, IX or XV of the act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Code of 1971, to a business firm providing proof of a contribution to a scholarship organization or educational improvement organization in the taxable year in which the contribution is made which shall not exceed 75% of the total amount contributed during the taxable year by the business firm. Such credit shall not exceed \$100,000 annually per business firm.

The Department shall grant a tax credit of up to 90% of the total amount contributed during the taxable year if the business firm provides a written commitment to provide the scholarship organization or educational improvement organization with the same amount of contribution for two consecutive tax years. The business firm must provide the written commitment under this subsection to the department at the time of application.

For more information, please contact Department of Community and Economic Development, 400 North St., 4th Fl., Commonwealth Keystone Building, Harrisburg, PA 17120-0225 or telephone 717-787-7120 or 1-800-379-7448.

## COAL WASTE REMOVAL AND ULTRACLEAN FUELS TAX CREDIT

An investment tax credit is available for tax imposed under Articles II, IV and VI of the Tax Reform Code for "qualifying property" acquired by purchase or construction between January 1, 2000 and December 31, 2012. The maximum investment tax credit available shall not exceed 15% of the capital cost of the facility. Additional definitions and requirements are contained in Article XVIII-A of the Act.

Note that authorized tax credits shall not be granted unless the developer has obtained an investment tax credit from the federal government or an investment by a person other than an agency or instrumentality of the Commonwealth, or any combination thereof, in an amount equal to or greater than the tax credit granted by the Act.

## 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.

For further information regarding the Neighborhood Assistance Program, contact the Department of Community and Economic Development, Office of Community Empowerment, 400 North St., 4th Fl., Commonwealth Keystone Building, Harrisburg, PA 17120-0225 or telephone 717-787-7120 or 1-800-379-7448.

## EMPLOYMENT INCENTIVE PAYMENT CREDIT

Act No. 63 of 1999 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 \$2,700 in tax credits for hiring an eligible employee in the first year of employment, \$1,800 in tax credits for the second year of employment, and \$900 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 \$9,000 of qualified first year wages for the first year of employment, 20% of the first \$9,000 of qualified wages for the second year of employment, and 10% of the first \$9,000 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 and transportation service for an eligible individual, also are available, in flat amounts of \$800 per employee for the first year of employment, \$600 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 ten (10) 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 **NOT** 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. 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 1-800-345-2555.

### **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 full-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.

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, 400 North St., 4th Fl., Commonwealth Keystone Building, Harrisburg, PA 17120-0225 or telephone 717-787-7120 or 1-800-379-7448.

### **WASTE TIRE RECYCLING ACT**

Act 190 of 1996 will allow tax credits for the purchase of equipment used in recycling and reuse of waste tires.

1. Applies to expenditures in 1997, 98, and 99.
2. Will expire in three years if not renewed.
3. Administered by the Department of Environmental Protection, Division of Municipal and Residual Waste, 14th Floor, Rachel Carson Building, 400 Market St., Harrisburg, PA 17105-8472, or telephone (717) 787-7381.
4. Nonrefundable - can be used to pay 100% of Personal Income Tax, Capital Stock/Foreign Franchise and/or Corporate Net Income Tax for the tax year during which the cost was incurred.

### **PENNSYLVANIA RESEARCH AND DEVELOPMENT TAX CREDIT**

Act 7 of 1997 provides for a PA Research and Development Tax Credit.

To claim the PA Research and Development (R&D) Credit, it is necessary for a taxpayer to have qualified PA R&D expenses in the current tax year and in at least one preceding tax year.

The application for this credit is due by September 15 of each applicable year.

The application form and any additional information may be obtained by contacting the PA Department of Revenue, Bureau of Corporation Taxes, Taxing Division-R&D Unit, Dept. 280703, Harrisburg, PA 17128-0703, or telephone (717) 783-6031.



**PA-20S/PA-65**  
**PA S CORPORATION INFORMATION RETURN**

**INTRODUCTION**

The Department of Revenue has developed a single information return for PA S corporations and partnerships, the **PA-20S/PA-65 Combined Information Return**, along with combined schedules. This booklet discusses the reporting requirements for PA S corporations and the taxation of the shareholders' income or loss under PA tax law, but also contains references to PA partnerships. The Department provides combined instructions for the **PA-20S/PA-65 Information Return** on its home page at [www.revenue.state.pa.us](http://www.revenue.state.pa.us)

Using this booklet, the PA S corporation will accurately report income and losses to its resident and nonresident shareholders. These instructions explain the PA rules that PA S corporation follow for classifying income, and identifying expenses and deductions that PA law allows. Upon determining its net income or loss in each PA income class on its **PA-20S/PA-65 Combined Information Return**, the PA S corporation must provide **PA Schedules RK-1** to its resident shareholders and **PA Schedules NRK-1** to its nonresident shareholders.

**PENNSYLVANIA S CORPORATION INCOME TAX RETURN INSTRUCTIONS**

**GENERAL INSTRUCTIONS**

**General Information**

All PA S corporations that are required to file a return in Pennsylvania must file the **PA-20S/PA-65 Combined Information Return** if either or both of the following apply:

1. During its taxable year, the PA S corporation earned, received, or acquired any gross taxable income allocable or apportionable to Pennsylvania.
2. The PA S corporation had at least one shareholder that was a PA resident individual, estate, trust, or another pass-through entity as of the last day of the taxable year.

**Return and Schedules**

PA S corporations must submit the **PA-20S/PA-65** and all supporting income and expense schedules.

**DIFFERENCES BETWEEN FEDERAL AND PENNSYLVANIA LAW**

For each PA income class there are differences in reporting for Federal Income Tax and PA Personal Income Tax purposes. Within each class of income there are:

- Certain Internal Revenue Code sections including elections for Federal Income Tax that PA law does not allow when determining PA reportable income
- Rules for PA Personal Income Tax purposes that are specific to Pennsylvania only
- Circumstances where Pennsylvania will accept the use of federal tax accounting rules provided they are consistently used

**EFFECT OF PENNSYLVANIA S CORPORATION STATUS**

As a PA S corporation:

1. The corporation will only be subject to the Corporate Net Income Tax on any net recognized built-in gain reported on Line 27 of Schedule D, Federal Form 1120S. If any tax is imposed on a PA S corporation (or any qualified Subchapter S subsidiary owned by such PA S corporation) pursuant to Section 1374 of the Internal Revenue Code of 1986, the amount of tax so imposed shall be treated as a loss sustained by such PA S corporation during such years. The character of such loss shall be determined by allocating the loss proportionately among the recognized built-in gains giving rise to such tax.
2. The corporation will remain subject to all other PA corporate taxes including the Capital Stock or the Foreign Franchise Tax.
3. The PA S corporation passes its income, loss, and credits to its shareholders in the applicable class of income and taxed under the PA Personal Income Tax Act. PA law states that income and

losses are determined in accordance with accepted accounting principles and practices. The PA S corporation must use PA Personal Income Tax rules, unless otherwise stated, to determine the PA S corporation income that it passes to each shareholder on a pro rata share, whether the income is distributed or not distributed.

**Qualified Subchapter S Subsidiaries**

For PA purposes, a Qualified Subchapter S Subsidiary (QSUB) that a PA S corporation owns is not treated as a separate corporation for Corporate Net Income Taxes. All assets, liabilities and items of income, deduction, and credit of such qualified QSUB are treated as assets, liabilities, and items of income, deduction, and credit of the parent PA S corporation that the parent PA S corporation must report on the **PA-20S/PA-65**.

The following provisions apply to a Qualified Subchapter S Subsidiary in Pennsylvania:

- A QSUB cannot elect PA S corporation treatment independent of its parent corporation. If the parent corporation is a Federal S corporation but not a PA S corporation, the QSUB cannot elect PA S corporation status.
- The parent corporation electing PA S corporation status must submit a schedule to the election, identifying the name, address, PA corporation tax account number, and the federal employer identification number of each QSUB owned by the corporation.
- Because QSUBs are separate and distinct legal entities, they must request separate PA corporate tax account numbers.
- The parent corporation and each QSUB are treated as a separate corporation for PA Capital Stock or the Foreign Franchise Tax purposes. Therefore, each entity must file a separate PA corporate tax report.

**OBTAINING PENNSYLVANIA S CORPORATION STATUS**

A corporation may become a PA S corporation if:

1. It is a small corporation as defined below;
2. All shareholders of the corporation consent to the corporation's election of PA S corporation status; and
3. The corporation files an election with Pennsylvania to indicate its choice of PA S corporation status.

A QSUB is not eligible to elect PA S corporation tax treatment independent of its parent Federal S corporation. A QSUB will not receive PA S corporation tax treatment if its parent Federal S corporation does not have a valid PA S corporation election in effect.

## Small Corporation

To elect PA S corporation status, a corporation must meet the definition of a small corporation as contained in the PA Personal Income Tax Act. A small corporation is any corporation that has a valid and approved federal election in effect under Section 1361 (Subchapter S) of the Internal Revenue Code as amended to January 1, 1997.

## Pennsylvania Election and Consent

A corporation that qualifies as an eligible small corporation must elect affirmatively PA S corporation treatment. **Although Federal S corporation status is a requirement to elect PA S status, it will not automatically confer PA S status on the corporation.**

## Form and Method of Election REV-1640

Any corporation that qualifies as a small corporation may elect PA S corporation status by completing and submitting:

1. The PA S Corporation Election and Shareholders' Consent Form, REV-1640. The election form must be complete, and contain all the required information, including the name of the corporation, the names, addresses, social security numbers, and signatures of all shareholders, percentage of stock held by each shareholder, as well as the statement of election signed by an authorized officer of the corporation. Submit the form REV-1640 to the PA Department of Revenue, Bureau of Corporation Taxes, PA S Unit, Dept. 280705, Harrisburg, PA 17128-0705.
2. A copy of the federal Notice of Approval of S corporation status submitted at the same time that the PA election form is submitted. Corporations that have requested Federal S Corporation status, but have not yet received the Federal Notice of Approval, may start the election process for Pennsylvania by submitting a completed REV-1640 and noting that the Federal Notice of Approval will be forwarded when received by the corporation.
3. The corporation shall submit a schedule to its PA S corporation election identifying the name, address, PA Corporation Tax Account ID (box) number, if applicable, and Federal Employer Identification Number of each qualified Subchapter S subsidiary owned by the corporation.

If the corporation is unable to obtain a copy of the Federal Notice of Approval, the corporation may submit, in lieu thereof, a copy of the latest Federal Form 1120S return that the corporation filed with the IRS.

## Shareholders' Consent

A corporation's election of PA S corporation status is valid only if all shareholders sign the consent form to the election. A shareholder's consent is binding and may be revoked only as explained in Revoking Pennsylvania S Corporation Status.

## Who Must Consent?

Each person who is a shareholder at the time corporation makes the election must consent to the election.

**Co-owners** Each co-owner, tenant by the entirety, tenant in common, and joint-tenant must sign the consent form. Also, if stock is owned as community property or the income from the stock is community property, both the husband and wife must sign the consent form.

**Minors** If minors own stock that is in the name of a guardian or custodian, each minor is a shareholder. The consent of a minor may be made by the minor or by his or her legal guardian. A custodian may give consent only if he or she is also the legal or natural guardian of the minor, unless the stock is being held in accordance with the provisions of the Uniform Gifts to Minors Act. In such cases, the custodian of the account may consent to the election.

**Estates** The executor or administrator of the estate must make the consent for a qualified estate holding stock in an S corporation.

**Trusts** The consent of a qualified trust holding stock in an S corporation must be made by each person who is counted as a shareholder of the S corporation for federal tax purposes.

## Form Of Consent

Shareholders may consent to a corporation's election for PA S Corporation treatment by providing the information required on the PA S Corporation Election and Shareholders' Consent Form, REV-1640, and signing in the appropriate space.

Shareholders also may consent to the election by signing a separate statement of consent that the corporation must submit with the PA form REV-1640. The separate consent statement must contain:

1. The name, address, Account ID, and Federal ID (EIN) of the corporation.
2. The name, address, social security number, or identification number of the shareholder(s).
3. The percentage of stock ownership owned by the shareholder and the date or dates acquired. Do not list the percentage of shares of stock for those shareholders who sold or transferred all stock in the corporation during the part of the tax period that occurred before filing the PA election.
4. The day and month of each shareholder's tax period end.

The corporation may include the consent of all shareholders in one statement. The corporation's election for PA S corporation treatment is not valid if any consent is not filed timely.

## Effective Date Of Election

An election filed on or before the 15th day of the third month of a current tax period is effective for the current tax period. An election filed after the 15th day of the third month of the current tax period is effective for the following tax year of the corporation. Thus, if a calendar year corporation files its election on or before March 15, 2002, its election will be effective for the 2002 calendar year. If however, the corporation files its election after March 15, 2002, its election will be effective for the 2003 calendar year.

Corporations reporting on a fiscal year must file their election on or before the 15th day of the third month of the corporation's fiscal year. For example, a corporation with a fiscal year beginning December 1, 2001 must file its notice of election by February 15, 2002, to be effective for fiscal year 2001-2002.

If a corporation makes an election for a short taxable period, it must file its election on or before the 15th day of the third month to be effective for such short taxable period. For example, if a corporation has a short fiscal year that runs from July 1, 2001 to December 31, 2001, the corporation's election will be effective for the short calendar year if it filed on or before September 15, 2001. If the corporation filed after September 15, 2001, the election will be effective for the corporation's subsequent tax year/period.

Newly formed corporations must file within 75 days of incorporation date or first date of activity in Pennsylvania.

## When Elections Are Effective

A corporation's PA S election is not deemed made until:

- The Department receives a complete and signed REV-1640, Pennsylvania S Corporation Election and Shareholders' Consent Form;
- All shareholders required to consent submit their consent; and
- The corporation has an approved Federal S status and filed the required federal forms with the PA Department of Revenue except:

Where a corporation has requested S corporation status from the federal government, but has not yet received its Federal Notice of Approval, the Department of Revenue will deem the corporation made its election as of the date the corporation filed its election and shareholders' consent with the Department, provided the corporation receives federal

approval. The corporation must file the Federal Notice of Approval with the Department promptly upon its receipt.

The Certified Mail Receipt is proof of timely filing.

### Acknowledgement of Receipt of Election

Within ninety days from the receipt of the election, the Department of Revenue will issue a conditional approval letter granting PA S corporation status. The Department will mail the letter to the corporation or its representative, whoever made the election. If the corporation does not receive a letter within this time, the corporation or its representative should call the Bureau of Corporation Taxes at 717-787-8353 to verify that the Department received the election. It is the exclusive responsibility of the corporation or its representative to provide proof of timely mailing, preferably a certified mail receipt.

### Duration of Pennsylvania S Corporation Election

Once a corporation makes an election for PA S corporation treatment, it is effective for the first tax year, as explained above, and future tax years until terminated or revoked. Termination or Revocation of Pennsylvania S Corporation Status is explained below.

## TERMINATION OR REVOCATION OF PENNSYLVANIA S CORPORATION STATUS

A corporation's PA S corporation status remains effective until the Department of Revenue terminates it or until its shareholders revoke it. At any time, shareholders who own more than 50% of the outstanding stock in the corporation may revoke the PA S corporation status. The Department will terminate a corporation's PA S corporation status if it ceases to qualify to be an S corporation under Subchapter S of the IRC of 1986, as amended to January 1, 1997.

### Five-Year Rule

Once revoked or terminated, the corporation or any successor corporation is not eligible to make an election for PA S corporation status for any tax year/period prior to its fifth taxable year/period which begins after the first taxable year/period for which the revocation or termination is effective.

In other words, there must be five (5) taxable periods (not necessarily 12-month periods) as a C corporation between the end of the last PA S corporation period, before the effective date of the revocation or termination, and the beginning of another period covered by an S Corporation election.

**EXAMPLE.** A calendar year corporation revoked its S status as of September 1, 1998. Generally, it cannot reelect S status until the period beginning January 1, 2003. If the end of the last S corporation taxable period is December 31, 1998, generally, the S status cannot be elected again until the period beginning January 1, 2004.

### Revoking Pennsylvania S Corporation Status By Shareholders

A corporation may revoke its PA S corporation status only if shareholders who collectively own more than 50% of the outstanding shares in the PA S corporation's stock consent to the revocation. The consenting shareholders must own their stock in the corporation at the beginning of the day the revocation is filed.

### How to Revoke

The corporation must make the revocation and it must be in the form of a statement or on the form prescribed by the Department. The corporation must submit a statement of shareholders' consent to the revocation with the PA S corporation's revocation statement. The corporation must send these statements to the **PA Department of Revenue, Harrisburg, PA.**

1. The statement of revocation must provide:
  - That the corporation is revoking its election to be treated as a PA S corporation;

- The number of shares of stock (including nonvoting stock) that are outstanding at the time the revocation is made; and
- The date on which the revocation is to be effective.

An authorized corporate officer must sign this statement.

2. The statement of consent must indicate that each shareholder who signs it consents to the revocation of PA S corporation status. It also must provide the number of shares of outstanding stock (including nonvoting stock) each consenting shareholder holds at the time the revocation is made.

### Effective Date of Revocation

The revocation is effective:

1. On the first day of the tax period, if the revocation is made on or before the 15th day of the third month of the tax period.
2. On the first day of the following tax period, if the revocation is made after the 15th day of the third month of the current tax period.
3. On the date specified if the revocation specifies a date on or after the date, the revocation is made. See Pennsylvania S Revocation or Termination Year for information on filing returns for the revocation year

### Termination by the Commonwealth of Pennsylvania Ceasing to Qualify

The Department will terminate a corporation's status as a PA S corporation if the corporation ceases to qualify as an S corporation for federal purposes, pursuant to the requirements of the IRC of 1986, as amended to January 1, 1997.

Events that may cause the corporation to cease to qualify as an S corporation include:

1. Having more than 75 shareholders - a husband and wife and their estates are counted as one shareholder in determining number of shareholders without regard to manner in which stock is owned.
2. Transferring stock in the S corporation to:
  - A corporation,
  - A partnership,
  - An ineligible trust, or
  - A nonresident alien
3. Creating a class of stock other than the voting and nonvoting common stock allowed.

### Effective Date of Termination

The corporation will be a PA S corporation on the day before the terminating event and will not be a PA S corporation on the day of and the days following the event. The PA S corporation status can be terminated at any time on or after the first day of the first tax year for which the corporation is a PA S corporation.

See Pennsylvania S Revocation or Termination Year for more information on filing tax returns for the termination year

## PENNSYLVANIA S REVOCATION OR TERMINATION YEAR

A PA S corporation revocation or termination year is the tax year of a PA corporation during which the corporation is treated as a PA S corporation for part of the tax year and a corporation subject to Corporate Net Income Tax for the balance of the tax year.

The PA S corporation revocation or termination year is divided into two periods for filing tax returns. These periods are known as:

1. The **PA-20S/PA-65** short taxable year; and
2. The **RCT-101** short taxable year.

The corporation must file two returns to cover the revocation or termination year:



1. A **PA-20S/PA-65** that covers the PA S corporation status for short taxable year, and
2. A RCT-101 that covers the C corporation's remaining short taxable year

### PA-20S/PA-65 Short Taxable Year Return

The **PA-20S/PA-65** short taxable year is the part of the revocation or termination year that begins on the first day of the corporation's tax year and ends the day before the revocation or termination is effective.

### Corporate Net Income Tax RCT-101 Short Taxable Year Return

The Corporate Net Income Tax RCT-101 short taxable year is the part of the PA S corporation revocation or termination year that begins on the day the revocation or termination is effective and ends on the last day of the corporation's tax year. A form RCT-101 is due for the Corporate Net Income Tax short year.

### Due Dates

The **PA-20S/PA-65 Information Return** for the short taxable year is due 30 days after the date on which the corporation's federal tax return is due. The form RCT-101 that is due for the Corporate Net Income Tax short taxable year is due 30 days after the date on which the corporation's federal tax return is due. For a corporation using a calendar year, both the **PA-20S/PA-65** and the RCT-101 are due on April 15.

### Division of Income

After dividing the PA S corporation revocation or termination year into two periods, the corporation must divide the separately stated items of income, loss, and credit, and the amount of the nonseparately computed income or loss between the periods. There are two methods that can be used to make this division:

1. **Pro Rata Allocation.** This method of allocation must be used unless the shareholders and the PA S corporation specifically choose the other allocation method. The pro rata allocation is made as follows:
  - a. First, determine the amount of each separately stated item of income, deduction, loss, or credit, and the amount of the nonseparately computed income or loss.
  - b. Then, divide each amount by the number of days in the PA S corporation revocation or termination year. (Total tax year)
  - c. Multiply the amounts from STEP (b) above by the number of days in the **PA-20S/PA-65** short taxable year. Use these amounts to file the **PA-20S/PA-65** for the Pennsylvania S revocation or termination year.
  - d. Multiply the amounts from STEP (b) above by the number of days in the RCT-101 short taxable year. Use these amounts to file the Corporate Net Income Tax Report form RCT-101 for the PA S revocation or termination year.
2. **Allocation Based on Normal Accounting Rules.** This is the alternate method of allocation. The corporation must choose this method, and all persons who are shareholders during the PA S revocation or termination year must consent to the choice. The corporation then will report all items of income, loss, or credit based on the corporation's books and records (including worksheets). Therefore, the items will be split between the **PA-20S/PA-65** short taxable year and the Corporate Net Income Tax RCT-101 short taxable year according to the time they were realized or incurred based on the books and records of the corporation.

### ALLOCATION OF INCOME

PA law imposes the personal income tax on shareholders that are nonresident individuals, estates or trusts only on taxable income allocable to Pennsylvania. Items of income, loss, cost, expense and liability not allocable to Pennsylvania are ignored in computing the PA taxable income of such shareholders.

Special allocation rules apply to each of the following:

- Net income or loss from trusts, estates, partnerships and other PA S corporations;
- Net income or loss from business, profession or farm activities;
- Net gains or losses from the sale, exchange or disposition of tangible property;
- Net gains or losses from the sale, exchange or disposition of intangible personal property;
- Net gains, income, or loss from ownership of property.

### CLASSES OF INCOME

Each PA income class is explained in detail beginning on page 7. The PA S corporation **must** report **all** reportable income, gains, losses, expenses, costs, and liabilities **in one of these income classes**:

1. Net Income or Loss from Business, Profession, or Farm Activities (see page 7)
2. PA Taxable Interest (see page 8)
3. PA Taxable Dividends (see page 8)
4. Net Gain or Loss from the Sale, Exchange, or Disposition of Property (see page 8)
5. Net Income or Loss from Rents, Royalties, Patents, and Copyrights (see page 8)
6. Net Income or Loss from Estates and Trusts (see page 9)
7. Gambling or Lottery Winnings (see page 9)

Forgiveness or discharge of indebtedness constitutes income that is taxable personal income only in two instances.

1. Where it is acceptable by standards of the accounting profession to classify the debt as a liability in accounting for the net income derived from an activity, undertaking, transaction, or enterprise that produces (or is engaged in for the production of) income or gain taxable under the PA PIT Act. In this instance, the amount by which the debt is forgiven or discharged is taxed as income or gain derived from such activity, undertaking, transaction, or enterprise.
2. Where the cancellation constitutes a quid pro quo or incentive that would have been taxable under the PA PIT had the amount by which the debt had been forgiven or discharged instead been paid to the debtor in cash.

### Built in Gains

If any tax is imposed on a PA S corporation (or any qualified QSUB owned by such PA S corporation) pursuant to section 1374 of the IRC of 1986, the amount of tax so imposed shall be treated as a loss sustained by such PA S corporation during such years. The character of such loss shall be determined by allocating the loss proportionately among the recognized built-in gains giving rise to such tax. The built in gains taxes imposed on the PA S corporation are treated as losses to be reported to the shareholders. The losses are allocated to the class of income that gave rise to the built in gain and may be deducted by the shareholders.

### BASIS AND GAIN RULES

There are differences between Federal Income Tax reporting and PA PIT reporting.

1. The method of accounting, inventory valuation, and tax year chosen by the corporation for its Federal Form 1120S also must be used in completing the **PA-20S/PA-65**.
2. IRC rules for determining basis, adjustments to basis and gains by the corporation generally are to be followed with these exceptions:
  - For business assets placed into service after 1982, their basis will not have to be reduced by a percentage of the federal income tax credit for which the asset qualifies.
  - Losses realized by a PA S corporation on bona fide sales or exchanges of property with related taxpayers may be offset against any gains received from other sales or exchanges. See Federal Publication 589 for definition of related taxpayers.

3. If the asset being disposed of by the corporation was acquired prior to June 1, 1971, the June 1, 1971 valuation should be used in determining gain or loss. Obtain PA Schedule D-71, Net Gain or Loss from the Sale of 6-1-71 Property.
4. Beginning with sales made on or after January 1, 1984, the corporation may elect to report a gain from an installment sale of real or tangible personal property on the installment sales method. Obtain PA Schedule D-1, Gain from Installment Sales.
5. There is no preferential treatment for gains recognized as capital gains under the IRC and no disadvantageous treatment for losses recognized as long-term under the IRC.

### Figuring Shareholder Taxable Income

Each shareholder reports the applicable pro rata share of each item of income, loss, or credit that is stated separately, and a pro rata share of nonseparately stated net profits from business, profession or farm from the **PA-20S/PA-65** on the PA Personal Income Tax Return, (Form PA-40), or the Fiduciary Income Tax Return (Form PA-41). Refer to PA-40 or PA-41 tax forms and instructions for this reporting.

**There is no offsetting between the classes of income/losses that are passed through to the shareholder.** The character of any PA S corporation item included in the shareholder's pro rata share is determined as if the item were realized directly by the shareholder. For more information, refer to the instructions for the **PA-20S/PA-65**.

### Pro Rata Share

Each shareholder's pro rata share is determined on a per day/per share basis, as follows:

1. If there is no change in shareholders or in the percentage of stock each shareholder owns during the tax year, multiply the amount of the income, loss, or credit by the shareholder's percentage.
2. If there is a change in shareholders or percentage:
  - a. Determine the daily amount by dividing the income, loss, or credit by the number of days in the corporation's tax year,
  - b. Determine the shareholder's daily part by multiplying the daily amount from (a.) by the percentage of stock owned by the shareholder on each day of the tax year; and
  - c. Total the shareholder's daily parts of the daily amount of the income, loss or credit.

**IMPORTANT.** PA S corporations are not permitted to use the closing of the books method of apportioning income between two short tax periods.

### Limitation on Losses and Loss Carryovers

The aggregate amount of losses taken into account by a shareholder is limited to the sum of the adjusted basis of the shareholder's stock for the tax year and the shareholder's adjusted basis of any indebtedness of the corporation to the shareholder figured before any adjustments for the tax year.

There is no provision allowing for carryover of losses by the shareholders of the corporation.

### Adjustments to Basis of Stock (Shareholders Capital Investment)

Each shareholder must adjust the basis of stock in the PA S corporation.

1. **Increases:** Each shareholder's pro rata share of the following items increases the basis of stock:
  - a. Nonseparately stated net profits from business, profession and farm that are passed through to the shareholder.
  - b. Separately stated other personal income items passed through to the shareholder.
  - c. Nontaxable income.

2. **Decreases:** Each shareholder's pro rata share of the following items decreases the basis of stock, but not below zero (0):
  - a. \*Nonseparately stated losses from business, profession or farm activities that are passed through to the shareholder.
  - b. \*Separately stated other personal loss items that are passed through to the shareholder.
  - c. Distributions that are a return of capital.

\* Basis is reduced only to the extent that the losses reduce the shareholder's income subject to PA Personal Income Tax or a tax on or measured by income imposed on the shareholder by any other state.

### Adjustments to Basis of Indebtedness (Shareholder's Loans to PA S Corporations)

#### 1. Reduction in Basis of Indebtedness

If the shareholder's basis of stock in a PA S corporation is decreased to zero, any amount of excess losses shall be used to reduce the shareholder's basis of indebtedness of the PA S corporation to the shareholder, but not below zero.

#### 2. Restoring Basis

If the shareholder's basis in indebtedness is reduced under (1) above, the reduction shall be restored before the shareholder's basis in the stock of the PA S corporation is increased.

### Estimated Tax

Individual resident shareholders are subject to the estimated tax provisions under the PA PIT Act. Each resident individual shareholder is required to make a declaration and pay estimated tax for the tax year if their income, other than compensation on which tax is withheld, reasonably can be expected to exceed \$8,000 for tax year 2001. See REV-413P/S, Instructions for Estimating PIT - Partnership/ Shareholders.

Under Act 22 of 1991, PA S corporations must withhold PA income tax from nonresident shareholders that are individuals, estates and trusts. This withholding is based on the nonresident shareholder's expected share of distributions of taxable Pennsylvania source income.

### Distributions To Shareholders

Each shareholder must adjust his/her/its stock and loan basis at the end of each PA S corporation tax year. The steps in the adjustment process are as follows:

1. Determine the year-end stock and loan basis **excluding** all tax year distributions. This is the adjusted basis figure used in the determination of the tax treatment of any distributions during the tax year.
2. a. **PA S corporations with no earnings and profits.** Distributions from a corporation with no earnings and profits for Federal Income Tax purposes is a nontaxable reduction to the basis arrived at in STEP 1 above.
  - b. **PA S corporations with earnings and profits.** Distributions from a corporation with earnings and profits for Federal Income Tax purposes is handled as follows:
    - (1) Reduce the distribution by the pro rata share of the accumulated adjustment account. (See Schedule RK-1/NRK-1 and the **PA-20S/PA-65**, Part IX of the instructions).
    - (2) The excess of the distribution beyond (1) above is taxable dividends to the extent of the shareholder's pro rata share of the earnings and profits of the corporation.
    - (3) The excess of the distribution beyond (2) above is a nontaxable reduction to the basis arrived at in STEP 1 above.
3. Any distributions beyond 2a and 2b above (distributions in excess of basis) are treated as gain from the sale, exchange or disposition of property.



In summary, distributions are:

1. Nontaxable to the extent of the accumulated adjustments account;
2. Taxable as dividends to the extent of corporate earnings and profits;
3. Nontaxable return of capital to the extent of basis;
4. Taxable as a gain from the sale, exchange or distribution of property.

If the distribution is used up at any priority level, the levels below that level are ignored. For example, as long as the distribution is less than the accumulated adjustment account, there will not be a taxable dividend, return of capital, or a gain.

Distributions from a PA S corporation which are paid from the accumulated earnings and profits of the corporation before it elected PA S corporation status is dividend income to its corporation shareholders. All other distributions are nontaxable return of the shareholder's basis in stock.

Nontaxable return of basis distributions will reduce the shareholder's basis in stock first. If such distributions exceed the shareholder's basis in stock holdings, the shareholder may apply the excess against

the basis of any indebtedness of the corporation to the shareholder. If such distributions exceed the shareholder's basis in stock and indebtedness, the shareholder must report a gain from the disposition of property.

If the corporation distributes appreciated property, the corporation will be treated as if it had sold the property to the shareholders at fair market value. Such a distribution will produce gains from the sale of property that the corporation will have to report as net gains from the sale, exchange or disposition of property. To document all PA S corporation distributions during a taxable year, complete Parts VII and IX of the **PA-20S/PA-65**.

### RECONCILIATION OF FEDERAL TAXABLE INCOME TO PA REPORTABLE INCOME

The PA S corporation should use the Reconciliation of Federal Taxable Income to PA Reportable Income to reconcile from Federal taxable income to PA reportable income that is subject to taxation in Pennsylvania. Detail instructions for the Reconciliation of Federal Taxable Income to PA Reportable Income begin at page 12.

## DIFFERENCES BETWEEN FEDERAL LAW AND PA PIT LAW FOR PA S CORPORATIONS

No.	Description of Federal Treatment	Federal Code Section	Pennsylvania Treatment
1	Contribution of property to a corporation on a tax free basis	351	PA follows federal for administrative convenience only.
2	One class of stock requirement	1361	PA follows federal for administrative convenience only.
3	Built-in-gains tax	1374	PA generally follows federal. PA does not follow federal for 25% passive income test. However, PA eliminated the passive income rules in 1999. If any built in gains tax is imposed on a PA S corporation (or any qualified Subchapter S subsidiary owned by such PA S corporation), the amount of tax so imposed shall be treated as a loss sustained by such PA S corporation during such years. The character of such loss shall be determined by allocating the loss proportionately among the recognized built-in gains giving rise to such tax.
4	Election of S corporation	1362	PA does not follow federal. A separate PA S election (Rev 1640) must be filed and signed by all shareholders on the date of election.
5	Passive income test	1362(d)	PA does not follow federal.
6	Qualified Subchapter S Subsidiaries (QSUB)	1361	PA permits QSUBs, however, each QSUB is considered a separate corporation for purposes of the PA capital stock/franchise tax.
7	Exclusion of cancellation of indebtedness (COD) income	108	Section 108 not followed, however forgiveness or discharge of indebtedness constitutes income that is taxable personal income only in two instances.
8	Tax benefit rule	N/A	For PA purposes, a shareholder must reduce basis in the S corporation by losses, but only to the extent that the losses reduce either the income subject to PA tax or the income tax of another state or country.
9	Accumulated Adjustment Account	1368	Only for years when PA S election is in place.

### TAXABLE YEAR

The PA S corporation must use its federal taxable year for PA purposes.

### DUE DATE FOR FILING THE PA-20S/PA-65 INFORMATION RETURN

A calendar year PA S corporation reports all taxable income received or accrued between January 1 and December 31. The PA S corporation must file its **PA-20S/PA-65** on or before April 15, 2002, unless it has an extension.

A PA S corporation reports all taxable income received or accrued during its fiscal year. A fiscal year partnership must file its **PA-20S/PA-65**

on or before the 15th day of the fourth month following the close of the fiscal year.

If the due date falls on a Saturday, Sunday, or holiday, the PA S corporation must file no later than midnight on the first business day following the Saturday, Sunday, or holiday. The U.S. Postal Service postmark date on the envelope is proof of timely filing.

The PA S corporation's Capital Stock/Foreign Franchise Tax Return (RCT-101) is also due on or before the 15th day of the fourth month following the close of the corporation's tax year; e.g., April 15 for a calendar year filer.

## MAILING INSTRUCTIONS

Mail the completed **PA-20S/PA-65**, with all PA Schedules RK-1 and NRK-1 to:

PA Department of Revenue  
Bureau of Individual Taxes  
Harrisburg, PA 17128-0509

## RECORDS RETENTION

The PA Department of Revenue has the legal authority to verify and audit all amounts that the PA S corporation reports on its **PA-20S/PA-65**, and accompanying schedules. The PA S corporation must maintain its books and records to verify such information. The PA S corporation must maintain its books and records for at least four years to verify such information.

## EXTENSION OF TIME TO FILE THE PA-20S/PA-65 INFORMATION RETURN

There are two ways to obtain an extension to file.

1. If the IRS grants the PA S corporation an extension of time for filing its federal Form 1120S, the PA Department of Revenue will grant the PA S corporation an extension of time to file its **PA-20S/PA-65**.

However, the **PA-20S/PA-65** extension does not automatically grant an extension for the filing of the PA Corporate Tax Report (RCT-101), but an approved extension for filing the PA Corporate Tax Report automatically grant the same extension for the filing of the **PA-20S/PA-65**.

2. If the IRS does not grant the PA S corporation an extension of time for filing its federal Form 1120S, the PA S corporation still may request an extension for filing its **PA-20S/PA-65**. The PA S corporation must make the extension request in writing and submit it in sufficient time for the Department to consider and act upon it prior to the due date of the **PA-20S/PA-65**. Mail the extension request to the PA Department of Revenue, Bureau of Individual Taxes, Harrisburg, PA 17128-0509. The Department will not send the partnership a letter that the Department granted the extension. However, the Department will send a letter if we have a question concerning the extension.

Except in the case of a taxpayer who is outside the U.S., the Department will not grant an extension for longer than six months.

**NOTE.** A PA S corporate extension does NOT provide a comparable extension for its shareholders. Each shareholder individually must have an approved extension for filing his/her/its **PA-40** or **PA-41 Tax Returns**.

## AMENDED PA-20S/PA-65 INFORMATION RETURNS

If at any time after the PA S corporation files its **PA-20S/PA-65**, it discovers that it **underreported** its income or erroneously claimed credits or deductions to which it was not entitled, or events transpire that change its reportable income or loss, including an IRS Report of Change, it must file a **PA-20S/PA-65** clearly marked **Amended Return** and provide its shareholders with amended **PA Schedules RK-1** or **NRK-1** within 30 days from the determination of such change. The affected shareholders must file Amended PA Individual Income Tax Returns upon receipt of the amended **PA Schedules RK-1** or **NRK-1**.

## Changes Made by the Department of Revenue

If the Department makes any changes to the PA S corporation's **PA-20S/PA-65**, the PA S corporation must provide its shareholders with amended **PA Schedules RK-1** or **NRK-1**. The shareholders must file amended PA Individual Income Tax Returns.

## CLASSES OF INCOME

For each PA income class there are differences in reporting for federal and PA personal income tax. Within each PA income class there are:

- Certain Internal Revenue Code sections including elections for

Federal Income Tax that PA law does not allow when determining PA reportable income or loss.

- Rules for PA PIT purposes that are specific to Pennsylvania only.
- Circumstances where Pennsylvania will accept the use of federal tax accounting rules provided they are consistently used.

**Figuring Personal Income Tax, Income and Expenses.** For PA Personal Income Tax purposes, a PA S corporation generally computes its reportable income in the same manner that an individual, estate or trust computes PA taxable income or loss with the following differences:

1. Any class of income, loss or credit item, the separate treatment of which could affect the PA Personal or Fiduciary Income Tax liability of any shareholder, is stated separately on the **PA-20S/PA-65** and must be passed through in the applicable class of income to the shareholders.
2. The items that an individual may claim for PA PIT purposes that a PA S corporation may not claim are:
  - a. The deduction for unreimbursed employee business expenses.
  - b. The Special Tax Forgiveness credit.

## Income (Distributive Share)

A PA S corporation's PA taxable income is taxable to its shareholders WHETHER OR NOT the PA S corporation distributes the income. The PA S corporation determines each shareholder's share of income or loss as if the shareholder realized it directly from the same source and in the same manner that the PA S corporation realized it. Actual distributions of money or property, including advances against a shareholder's distributive share, are not taxable provided they do not exceed the shareholder's adjusted basis in the PA S corporation. The PA S corporation must report all income, gains, losses, expenses, costs, and liabilities in one of these income classes:

1. Net Income or Loss from Business, Profession, or Farm Activities
2. PA Taxable Interest derived from obligations that are not statutorily free from PA tax
3. PA Taxable Dividends
4. Net Gain or Loss from the Sale, Exchange, or Disposition of Property
5. Net Income or Loss from Rents, Royalties, Patents, and Copyrights
6. Income or Loss from Estates and Trusts from the **PA Schedule L** that it receives from an estate or trust
7. Gambling or Lottery Winnings

The PA S corporation must report its total PA S corporation income or loss per books, in Part V of the **PA-20S/PA-65**.

In computing its income or loss, the PA S corporation cannot offset income and gains in one of the above PA income classes with losses in any other PA income class. The PA S corporation may carry losses back or forward to another taxable period.

The PA S corporation may deduct allowable costs and expenses attributable to business, profession, or farm income, income from the sale, exchange or disposition of property or rents and royalties.

The PA S corporation may offset forfeited interest penalties incurred from a premature withdrawal of a time deposit only against the interest income from that account or certificate. The PA S corporation cannot offset such interest penalty against other interest income, even if the total penalty exceeds the interest on the account or certificate. The PA S corporation may report any excess penalty as a loss on PA Schedule D.

## Defining Net Income or Loss from Business, Profession, or Farm Activities

The PA S corporation computes its net business income or loss solely

by reference to those items of revenue, cost, expense, or liability that it derives or incurs either:

1. In the ordinary course of operating its business; or
2. From securities employed as working capital in the ordinary course of its business;
3. From accounts and notes receivable;
4. From sales of products or services in the ordinary course of its business;
5. From assets that serve an operational function in the ordinary course of business.

Electing PA S corporation status and receiving and reporting income as a PA S corporation does not alone make income realized in the ordinary course of, and from the operation of, a business. In order to constitute the operation of a business, the PA S corporation must meet each of these three requirements:

1. The PA S corporation must market a product or service to customers on a commercial basis, without limitation or exclusivity; and
2. The PA S corporation must conduct, or ordinarily conduct, its marketing activity with the manifest objective of achieving profitable operations; and
3. The PA S corporation must conduct its marketing activity with regularity and continuity.

If the operation of the business is wholly within Pennsylvania, the PA S corporation allocates its net profit or loss exclusively to Pennsylvania. If the operation of the business is wholly outside Pennsylvania, the PA S corporation cannot allocate to Pennsylvania any item of revenue, loss, cost, or expense that it derives or incurs. When a PA S corporation operates a business that is neither wholly within nor wholly outside Pennsylvania under the above definitions, it allocates by separate accounting.

A PA S corporation computes its net business income or loss without reference to any item of revenue, cost, expense, or liability it derives or incurs in connection with, or attributable to:

1. A sale, discontinuation or abandonment of a business or segment thereof;
2. An event or transaction that it does not reasonably expect to recur in the foreseeable future and possesses a high degree of abnormality, vis-à-vis other events or transactions in the course of its business operations;
3. The ownership or disposition of assets that are held for long term investment purposes or otherwise serve an investment function;
4. Trading in securities on an established securities market for personal purposes and not for the accounts of customers;
5. A nonoperating interest in coal, oil, gas, or minerals in place, unless they serve an operational function in the operation of the PA S corporation's business; or
6. Any tax imposed on, or measured by, gross or net earned or unearned income.

The PA S corporation includes interest derived from assets employed as working capital in a business, and from accounts and notes receivable from sales of products or services sold in the ordinary course of business in determining net income or loss from business, profession, or farm activities.

### Allowable Deductions

The PA S corporation may only deduct ordinary, necessary, reasonable, and current expenses that it actually pays or incurs during the taxable year. The PA S corporation may only deduct expenses directly related to the production and marketing of products or services. If an expense is part business and part personal, the PA S corporation may only deduct the business portion of the expense. Pennsylvania

accepts deductions allowable under MACRS, including the IRC Section 179 additional first year depreciation allowances for small businesses.

### Noncommercial Income

Noncommercial income is a term describing all income other than income from business, profession or farm activities. PA law does not define portfolio or passive income as the IRS does. The federal definitions of portfolio and passive income do not apply. Further, the federal material participation rules do not apply. Under PA law, portfolio and passive income could be included in business, profession, or farm income, if such income was generated by working capital. If the PA S corporation is also a partner or shareholder in another entity it must report to its own shareholders its share of the income from the other entity, whether distributed or not. The PA S corporation reports its share of noncommercial income in the same PA income class in which the other entity received the income.

### Defining PA Taxable Interest

Include all interest income except:

1. Interest derived from purchase money mortgages on real estate or land contracts that the partnership includes in determining net gain or loss from the sale, exchange, or other disposition of property;
2. Interest incidental to the production of rental or royalty income that the partnership or PA S corporation includes in determining net rent and royalty income;
3. Interest that is statutorily free from PA tax;
4. Interest derived from assets employed as working capital in a business, and from accounts and notes receivable from sales of products or services sold in the ordinary course of business that the PA S corporation includes in determining net profit or loss from its business, profession, or farm.

Taxable income for PA PIT purposes includes interest derived from obligations that are not statutorily free from state or local taxation under any act of the General Assembly of Pennsylvania or under the laws of the United States.

A PA S corporation cannot assume that an obligation that is exempt from the federal income tax it is also exempt from the PA income tax. The exclusion for U.S. tax-exempt obligations does not automatically extend to those obligations whose sole statutory basis for exclusion is the Internal Revenue Code.

### Defining PA Taxable Dividends

Dividend income is any distribution to the PA S corporation of cash or property from the accumulated earnings and profits or current earnings and profits of a corporation, association, or business trust.

The PA definition of dividends is similar to, but not identical to, the federal definition. Distributions from mutual funds, money market funds, and real estate investment trusts are dividends for PA purposes, but interest for federal purposes. Distributions from PA S corporations are dividends only if from the earnings and profits of pre-election years.

### Defining Net Gain or Loss from the Sale, Exchange, or Disposition of Property

The PA S corporation must report all sales, exchanges or dispositions of capital assets and gains on the distribution of appreciated assets to shareholders. The PA S corporation must report a gain on sale, exchange or disposition of property to the shareholders in the year in which the amount realized from the conversion of the property into cash or other property exceeds the adjusted basis of the property. The PA S corporation recognizes a loss only in the taxable year in which the transaction, in respect to which loss is claimed, is closed and completed by an identifiable event that fixes the amount of the loss so there is no possibility of eventual recoupment.

### Defining Net Income or Loss From Rents, Royalties, Patents, and Copyrights

Gross rents and royalties include all items of gross income or receipts



derived from rents, royalties, patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and similar property, except:

1. Income or receipts derived from the sale, exchange, or other disposition of rents, royalties, patents, secret processes, formulas, goodwill, trademarks, trade brands, franchises, and similar property;
2. Income or receipts derived from operating oil, gas, or mining interests includable in the computation of net profits or loss from a business, profession, or farm, or otherwise derived in the ordinary course of and from the operation of a business.

### Allowable Deductions

The PA S corporation may only deduct the expenses that it ordinarily pays or incurs during the taxable year. The expenses must be necessary for the production or collection of rents and royalties or the management, conservation or maintenance of rents, royalties, patents, copyrights, or similar property. Such expenses include advertising, cleaning and maintenance, agents' commissions, insurance, legal fees, management fees, interest, repairs, supplies, utilities and depreciation expense or depletion. Pennsylvania accepts deductions allowable under MACRS, including the IRC Section 179 additional first year depreciation allowances for small businesses.

### Rents vs. Net Profits

The leasing of tangible property constitutes the marketing of a product or service, if the PA S corporation meets at least one of these requirements:

1. The average period of customer use of the property is 30 days or less; or
2. The PA S corporation customarily makes the property available only during defined business hours; or
3. In connection with the leased property, the PA S corporation also provides significant services to the lessee, or relative to rents, it incurs substantial current operating expenses directly related to the delivery of products or services to the lessee; or
4. The leasing activity is incidental to a sales business.

Generally, a PA S corporation provides significant services to a lessee if the services are primarily for the lessee's convenience, and the services are not customarily provided in connection with the rental of rooms or other space for occupancy only. **EXAMPLE.** Housekeeping services constitute significant services. Providing self-operating elevators, heat, electricity and light, cleaning public entrances, exits, stairways and lobbies, and collecting trash are not significant services.

### Defining Gambling and Lottery Winnings

The PA S corporation must report any winnings it realizes from gambling or lotteries, other than the PA Lottery. The PA S corporation may not deduct any expenses related to realizing such income. However, the PA S corporation may offset winnings and losses within this income class. The PA S corporation must submit a schedule or explanation of any amount reported.

### Defining Net Income or Loss from Estates or Trusts

The PA S corporation reports its income from an estate or trust from the PA Schedule L that the estate or trust provides.

## TAX CREDITS

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

### PA Employment Incentive Payment Credit

Act No. 63 of 1999 extended a program for tax credits to taxpayers for hiring eligible Public Assistance clients under an Employment Incentive Payments (EIP) program. Employers can receive as much as \$2,700 in tax credits for hiring an eligible employee in the first year of employment, \$1,800 in tax credits for the second year of employment, and \$900 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 \$9,000 of qualified first year wages for the first year

of employment, 20% of the first \$9,000 of qualified wages for the second year of employment, and 10% of the first \$9,000 of qualified wages for the third year of employment.

The law also provides additional tax credits for providing child care services for the child (or children) of eligible assistance clients and transportation service for an eligible individual in flat amounts of \$800 per employee for the first year of employment, \$600 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 ten (10) immediate succeeding years as long as the total credits used do not exceed 90% of the tax liability for that particular year.

Taxpayers can apply the tax credit against the Corporate Net Income Tax or PA Personal or Fiduciary Income Tax. **IMPORTANT.** The credit is not available for Capital Stock Tax or Foreign Franchise Tax. The PA S corporation can pass through the tax credit to its shareholders.

Employers interested in hiring qualified Public Assistance clients and participating in the Employment Incentive Payment program should contact the nearest Commonwealth Job Service Office, County Assistance Office, or Department of Revenue District Office. To claim a credit, submit copies of the certificates for all appropriate employees and a copy of **PA Schedule W** with the **PA-20S/PA-65**.

For more information, call the Department of Labor and Industry Tax Credit Hotline at 1-800-345-2555.

### PA 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. This tax credit makes it more desirable and more feasible for existing businesses to expand operations as well as attract new businesses to the state. To qualify, a business must agree to create within 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 Department of Community and Economic Development approves the company's application to receive the Jobs Creation Tax Credit. To be counted as a new full-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.

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.

### PA Research & Development Tax Credit

Act 7 of 1997 provides for a PA Research and Development Tax Credit. To claim the PA Research and Development (R&D) Credit, a PA S corporation must have qualified PA R&D expenses in the current tax year and in at least one preceding tax year. The due date for the application for this credit is September 15 of each applicable year.

A PA S corporation may obtain the application form and any additional information by contacting the PA Department of Revenue, Bureau of Corporation Taxes, Taxing Division - R&D Unit, Dept. 280703, Harrisburg, PA 17128-0703, or telephone (717) 783-6031.

## LINE INSTRUCTIONS FOR THE PA-20S/PA-65 COMBINED INFORMATION RETURN

### Part I. Total PA Taxable Business Income or Loss

**Line 1a. PA Taxable Business Income or Loss from Operations.** Enter the amount shown in Part G of **PA Schedule M**, Reconciliation of Federal Taxable Income to PA Reportable Income.



**Line 1b. Share of Income or Loss from Other Entities.** Enter the PA S corporation's share of net profit or loss that it receives as a partner, shareholder, or beneficiary.

**Line 1c. Total Income or Loss.** Add lines 1a and 1b.

**Line 1d. Previously Disallowed CNI Deductions.** Enter the total amount of Previously Disallowed CNI Deductions. Any deduction, except a net loss deduction, that was disallowed a corporation when it was subject to the Corporate Net Income Tax shall be allowed as an additional deduction while the corporation is in PA S Corporation status to the same extent and in the same manner that the additional deduction would have been allowed had the corporation remained subject to the Corporate Net Income Tax. Additional deductions will be allowed for:

### **Disallowed Accelerated Depreciation on Tax Preference Items.**

Accelerated depreciation of tax preference items the Department disallowed when the corporation was subject to the Corporate Net Income Tax will be allowed as an additional deduction to the extent and amount allowed had the corporation remained subject to the Corporate Net Income Tax. For further information, see the Department's regulations in Title 61 PA Code § 153.14.

Any previously disallowed CNI deduction shall be separately determined and must be taken against net profits from business, profession or farm. Resident shareholders shall be allowed the full amount of any previously disallowed CNI deduction. Nonresident shareholders will be allowed only a previously disallowed CNI deduction to the extent that the deduction would have been considered a deduction against income from sources within Pennsylvania in the year disallowed.

Submit a separate statement for each deduction indicating the basis for each claimed deduction and the year in which the deduction was disallowed. The earliest Previously Disallowed CNI Deduction must be used first.

**Line 1e. Total Adjusted Business Income or Loss.** Subtract Line 1d from Line 1c. Enter this amount on Line 1e.

### **Part II. PA Taxable Business Income or Loss Allocable to Pennsylvania**

A PA S corporation that operates a business must allocate or apportion its income, loss, costs, expenses, and liabilities if it has a shareholder that is:

- A nonresident individual; or
- A resident or nonresident estate or trust

If the PA S corporation must apportion, submit a completed PA Schedule H, Apportionment Schedule. If the PA S corporation does not have to complete PA Schedule H, proceed to Part III.

A nonresident individual, estate or trust must allocate or apportion if the individual, estate or trust is a partner or shareholder in a partnership that is subject to tax in another state or country as income or loss derived through the partnership or S corporation.

**Line 2a. Net Operating Income or Loss from Line 7, PA Schedule H.** If the PA S corporation apportions, enter the amount from Line 7 of PA Schedule H. Otherwise, enter the amount of net profit or loss from its operations.

**Line 2b. Net Income or Loss from Line 7, PA Schedule H, Other Entities.** For a PA S corporation that is a partner of another partnership or joint venture, determine from the PA Schedule RK-1 or NRK-1 from the other entity, the PA S corporation's share of net income or losses allocable to Pennsylvania. Enter this amount on Line 2b.

**Line 2c. Previously Disallowed C.N.I. Deductions attributable to PA Source Income**

Multiply Line 1b by the applicable apportionment decimal(s) for the year(s) in which the deduction was disallowed. The corporation's CNI three-factor apportionment decimal for the year in which the deduction was disallowed may be used. Report the total of such calculations on Line 2c.

**Line 2d. Total Adjusted/Apportioned Net Business Income or Loss.** Add Lines 2a and 2b and subtract Line 2c. Enter this amount on Line 2d.

**IMPORTANT. For Lines 2a, 2b, 2c, and 2d, fill in the ovals next to the appropriate lines for losses. When determining Line 2d, use losses.**

### **Part III. Noncommercial Income or Loss**

Noncommercial income is a term describing all the remaining PA taxable income classes. If the PA S corporation is also a partner or shareholder in another entity it must report to its own shareholders its share of the income from the other entity, whether distributed or not. The PA S corporation reports the share of noncommercial income in the same class in which the other entity received the income.

**Line 3. Interest Income.** The PA S corporation must report on Line 3 any amount it received for the use of its money that it did not report on Line 1a. Do not report on Line 3 interest from obligations that are statutorily free from PA tax.

**IMPORTANT.** The PA S corporation should include interest from investments to generate working capital and interest that the PA S corporation used in operating its commercial activities when determining its net profit or loss in Line 1a, not in Line 3.

**Line 4. Dividend Income.** Dividend income is any distribution to the PA S corporation of cash or property from the accumulated earnings and profits or current earnings and profits of a corporation, association, or business trust.

**IMPORTANT.** The PA S corporation should include dividend income from investments to generate working capital and dividend income that the PA S corporation used in operating its commercial activities when determining its net profit or loss in Line 1a, not in Line 3.

**Line 5. Net Gain or Loss from the Sale, Exchange, or Disposition of Property.** The PA S corporation determines the transactions that it enters on PA Schedule D from its books and records, and from the information on Federal Schedule D and/or Federal Form 4797. DO NOT submit a Federal Schedule D or Federal Form 4797. The Department only accepts the PA Schedule D.

**Line 6. Net Income or Loss from Rents, Royalties, Patents, and Copyrights.** Complete and attach PA Schedule E.

In completing Schedule E, the PA S corporation includes in gross rents or receipts any interest income incidental to the production or collection of rents and royalties. This includes interest from past due rents and royalty payments and interest from escrowed security deposits.

**Line 7. Income from Estates and Trusts.** Complete and attach PA Schedule J.

If the PA S corporation is a beneficiary of an estate or trust, enter the amount the PA S corporation received as taxable income on the PA Schedule L it received from the estate or trust.

**Line 8. Gambling and Lottery Winnings.** The PA S corporation must report any winnings it realizes from gambling or lotteries, other than the PA Lottery. The PA S corporation may not deduct any expenses related to realizing such income. However, the PA S corporation may offset winnings and losses within this income class. The PA S corporation must submit a schedule or explanation of any amount reported.

**Line 9. Total Noncommercial Income or Loss.** Add Lines 3 through 8. Negative numbers (losses) should be treated as such in this calculation.

**IMPORTANT.** When determining income or loss distributable to its shareholders for each PA income class, the PA S corporation does not include Line 9.

### **Part IV. Noncommercial Income or Loss Allocable to Pennsylvania**

The instructions for PA Schedule H, Apportionment Schedule begin on page 14. If the PA S corporation has noncommercial income (income other than business, profession or farm income) from sources outside Pennsylvania, and the PA S corporation has at least

one nonresident or part-year resident shareholder, the PA S corporation must complete Part IV. Otherwise, proceed to Part V.

### Non-Pennsylvania Source Income

PA law doesn't impose PA income tax on nonresident shareholders receiving income from sources outside Pennsylvania. Such income is taxable, however, to resident shareholders.

**Line 10. Net Gain or Loss from the Sale, Exchange, or Disposition of Real Property.** If the PA S corporation disposed of real property located within Pennsylvania, the gain or loss is allocable to Pennsylvania. The gain or loss is also allocable to Pennsylvania if the partnership sold tangible personal property that was in the Commonwealth at the time of sale.

From information on its Federal Schedule D or from its records, the PA S corporation determines the amount to enter on Line 10. Include losses on sales or exchanges of stocks or other securities in Line 10 of Part IV.

### Line 11. Net Income or Loss from Rents, Royalties, Patents, and Copyrights

- Net Rents and Royalties. Net rents and royalties from real and tangible personal property located in Pennsylvania are allocable to this Commonwealth. Net rents from tangible personal property are allocable to Pennsylvania to the extent that the PA S corporation uses the tangible personal property in Pennsylvania.
- Net Income Derived from Patents and Copyrights. Patent and copyright royalties are allocable to Pennsylvania to the extent that the payer of such income uses the patent or copyright in Pennsylvania. A business uses a patent in Pennsylvania to the extent that it employs the patent in production, fabrication, manufacturing, or other processing in Pennsylvania, or to the extent, it produces a patented product in Pennsylvania. A business uses a copyright in Pennsylvania to the extent that it prints or otherwise publishes in Pennsylvania.

Determine the dollar amounts for (a) and (b) from the information on the PA S corporation's PA Schedule E. Enter this amount on Line 11.

**Line 12. Income from Estates and Trusts.** If the PA S corporation is a beneficiary of an estate or trust, enter the amount reported as nonresident taxable income on the PA Schedule L from the estate or trust.

### Part V. Total PA S Corporation or Partnership Income or Loss

**Line 13. Total Income or Loss per Books.** Enter on Line 13, the total PA S corporation book income/loss for the taxable year. If a loss, fill in the oval.

Interest and gains derived by the PA S corporation from government obligations that are exempt from state taxation are not income that the PA S corporation must pass through to its shareholders. Conversely, the PA S corporation may not use losses on tax-exempt obligations to offset taxable income. However, the PA S corporation must report such interest, gains and losses on Line 13 of the PA-20S/PA-65, because it does affect the basis of each shareholder's interest. Accordingly, the PA S corporation passes through each shareholder's pro rata share of this tax-exempt income to its shareholders.

**Line 14. Total Reportable Income or Loss.** Add Lines 1e (or 2d, if using Apportionment Schedule) and 9. If a loss, fill in the oval.

**Line 15. Total Nontaxable/Nonreportable Income or Loss.** Subtract Line 14 from Line 13. **NOTE.** Line 13 should always be more than Line 14. When determining Line 15, treat negative numbers on Lines 13 and 14 as such. If both Lines 13 and 14 are losses, the difference Line 15 is the nonreportable loss that the members may not use to reduce PA taxable income.

### Part VI. Pass-Through Credits

Enter the allowable credit on the appropriate line(s). Submit all supporting documentation necessary to receive credit.

**Line 16a. PA Resident Credit.** The PA S corporation must submit a complete **PA Schedule G**, with a signed copy of the other state's tax return, to its **PA-20S/PA-65**. The PA S corporation must follow the instructions for **PA Schedule G**.

**Line 16b. PA Employment Incentive Payments Credit.** A PA S corporation can claim this credit and pass it through its shareholders. The PA S corporation must submit a properly completed PA Schedule W, including the required copies of the certificates for all eligible employees. The Department will grant a credit unless the PA S corporation submits all required documents.

**Line 16c. PA Jobs Creation Tax Credit.** Check this box if the PA S corporation has obtained the certificate provided by the PA Department of Community and Economic Development. Submit all supporting documentation to obtain credit.

**Line 16d. PA Research and Development Tax Credit.** Check this box if the PA S corporation has obtained the certificate provided by the PA Department of Revenue, form REV-545. Attach all supporting documentation to obtain credit.

**Line 17a. Tax Withholding Payments from Nonresident Shareholders and Partners.** Enter the total tax withheld from the non-PA resident shareholders during the taxable year. The PA S corporation must complete the Nonresident Withholding Reconciliation Schedule.

**Line 17b. Final Payment of PA Tax Withholding for Nonresident Shareholders and Partners.** The PA S corporation must calculate the amount of PA tax due on the nonresident shareholder's PA source distributable income. If the withholding payments made during the year were not sufficient to pay the tax due, enter the difference on this line.

### Form PA-V, Payment Voucher

Follow the instructions for using the **PA-V** on the label insert in the booklet. The PA S corporation or partnership makes the final payment of nonresident withholding tax with the **PA-20S/PA-65**. **IMPORTANT.** If all the nonresident members elect to file on a consolidated return, the PA S corporation or partnership may make the final payment with the **PA-40NRC**.

**Line 17c. Total PA Income Tax Withheld.** Add Lines 17a and 17b and enter the total here.

### PART VII. DISTRIBUTIONS

Lines 18, 19, and 20 apply only to partnerships.

#### PA S Corporations Only

Distributions from a PA S Corporation that are paid from the accumulated earnings and profits of the corporation before it elected PA S status is dividend income to its corporation shareholders. All other distributions are nontaxable return of the shareholder's basis in stock.

Nontaxable return of basis distributions will reduce the shareholder's basis in stock first. If such distributions exceed the shareholder's basis in stock holdings, the shareholder may apply the excess against the basis of any indebtedness of the corporation to the shareholder. If such distributions exceed the shareholder's basis in stock and indebtedness, the shareholder must report a gain from the disposition of property.

If the PA S corporation distributes appreciated property, the PA S corporation must treat the distribution as if it sold the property to the shareholders at fair market value. Such a distribution will produce gains from the sale of property that the PA S corporation will have to report net gains or losses from the sale, exchange or disposition of property. To document all distributions during a taxable year, complete Part VII of the **PA-20S/PA-65**.

#### Line 21. NRC Nontaxable Return of Capital

#### Line 22. D Dividends

Dividends equal Total Distributions less Nontaxable Return of Capital Distributions

## SIGNATURE AND VERIFICATION - FINALIZING THE RETURN

The **partnership official** who is responsible for signing the **PA-20S/PA-65** must manually sign, and include his or her title, date and telephone number. The responsible person must insure that all required schedules accompany the **PA-20S/PA-65**. A **PA Schedule RK-1** and/or **NRK-1** for each partner must accompany the **PA-20S/PA-65**. The partnership has **not filed** a valid **PA-20S/PA-65** unless it is **signed** properly. If a preparer completed the return, the preparer may also sign and date the return. Enter the preparer's name, address, and telephone number in the space provided.

### Part VIII. Partnerships Only – Capital Account Reconciliation

This part applies only to partnership.

### Part IX. PA S Corporations Only - Accumulated Adjustment Account

All PA S corporations must maintain a PA Accumulated Adjustments Account. The PA S corporation must adjust the account each year for net income and losses from the PA income classes enumerated in Section 303 of the PA PIT Act. After these adjustments, the PA S corporation must reduce the account by distributions made during the year that are not taxable dividends to shareholders.

- Line 1.** For the corporation's first tax year as a PA S corporation, enter zero (0). In subsequent years, enter the ending balance from the prior year's account.
- Line 2.** Enter the amount from Part V, Line 13 of the **PA-20S/PA-65**. For the purposes of computing its PA Accumulated Adjustment Account, the PA S corporation offsets losses within and between the PA income classes. The PA S corporation designates its total gain or loss for purposes of adjusting its PA Accumulated Adjustment Account as Total Reportable Corporate Income, in Part V, Line 13 of the **PA-20S/PA-65**.
- Line 3.** Enter other additions to the PA Accumulated Adjustment Account
- Line 4.** Enter loss from Part V, line 13 of the **PA-20S/PA-65**
- Line 5.** Enter other reductions to the PA Accumulated Adjustment Account
- Line 6.** Add Lines 1 through 5, and enter the total.
- Line 7.** Enter the total nontaxable return of capital distributions from Part VII on this page. NRC distributions reduce basis, but taxable dividends do not. Therefore, dividends are not part of the Pennsylvania accumulated adjustment account.
- Line 8.** Ending Balance. Subtract Line 7 from Line 6, and enter the total.

If a PA S corporation reverts to the Corporate Net Income Tax Act status, it may distribute the balance of its PA Accumulated Adjustment Account to its shareholders as a nontaxable return of capital. Such distributions, however, will reduce the shareholders' basis in the C corporation. If the distributions exceed the shareholders' basis in the stock of the former PA S corporation, the shareholders must report the distributions as taxable gains on the sale or exchange of property.

### Part X. Nonresident Withholding Payments PA S Corporations and PA Partnerships

- A. Calculate the PA tax due on the total PA source income distributed/distributable to all the nonresident shareholders or partners. The PA Schedules NRK-1 that the PA S corporation or partnership provides to its members show each member his/her/its PA source taxable income. The amount on Line A is the total PA source taxable income from all PA Schedules NRK-1 multiplied by the tax rate (0.028).

- B. List each withholding payment made on behalf of nonresident shareholders or partners by date. Enter the total paid.
- C. Subtract B from C. This is the amount that the PA S corporation or partnership must pay with the **PA-20S/PA-65, Combined Information Return**, or with the **PA-40 NRC, Nonresident Consolidate Tax Return**, if the nonresident shareholders or partners elect a group return.

## SCHEDULE INSTRUCTIONS

The following schedules are not in this booklet. The PA S corporation or partnership can obtain these schedules from a **PA-40** booklet, one of the Forms Ordering Services, or from the Department's Internet home page.

- **PA Schedule A** – Interest Income
- **PA Schedule B** – Dividend Income
- **PA Schedule D** – Gain or Loss from the Sale, Exchange, or Disposition of Property

### PA Schedule M, Reconciliation of Federal Taxable Income To PA Taxable Income for PA S Corporations and PA Partnerships

Use this schedule to reconcile from taxable income or loss as shown on federal Form 1065 to reportable income or loss for PA purposes. Complete the identification information for the PA S corporation or partnership. Provide the name and telephone number of the person the Department should contact for any questions.

#### Part A - Federal Taxable Income

Enter the Federal Taxable Income from Schedule M-1 of Federal Form 1065 or Federal Form 1120.

If the PA S corporation or PA partnership consistently uses generally accepted account principles (GAAP) to determine its net profit or loss, it must submit a statement that reconciles to PA PIT from its financial statements. The PA S corporation or PA partnership must submit a statement showing its reconciliation to book income it used as the starting point in arriving at Federal Taxable Income (i.e., net income or loss per books as reflected on Schedule M-1 of Federal Form 1120S). The PA S corporation or partnership must still use PA PIT rules to arrive at PA PIT income.

#### Part B – Income Taxable for PA PIT, but not for Federal Income Tax Purposes

**Lines 1 through 5.** Enter on each line any income that the business did not report on its Federal Information Return, but must report as taxable income under PA law.

**Line 6. Other PA Taxable Income.** Enter the amounts for any income items not listed above. Submit a schedule, with supporting documentation, describing each income item entered.

**Line B.** Add Lines 1 through 6.

#### Part C - Income Taxable for Federal Income Tax Purposes, but not for PA PIT

**Lines 1 and 2.** Enter on each line any income that the business reported on its Federal Information Return, but does not have to report as taxable income under PA law.

**Line 3. Other PA Exempt Income.** Enter the amounts for any PA exempt income items not listed above. Submit a schedule, with supporting documentation, describing each income item entered.

**Line C.** Add Line 1 through 3.

#### Part D - Adjusted Income for PA PIT

Enter the total of Parts A, B and C.

#### Part E – Deductions: Not Allowable for PA PIT, but Allowable for Federal Income Tax Purposes

**Lines 1 through 8.** Enter on each line any deductions that the business



reported on its Federal Information Return, but that are not allowable deduction under PA law.

**Line 9. Other Deductions.** Enter the amounts for any deductions that PA law does not allow that are not listed above. Submit a schedule, with supporting documentation, describing each deduction item entered.

**Line E.** Add Lines 1 through 9.

### **Part F - Deductions Allowable for PA PIT, but Not Allowable for Federal Income Tax Purposes**

**Lines 1 through 10.** Enter on each line any deductions that the business could not report on its Federal Information Return, but that are allowable deduction under PA law.

**Line 11. Other Deductions.** Enter the amounts for any deductions that PA law allows that are not listed above. Submit a schedule, with supporting documentation, describing each deduction item entered.

**Line F.** Add Lines 1 through 11.

### **Part G - Adjusted PA Taxable Net Income or Loss**

Add Lines C and E. Then, subtract Line F. The result is the adjusted PA taxable income for the PA S corporation or partnership. Enter this amount on the **PA-20S/PA-65, Combined Information Return**, Part I, Line 1a.

### **PA Schedules RK-1 AND NRK-1 Instructions**

These schedules show each member's share of the income, loss, and credit of the PA S corporation or partnership.

#### **Complete a separate PA Schedule RK-1 for:**

1. Each individual that was a member and a resident at the close of the business taxable year.
2. Each deceased individual that was a member and a resident at the time of his or her death during the business taxable year.
3. Each individual that was a resident at the close of the day during business taxable year that he or she sold, exchanged, or disposed of his or her entire interest in the PA S corporation or partnership.
4. Each individual that was a resident at the close of business on the day during the business taxable year, that he or she liquidated or redeemed his or her entire interest in the PA S corporation or partnership.

#### **Complete a separate PA Schedule NRK-1 for:**

1. Each individual that was a member and a nonresident at the close of the business taxable year.
2. Each deceased individual that was a member and a nonresident at the time of his or her death during the business taxable year.
3. Each individual that was a nonresident at the close of the day during the business taxable year that he or she sold, exchanged, or disposed of his or her entire interest in the PA S corporation or partnership.
4. Each individual that was a nonresident at the close of business on the day during the business taxable year, that he or she liquidated or redeemed his or her entire interest in the PA S corporation or partnership.

If a member is an estate, trust, another partnership or S corporation, the PA S corporation or partnership must provide both **PA Schedules RK-1** and **PA Schedules NRK-1**.

A copy of the **PA Schedules RK-1** and/or **NRK-1** for each shareholder or partner must accompany the **PA-20S/PA-65**. Each member must receive their copy so they can prepare their individual **PA-40** or **PA-41 Tax Returns**. The PA S corporation or partnership must retain a copy of each **PA Schedule RK-1** and **NRK-1**.

### **PA Schedule RK-1, 2001 Resident Schedule of PA S Shareholder/Partner Pass-Through Income, Loss, and Credits**

#### **Part I**

For each **PA Schedule RK-1**, complete the identification information, and all the other information in this part.

#### **Parts II - IV**

**Line 1. PA Taxable Business Income or Loss from Operations.** Enter the member's pro rata distributive share of Part II, Line 1e, from the **PA-20S/PA-65, Combined Information Return**.

**Lines 2 through 7.** Enter the member's pro rata distributive share of the separately stated items of other PA taxable income or loss from Part III, Lines 3 through 8, from the **PA-20S/PA-65**.

**Lines 8 through 12.** Enter the member's pro rata distributive share of the separately stated credits that the PA S corporation or partnership passes-through from Part VI, Lines 16a through 16e, from the **PA-20S/PA-65**.

**IMPORTANT.** Line 8 of PA Schedule NRK-1 (Line 16a of the **PA-20S/PA-65**) applies only to shareholders of PA S corporations.

#### **Distributions from Partnership**

**Lines 13 through 15 apply to partnerships only.**

#### **Part V. Distributions from PA S Corporation**

**Lines 16 and 17.** Enter each shareholder's nontaxable return of capital distribution and dividend distributions from the **PA-20S/PA-65**, Part VII, Distributions.

#### **Part VI. Nontaxable PA S Corporation Income or Loss**

**Line 18.** Enter each shareholder's pro rata distributive share of total nontaxable corporate income/loss from the **PA-20S/PA-65**, Part V, Line 15, Total Nontaxable or Nonreportable Income or Loss.

### **PA Schedule NRK-1, 2001 Nonresident Schedule of PA S Shareholder/Partner Pass-Through Income, Loss, and Credits**

For each **PA Schedule NRK-1**, complete the identification information, and all the other information in this part.

#### **Parts II - IV**

**Line 1. PA Taxable Business Income or Loss from Operations.** Enter the member's pro rata distributive share of the PA source taxable income or loss from Part III, Line 2d, from the **PA-20S/PA-65, Combined Information Return**.

**Lines 2 through 4.** Enter the member's pro rata distributive share of the separately stated items of other PA source taxable income or loss from Part IV, Lines 10 through 12, from the **PA-20S/PA-65**.

**Lines 5. PA Nonresident Tax Withheld.** Enter the member's pro rata distributive share of the nonresident tax the PA S corporation or partnership withheld from Part VI, Line 17c, from the **PA-20S/PA-65**.

**Line 6 through 9.** Enter the member's pro rata distributive share of the separately stated credits that the PA S corporation or partnership passes-through from Part VI, Lines 16b through 16e, from the **PA-20S/PA-65**.

**IMPORTANT.** Line 16a of the **PA-20S/PA-65** applies only to resident shareholders of PA S corporations.

#### **Part IV.**

##### **Distributions from Partnership**

**Lines 10 through 12 apply only to partners.**

#### **Part V**

##### **Distributions from PA S Corporation**

**Lines 13 and 14.** Enter each shareholder's nontaxable return of capital



distributions and dividend distributions from the **PA-20S/PA-65**, Part VII, Distributions.

## Part VI. Nontaxable PA S Corporation Income or Loss

**Line 18.** Enter each shareholder's pro rata distributive share of total nontaxable corporate income/loss from the **PA-20S/PA-65**, Part V, Line 15, Total Nontaxable or Nonreportable Income or Loss.

### PART-YEAR RESIDENTS

The PA S corporation must submit a separate **PA Schedule RK-1** that period of its taxable year during which the shareholder was a resident.

The PA S corporation determines the shareholder's pro rata distributive share of each item reported on the **PA-20S/PA-65**, Parts I, III, VI, VII and Part V, Line 15 as follows:

- Determine the daily amount by dividing the income, loss or credit by the number of days in its tax year
- Determine the shareholder's daily part by multiplying the daily amount from (a) by the percentage of stock owned by the shareholder on each day the shareholder was a resident during its tax year
- Total the shareholder's daily parts for the number of days for which the shareholder was a PA resident

Use these figures to complete the **PA Schedule RK-1**, following the above instructions.

The PA S corporation must submit a separate **PA Schedule NRK-1** that period of its taxable year during which the shareholder was a nonresident.

The PA S corporation determines the shareholder's pro rata distributive share of each item reported on the **PA-20S/PA-65 Information Return**, Parts I, II, III, or IV, VII and Part V, Line 15 and Part VI, Line 16b as follows:

- Determine the daily amount by dividing the income, loss, or credit by the number of days in its tax year
- Determine the shareholder's daily part by multiplying the daily amount from (a) by the shareholder's ownership percentage on each day the shareholder was a nonresident during its tax year
- Total the shareholder's daily parts for the number of days for which the shareholder was a nonresident.

Use these figures to complete the **PA Schedule NRK-1**, following the above instructions.

### PA Schedule H Instructions

#### How to Apportion Income from Business, Profession, or Farm Activities from Sources Both Within and Outside Pennsylvania

Read the PA rules for apportioning income or loss. List all places both within and outside Pennsylvania where the PA S corporation conducts business activity or farming. Show the street address, city, state, and the type of business, profession or farm.

#### Line Instructions for Apportionment Schedule

##### 1. Real Estate and Tangible Property

**Column A, Total Everywhere.** Enter the average value of the real and tangible personal property owned or rented and used in business or farming, within and outside Pennsylvania.

**Column B, Within Pennsylvania.** Enter the average value of the real and tangible personal property owned or rented and used in business or farming in Pennsylvania.

**Column C.** Divide Column B by Column A and enter the decimal.

##### 2. Wages, Salaries, Commissions, and Other Compensation

**Column A, Total Everywhere.** Enter total compensation paid within and outside Pennsylvania during the taxable year.

**Column B, Within Pennsylvania.** Enter total compensation paid in Pennsylvania during the entire taxable year.

**Column C.** Divide Column B by Column A and enter the decimal.

##### 3. Sales

**Column A, Total Everywhere.** Enter total sales within and outside

Pennsylvania during the entire taxable year.

**Column B, Within Pennsylvania.** Enter total sales within Pennsylvania during the entire taxable year.

**Column C.** Divide Column B by Column A and enter the decimal.

##### 4. Total

**Add the decimals calculated on Lines 1, 2, and 3.**

##### 5. Allocating Percentage (express in a decimal)

Divide the total decimal amount on Line 4 by the number of factors that apply. Enter the result as a decimal. **EXAMPLE.** If the PA S corporation entered amounts only for Property and Sales in Column A, divide the amount on Line 4 by two.

##### 6. Total Net Income from business or farming for the tax period

Do not include income from other entities, estates or trusts.

##### 7. Net Income from business or farming subject to tax in Pennsylvania

Multiply the amount on Line 6 by the percentage on Line 5. Enter the amount on Line 2a, Part II of **PA-20S/PA-65**.

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

The property factor is a fraction. The numerator is the average value of real and tangible personal property employed in the business and located in Pennsylvania. The denominator is the average value of the real and tangible property employed in the business everywhere.

#### For purposes of computing the property factor:

- The PA S corporation values owned property at its original cost.
- Real property includes real property the PA S corporation rents and uses in the business.
- The PA S corporation values rental property by multiplying the gross rents paid during the taxable year by eight (8).
- If the values of the PA real or tangible personal property that the PA S corporation employs in its business are zero at the beginning of any calendar month during its taxable year, the partnership determines its average value of property by averaging the values at the beginning and ending of the taxable year. Otherwise, the PA S corporation determines its average value of property by averaging the monthly values.
- Gross rents are the actual sum of money or other consideration paid directly or indirectly by the PA S corporation or for its benefit for the use or possession of the property. Gross rents include:
  - The amount paid for the use or possession of real property or any part thereof, whether designated as a fixed sum of money or a percentage of sales, profits, or otherwise.
  - The amount paid as additional rent, or instead of rent, the amount the partnership paid in interest, taxes, insurance, repairs, or other amounts under the terms of a lease or other arrangement.
  - The portion of the cost of any improvement to real estate made by or on behalf of the taxpayer which reverts to the owner or the lessor upon termination of the lease or other arrangement based on the unexpired term of the lease commencing with the completion date of the improvement, or the life of improvement, if its life expectancy is less than the unexpired term of the lease. If the PA S corporation erects, or another erects on behalf of the partnership, a building on leased land, the PA S corporation determines the value of the land by multiplying the gross rent by eight (8) and the value of the building in the same manner as if owned by the PA S corporation. The proportional part of the cost to an improvement (other than the building on leased land) is generally equal to the amount of allowable amortization in computing PA net income, whether the lease does or does not contain an option of renewal.

**NOTE. Gross rents shall not include:**

- Any portion of a payment or credit to the proprietor of the business, or to a shareholder in the PA S corporation conducting the business for the use of real property.
- Amounts payable for separate charges for water and electric service furnished by the lessor.
- Amounts payable for storage if no designated space under the control of the taxpayer as a tenant is rented for storage purposes.
- That portion of any rental payment that in the discretion of the Department is applicable to property subleased by the PA S corporation and that it does not use in the carrying on its business.

**Wages, Salaries, Commissions, and Other Income (Payroll Factor)**

The payroll factor is a fraction. The numerator is the total current employee wage and salary expense for the taxable year the PA S corporation incurs in connection with its business activity within Pennsylvania. The denominator is the total current employee wage and salary expense the PA S corporation incurs in connection with its business everywhere.

The PA S corporation incurs employee wage and salary expense in connection with its business activity in Pennsylvania if one of the following applies:

1. The employee performs personal services entirely within Pennsylvania, or
2. The employee performs personal services outside Pennsylvania that are incidental to the usual services the employee performs in Pennsylvania, or
3. The employee performs some personal services in Pennsylvania, and at least one of the following applies:
  - a. The employee's base of operations is in Pennsylvania.
  - b. The place from which the employee receives direction or control is in Pennsylvania.
  - c. The employee is a resident of Pennsylvania.

The term base of operations refers to the place or fixed center from which the individual works. An individual's base of operations may be their business office, or a place at which the employee is to receive their directions and instructions if their contract of employment so specifies. In the absence of more controlling factors, an individual's base of operations may be the place to which they have their business mail, supplies and equipment sent, or the place where they maintain their business records.

**Sales (Sales Factor)**

The sales factor is a fraction. The numerator is total gross receipts derived from sales in Pennsylvania during the taxable year. The denominator is total gross receipts derived from all sales during the taxable year.

For purposes of computing the sales factor, the PA S corporation takes into account only sales of stock in trade or inventory held primarily for sale to customers in the ordinary course of the business, sales of services to customers, and sales of operational assets. A sale of stock in trade or inventory is in Pennsylvania if:

1. The seller delivers or ships the property from outside Pennsylvania into Pennsylvania to any purchaser other than the federal government.
2. The seller delivers or ships the property from Pennsylvania and the purchaser is the federal government.
3. The seller delivers or ships the property from Pennsylvania to another state or country, and the other state or country has no jurisdiction to tax the net income of the business derived from such sales.
4. The seller delivers or ships the property from a point within Pennsylvania to a purchaser in Pennsylvania. A sale of services is

in Pennsylvania if the seller performs the services wholly within Pennsylvania.

A sale of services is in Pennsylvania if the seller performs a greater portion of the services in Pennsylvania than outside Pennsylvania, based on cost or performance. A sale of an operational asset that is in Pennsylvania is a sale of property within Pennsylvania.

**Allocating Gains or Losses from the Disposition of Tangible Property**

Generally, the revenues, costs, expenses, and liabilities that the PA S corporation derives from, or incurs in, the sale, exchange, or other disposition of real property or tangible personal property are entirely from or incurred in the state or country in which the property is physically located. Special rules, however, apply with respect to the following:

1. Stock in trade or other property of a kind that the PA S corporation includes in its inventory if on hand at the close of the taxable year.
2. Property the PA S corporation holds primarily for sale to customers in the ordinary course of its business operations.
3. Assets that the PA S corporation employs in and serves as an operational function in the operation of the business.

**The general rule applies with respect to such assets if:**

1. The PA S corporation disposes of the assets pursuant to the sale, discontinuation, or abandonment of a business, or segment thereof; or
2. The sale or other disposition is of a type that the PA S corporation does not reasonably expect to recur in the foreseeable future and possesses a high degree of abnormality.

Otherwise, the PA S corporation allocates the gains or losses under the rules applicable to allocating income and loss.

The PA S corporation may not take into account any item of revenue, cost, expense, or liability allocable to a state or country other than Pennsylvania, under these rules, in computing its income from PA sources.

**Allocating Gains or Losses from the Disposition of Intangible Personal Property**

Generally, the revenues, costs, expenses, and liabilities that the PA S corporation derives from, or incurs in, the sale, exchange, or other disposition of intangible personal property are entirely from or incurred in the state or country in which the property is physically located. The general rule applies with respect to assets if:

1. The PA S corporation disposes of the asset pursuant to the sale, discontinuation, or abandonment of that business or segment thereof; or
2. The sale or other disposition is of a type that the PA S corporation does not reasonably expect to recur in the foreseeable future and possesses a high degree of abnormality.

Otherwise, the PA S corporation allocates gains or losses under the rules applicable to allocating income and loss.

**Interest Income**

Generally, no item of interest, cost, expense, or liability incurred in the production of interest is allocable to Pennsylvania. Special rules also apply with respect to the following:

1. Interest the PA S corporation derives from, and costs, expenses, or liabilities the PA S corporation incurs in connection with, purchase money mortgages on real estate or land contracts.
2. Interest the PA S corporation derives from, and costs, expenses, or liabilities the PA S corporation incurs in connection with, assets that it employs as working capital in its business and from accounts and notes receivable from sales or products or services it sells in the ordinary course of business.
3. Interest incidental to the production or collection of rental or royalty income.

The PA S corporation allocates such items under the rules applicable to allocating gains or losses from the disposition of tangible property, net profits, and revenues from ownership of property, respectively.

### **Dividend Income**

No item of dividend, cost, expense, or liability the PA S corporation incurs in the production of dividends is allocable to Pennsylvania.

### **Allocating Revenues, Costs, Expenses, and Liabilities from Ownership of Property, Real Estate Rents**

Rent the PA S corporation derives from real estate that it does not employ in the operation of its business, and costs, expenses, and liabilities the partnership incurs in the production or collection of such rents are allocable to Pennsylvania only if the rental property is in Pennsylvania.

### **Tangible Personal Property Rents**

The PA S corporation apportions the rent it derives from tangible personal property that it does not employ in its business operation, and costs, expenses and liabilities that it incurs in the production or collection of such rents, by multiplying the net rent by a fraction. The numerator is the number of days the property is physically in Pennsylvania during the rental period. The denominator is the number of days for all rental periods in the taxable year.

If the physical location of the property during the rental period is unknown, the PA S corporation allocates it to the state or country in which the property was located at the time the rental payer obtained possession.

### **Royalties From Real Property**

Proceeds derived from nonoperating interests in coal, oil, gas, or other minerals in place and costs, expenses, and liabilities incurred in the production of such receipts are allocable to Pennsylvania only if the property from which the operating interests are severed is located in Pennsylvania.

### **Patent and Copyright Royalties**

Patent and copyright royalties not includable in the computation of net profits from the operation of a business, and costs, expenses, and liabilities incurred in the production and collection of such royalties are allocable to Pennsylvania only if, and to the extent that, the patent is employed by the payer in production, fabrication, manufacturing, or other processing in Pennsylvania, patented products are produced by the payer in Pennsylvania, or printing or publication by the payer originates in Pennsylvania.

### **Allocating of Net Gains or Income Derived Through Estates or Trusts**

Estate or trusts must provide to each beneficiary a **PA Schedule L, Beneficiaries' Share of Income**, when it makes, credits, or pays distributions during the taxable year. The **PA Schedule L** lists that beneficiary's Resident Taxable Income or Nonresident Taxable Income. The Nonresident Taxable Income represents the beneficiary's total net income or gain derived through the estate or trust which the beneficiary must allocate in Pennsylvania.

### **PA Schedule E - Rent, Royalty, Patent, and Copyright Income**

Rents mean the amounts the PA S corporation or partnership receives for the use of, or the right to use, its real or personal property. This income class also includes mineral, oil and gas royalties and amounts the PA S corporation or partnership receives for the use its patents, copyrights, secret processes, formulas, goodwill, trademarks, trade brands, franchises and similar property.

Rents do not include payments for the use or occupancy of rooms or other space if the PA S corporation or partnership does not also provide **significant services** to the occupant - such income would be part of net profits from business activities.

Generally, Pennsylvania accepts the Federal Schedule E. The PA S corporation or partnership may make allowable adjustments for PA PIT purposes, and explain them on the Federal Schedule E. Otherwise, the PA S corporation or partnership should obtain a 2001 PA-40 booklet, and follow the instructions for PA Schedule E.

### **Depreciation**

The PA S corporation or partnership may depreciate business assets under the method used for federal tax purposes during that tax year. PA law accepts ACRS and Internal Revenue Code 179 current expensing depreciation methods.

### **PA Schedule G - Resident Shareholders Only**

If the PA S corporation has PA taxable, and such income also is subject to the income tax of another state or country, the PA S corporation can claim a credit for the net tax it withheld and paid the other state or country to satisfy the PA resident shareholders' income tax liability in the other state or country. The PA S corporation bases this credit on the liability on the out-of-Pennsylvania income tax return and not on the amount it paid in estimated or tentative taxes. The Department will not accept the PA S corporation's check stubs, estimated tax payment records, and other evidence of payments as evidence of final tax liability to the other state or country. The PA S corporation passes the credit through to its PA resident shareholders on **PA Schedule RK-1**. The total credits passed through to the PA resident shareholders cannot exceed the lessor amount of:

- The tax due to the other state or country or
- The PA PIT due on the shareholders' income subject to PA PIT.

The PA S corporation cannot pass through a credit for taxes paid to other states or countries based on the net worth or the value of the PA S corporation personal property.

The PA S corporation may pass through taxes paid on behalf of its PA resident partners to other states, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any foreign country. The PA S corporation may not include taxes paid on behalf of its PA resident partners to the United States Government, PA political subdivisions, and political subdivisions of other states.

If the PA S corporation claims an allowable credit for taxes paid to other states or countries, it must complete **PA Schedule G**. The PA S corporation must also submit a signed copy of the income tax return it filed with the other state or country (without the other jurisdiction's accompanying schedules). The Department will disallow the credit if the PA S corporation does not submit the signed copy of the income tax return it filed with the other state or country.

If the PA S corporation claims credits for income taxes paid in more than one state or country (excluding Pennsylvania), the PA S corporation must submit a separate **PA Schedule G**, with a signed copy of the other income tax return it filed, for each state or country. Follow the specific instructions for **PA Schedule G** in the PA-40 Instruction Booklet. Enter the allowable credits in Part VI, Line 15a of the **PA-20S/PA-65**.

### **PA Schedule J. Income from Estates or Trusts**

Estate or trusts must provide to each PA S corporation or partnership that is a beneficiary a **PA Schedule L, Beneficiaries' Share of Income**, when the estate or trust makes, credits, or pays distributions during the taxable year. The **PA Schedule L** lists that beneficiary's Resident Taxable Income or Nonresident Taxable Income. The Nonresident Taxable Income represents the beneficiary's total net income or gain derived through the estate or trust which the beneficiary must allocate in Pennsylvania.

Enter the amounts from the PA Schedule L that the PA S corporation or partnership receives. The PA S corporation or partnership can receive more than one PA Schedule L from an estate or trust if the distributions represent income from sources within and outside Pennsylvania.



If the PA S corporation or partnership receives a Federal Schedule K-1 from the estate or trust, it must classify the income (not losses) shown on the Federal Schedule K-1.

## PA-40NRC CONSOLIDATED RETURN FOR QUALIFIED ELECTING NONRESIDENT AND PART-YEAR RESIDENT PARTNERS AND PA S CORPORATION SHAREHOLDERS

PA S corporations and partnerships can file consolidated PA-40NRC tax returns on behalf of qualifying electing nonresident and part-year resident members. The nonresidents must meet these requirements:

1. The member must be an individual whose tax year is the calendar year.
2. The member and the member's spouse must each be a domiciliary of a state or country other than Pennsylvania at the close of the entity's taxable year.
3. The member and the member's spouse must not maintain a permanent place of abode in Pennsylvania at the end of the calendar year.
4. The member must have no PA taxable income derived from or connected with PA sources other than his or her distributive share of income for the calendar year.
5. The member must elect to join in the filing of the PA-40NRC.

Each PA S corporation and partnership must maintain for inspection, at its principal office, the following:

1. A list of each qualified electing nonresident's name (by last name in alphabetical order), address, Social Security Number, ownership interest, distributive share of total taxable income, tax due before application of payments and credit, share of tax withheld or payments, and share of overpayment, if any.
2. One of the following:
  - a. A certification that each of the qualified electing nonresidents listed elected to join in the filing of a PA-40NRC for the taxable year; or
  - b. A certified copy of the agreement if it evidences that each of the qualified electing nonresidents listed agreed to join in the filing of a PA-40NRC for the taxable year.

### Effect of a Consolidated Group Return

Unless rejected, the Department considers the PA-40NRC a group of separate PA returns that meet the individual filing requirements of PA law. The Department's acceptance of a PA-40NRC is tentative and subject to revocation upon audit or review. The Department has the legal authority to require the filing of a PA-40 from any of the individual partners or shareholders. The Department may also withdraw and modify the authority to file a PA-40NRC. A participating partner or shareholder may not change his or her election to file from PA-40NRC to a PA-40 or from a PA-40 to a PA-40NRC after filing.

### Filing Requirements

**Identification Information.** File the PA-40NRC under the EIN, name, and address of the PA S corporation or partnership.

**Type of Entity.** Fill in the appropriate oval and enter a brief description of the primary activity of the PA S corporation or partnership.

**Final Return.** If the PA S corporation or partnership is out of business, fill in this oval. Provide the date the entity went out of existence, and the reason for filing a final return.

**Number of Nonresidents.** Enter the number of nonresidents electing to file on the PA-40NRC.

**Percentage of Ownership.** Enter the percentage of the entity owned by the electing nonresidents filing on the PA-40NRC.

**Total Number of Nonresidents.** Enter the number of all nonresident shareholders or partners. If every nonresident elects to file on the

PA-40NRC, this number will be the same as the Number of Nonresidents Electing.

### PA Source Taxable Income or Loss

A PA Schedule NRK-1 for each electing nonresident partner or shareholder must accompany the PA-40NRC.

## LINE INSTRUCTIONS FOR PA-40NRC

### Total PA Source Taxable Income or Loss

**Lines 1 through 4.** Enter the PA net taxable income or loss, by income class, from the Schedules NRK-1 of the electing nonresidents. If a loss, fill in the oval next to the line.

**Line 5. Total PA Taxable Income.** Add the income amounts on Lines 1 through 4. Do not include losses. A loss in one income class may not reduce income in other classes.

### PA Tax Liability

**Line 6. PA Tax Due Before Allowable Credits.** Multiply the total on Line 5 by 2.8 percent (.028).

### Allowable PA Credits

**Line 7. Total PA Tax Withheld from Electing Nonresident Shareholders and Partners.** Enter total of each electing nonresident's portion of tax withheld from the PA Schedules NRK-1. If every nonresident elects to file on the PA-40NRC, this amount should equal the total nonresident withholding payments made by the PA S corporation or partnership.

**Lines 8 through 11. Total Share of Other Credits.** Enter the total of these credits from the PA Schedules NRK-1.

**Line 12. Total PA Credits.** Add Lines 7 through 11.

### PA Tax Due or Overpayment

**Line 13. Tax Due.** If Line 6 is more than Line 12, enter the amount of PA tax due. Pay the tax with the PA-40NRC. See the special instructions for using the Form PA-V. The Department does not require a payment when the amount due is \$1 or less, but does require the filing of the PA-40NRC.

**Line 14. Overpayment.** If Line 12 is more than Line 6, enter the overpayment. The Department will not refund or credit an overpayment of \$1 or less.

**Line 15a.** Enter the amount of Line 14 that the Department will refund to the partnership or PA S corporation.

**Line 15b.** Enter the amount of Line 14 that the Department will credit to the 2002 nonresident withholding account of the PA S corporation or partnership.

**IMPORTANT. The total of Lines 15a and 15b must equal Line 14.**

### Signature

The Tax Partner or Tax Shareholder, or other responsible person, must sign the PA-40NRC, and provide the telephone number where the Department may call between 8:30 a.m. and 4:00 p.m.

### Preparer's Name

If someone other than the Tax Partner or Tax Shareholder prepared the PA-40NRC, enter the preparer's name, telephone number, and date prepared.

### Mailing Instructions

Mail the completed PA-40NRC and the PA Schedules NRK-1 to:

PA Department of Revenue  
Consolidated Return  
Harrisburg, PA 17128-0418



Declaration Control Number (DCN)

00 - [ ] - [ ] - 2

PA DEPARTMENT OF REVENUE USE ONLY - DO NOT WRITE OR STAPLE IN THIS SPACE

Form PA-8453 PENNSYLVANIA INDIVIDUAL INCOME TAX DECLARATION FOR ELECTRONIC FILING 2001

For the year January 1 - December 31, 2001

Print or Type

Your Social Security Number, Spouse's Social Security Number, Last Name, First Name, Initial & Spouse's First Name & Initial - Spouse's last name (only if different), Home Address (Number and Street including Rural Route or P.O. Box), City, Town, or Post Office, State, Zip Code

The above information must be an exact duplicate of that on the electronic return.

Check Proper Filing Status

S [ ] Single, M [ ] Married, Filing Separate, J [ ] Married, Filing Joint, F [ ] Deceased or Final, Daytime Telephone Number ( )

Part I Tax Return Information (Whole dollars only)

- 1. Adjusted PA Taxable Income (Form PA-40, line 11)
2. Total PA Tax Liability (Form PA-40, line 12)
3. Total PA Tax Withheld (Form PA-40, line 14)
4. Amount to be Refunded (Form PA-40, line 30)
5. Amount You Owe, Tax Due (Form PA-40, line 28)

Part II Direct Deposit of Refund or Electronic Funds Withdrawal of Tax Due (Optional - See instructions.)

STAPLE COPY OF STATE W-2(s), W-2G and 1099(s) HERE

6. Routing transit number (RTN), 7. Depositor account number (DAN), 8. Type of account: [ ] Checking [ ] Savings, 9. Debit Date

Part III Declaration of Taxpayer (Sign only after Part I is Complete)

- 10. a. I consent that my refund be directly deposited as designated in Part II...
b. I do not want direct deposit of my refund or am not receiving a refund.
c. I authorize (1) the Pennsylvania Department of Revenue and its designated Financial Agents to initiate an Electronic Funds withdrawal entry...

If I have filed a balance due return, I understand that if the PA Department of Revenue does not receive full and timely payment of my tax liability, I will remain liable for the tax liability and all applicable interest and penalties.

I declare that under penalties of perjury, I have compared the information on my return with the information I have provided to my electronic return originator and the amounts agree with the amounts on my 2001 PA Tax Return (Form PA-40).

Sign Here: Your signature, Date, Spouse's signature. If a joint return, BOTH must sign. Date

Part IV Declaration of Electronic Return Originator (ERO) and Paid Preparer (See Instructions.)

I declare that I have received the above taxpayer's return and that the entries on this form are complete and correct to the best of my knowledge. I have obtained the taxpayer's signature on this form before submitting this return to the PA Department of Revenue.

ERO's Use Only: ERO's signature, Date, Check if also paid preparer, Check if self-employed, EIN, Firm's name (or yours if self-employed) and address, Daytime Telephone Number
Paid Preparer's Use Only: Preparer's signature, Date, Check if self-employed, EIN, Firm's name (or yours if self-employed) and address, Daytime Telephone Number

ELECTRONIC RETURN ORIGINATORS (EROs) AND TAXPAYERS FILING FROM HOME PCs

KEEP THIS FORM (and the required attachments) FOR THREE YEARS.

Please DO NOT mail this form.

PENNSYLVANIA

# INSTRUCTIONS FOR PA-8453

## Filing of Form PA-8453

Electronic Return Originators (EROs) and transmitters must keep the signed Form PA-8453 and supporting documents for three (3) years after the due date of the return, or the date the return was filed electronically, whichever date is later. EROs and transmitters must make the documents available to the PA Department of Revenue upon request. **Do not mail Form PA-8453 and attachments to PA Department of Revenue unless requested.**

NOTE: If the ERO or transmitter closes their business, they must mail all of the forms to the following address with a letter of explanation.

PA Department of Revenue  
Bureau of Individual Taxes  
Electronic Filing Section  
Dept. 280507  
Harrisburg, PA 17128-0507

Taxpayers filing electronically from home computers must keep the signed Form PA-8453 and supporting documents for three (3) years after the due date of the return, or the date the return was filed electronically, whichever date is later. Taxpayers must make the documents available to the PA Department of Revenue upon request. **Do not mail Form PA-8453 and attachments to the PA Department of Revenue unless requested.**

## Line Instructions – Form PA-8453

**Declaration Control Number (DCN)** - The DCN is a 14-digit number assigned by the Electronic Return Originator (ERO) to each taxpayer's return. For the PA Tax Return it will be the same number as on the federal return.

**Name, Address, and Social Security Number** - Print or type the taxpayer's name (last name first) and complete address including zip code. In the spaces provided, you must enter the taxpayer's correct Social Security Number and that of the spouse, if applicable. If a husband and wife use different last names, please separate the names as in the following example: Paul A. Smith and Joan A. Weston would be Smith, Paul A. and Joan A. Weston.

The address must match the address shown on the electronically filed PA-40.

## Part I - Tax Return Information

**Line 1** - Enter the Adjusted PA Taxable Income from line 11, Form PA-40.

**Line 2** - Enter the Total PA Tax Liability from line 12, Form PA-40.

**Line 3** - Enter the Total PA Tax Withheld from line 14, Form PA-40.

**Line 4** - Enter the Amount to be Refunded from line 30, Form PA-40.

**Line 5** - Enter the Amount You Owe, Tax Due, from line 28, Form PA-40.

Taxpayers are responsible for submitting the payment due to the PA Department of Revenue by April 15, 2002. Taxpayers must use the **preprinted** PA Individual Income Tax Payment Voucher, PA-V, provided in their 2001 PA Individual Income Tax Forms and Instructions booklet.

**Note:** *In the event the taxpayer does not have a preprinted voucher, the payment should be attached to a copy of the Form PA-8453. Clearly mark "payment copy only" on the Form PA-8453 and mail to:*

PA Dept. of Revenue  
Payment Enclosed  
1 Revenue Place  
Harrisburg, PA 17129-0001

## Part II - Direct Deposit of Refund or Electronic Funds Withdrawal

Taxpayers can elect to have their refund directly deposited or elect the electronic funds withdrawal method of payment by completing Part II.

**Line 6** - The routing transit number (RTN) must contain nine digits. If the RTN does not begin with 01 through 12, or 21 through 32, the direct deposit request will be rejected.

**Line 7** - The depositor account number (DAN) can contain up to 17 alphanumeric characters. Include hyphens, but omit spaces and special symbols. If fewer than 17 characters, enter the number from left to right and leave the unused boxes blank.

**Line 8** - Check the appropriate box.

**Line 9** - Debit Date - Enter the date that the taxpayer wants the payment electronically withdrawn, but no later than April 15, 2002, if filed on or before April 15, 2002.

**Caution:** *The account cannot include the name of any other person unless the taxpayer's filing status on the return is married filing joint or married filing separately, and the taxpayer's spouse is the other name listed on the account.*

Some financial institutions do not permit the deposit of a joint refund in an individual account. The PA Department of Revenue is not responsible when a financial institution refuses a direct deposit for this reason.

To be eligible for direct deposit or electronic funds withdrawal, taxpayers must provide proof of account ownership to their ERO. An acceptable proof of account ownership is a check, form, report, or other statement generated by the financial

institution that has the taxpayer's name, RTN of the financial institution, and the DAN preprinted on it.

For accounts that are payable through a financial institution other than the one at which the account is located, the taxpayer must provide a document, such as an account statement or account identification card, showing the RTN of the bank or institution where the account is located. A deposit slip should not be used to verify the RTN and DAN because it can contain internal routing numbers that are not part of the RTN.

If there is any doubt about the correct RTN, the taxpayer should contact the financial institution and ask for the correct RTN for direct deposit or electronic funds withdrawal.

**Note:** *Some financial institutions may not accept direct deposits into accounts that are payable through another bank or financial institution, including credit unions.*

## Part III - Declaration of Taxpayer

**Line 10** - All filers must check one of the boxes.

Note: Taxpayers can revoke the electronic funds withdrawal authorization by notifying the PA Department of Revenue in writing no later than two business days prior to the debit date. Written requests to revoke the electronic funds withdrawal must include the taxpayer's name, address, social security number, routing transit number (RTN), depositor account number (DAN) and payment amount. Written requests can be faxed to (717) 772-4193 or (717) 787-2840 or e-mailed to [ra-achrevok@state.pa.us](mailto:ra-achrevok@state.pa.us).

**After the return has been prepared and before the return is transmitted, the taxpayer (and spouse, if joint) must verify the information on the return and sign and date the completed Form PA-8453. The ERO must provide the taxpayer with a copy of this form.**

If the ERO makes changes to the electronic return after the Form PA-8453 has been signed by the taxpayer, but before it is transmitted, the ERO must have the taxpayer complete and sign a corrected Form PA-8453.

## Part IV - Declaration of Electronic Return Originator (ERO) and Preparer

The PA Department of Revenue requires the ERO to sign this form and keep it along with the required attachments for three years.

A preparer must sign the Form PA-8453 in the space for Preparer. If the Preparer is also the ERO, do not complete the Preparer Section; instead check the box labeled "Check if also paid preparer."