REV-1200 CT (7-03)
PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
DEPT. 280705
HARRISBURG, PA 17128-0705

www.revenue.state.pa.us

COMMONWEALTH OF PENNSYLVANIA

CT-1 PA CORPORATION TAX BOOKLET 2003

For Calendar Year 2003 and fiscal years beginning in 2003

PLEASE CAREFULLY REVIEW "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 tax reporting.

> **IMPORTANT** - Taxpayers and practitioners are directed to use the Department's web site for the latest changes to law, tax rates and special instructions regarding form changes.
>
> Starting in 2004 **estimated payments** and **extension of time** requests should be made on-line. Log on to the E-Service Center at www.revenue.state.pa.us. Select "Business Taxes" and follow registration instructions.
>
> **Estimated coupon booklets** are being phased out and will only be mailed for 2004 to new taxpayers and established payment accounts.

- The **PA-20S/PA-65** is no longer included as part of the CT-1 PA Corporation Tax Booklet and no longer filed as part of the RCT-101 report. The **PA-20S/PA-65** will be mailed to PA S corporations separately and filed with the Bureau of Individual Taxes.
- **Federal Tax Return missing? Make** sure when submitting the PA RCT-101 that copy of Federal Form 1120, 1120S, 1120A or 1065 is included and not separately filed and sent as part of PA-20S/65 submission. Single member LLC, whose member is an individual, are required to submit beginning and ending balance sheet and a reconciliation of net worth.
- The **Schedule of Related Corporations** and the **Schedule of Dividend Deductions** have been removed from the RCT-101 tax report to separate schedules.
- Effective for tax years beginning in 2002, **taxpayers wishing to be removed from the tax records of the Pennsylvania Department of Revenue** may do so without filing the Out of Existence/Withdrawal Affidavit (REV-238). See Page 3 for details.
- **EFT Penalty Enforcement-Payments of $20,000 or more must be** remitted by Electronic Funds Transfer (EFT). Failure to make a payment by an approved method may result in the imposition of a 3% penalty of the tax due, up to $500. See Page 2 for details.
- Act 89 of 2002 requires corporate taxpayers to include in the calculation of PA taxable income, the amount of **bonus depreciation** expensed under IRC Section 168(k) on the Federal Income Tax Return. The same Act also allows taxpayers an additional **depreciation deduction** for Section 168(k) property. See Page 13 for details.
- Taxpayer's **annual affirmation of corporate officer information** is now included on the RCT-101. When information is provided on RCT-101, the REV-1605 is not required. REV-1605 is available and should be used to report changes in corporate officers during the year.
- **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. **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. See Page 1 for details.

- Tax rates for years beginning during

	2003	2004
Capital Stock/Franchise Tax	7.24 mills	6.99 mills
Corporate Net Income	9.99%	9.99%

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GENERAL INSTRUCTIONS

SPECIFIC INSTRUCTIONS

RESTRICTED TAX CREDITS

TELEPHONE NUMBERS

ESTIMATED PAYMENTS	1-888-PATAXES (728-2937)
GENERAL TAX QUESTIONS	(717) 787-1064
EXTENSION TO FILE ANNUAL REPORT	(717) 787-2632
TRANSFER/REFUND OF OVERPAYMENTS	(717) 705-6225

TAX CREDITS

FOR INFORMATION, PLEASE CONTACT:

KEYSTONE OPPORTUNITY ZONE CREDIT	(717) 787-1064
EDUCATIONAL IMPROVEMENT TAX CREDIT	1-800-379-7448 OR (717) 787-7120
NEIGHBORHOOD ASSISTANCE CREDIT	1-800-379-7448 OR (717) 787-7120
EMPLOYMENT INCENTIVE PAYMENT CREDIT	1-800-345-2555
JOBS CREATION TAX CREDIT	1-800-379-7448 OR (717) 787-7120
WASTE TIRE RECYCLING ACT	(717) 787-7381
PENNSYLVANIA RESEARCH & DEVELOPMENT TAX CREDIT	(717) 783-6031

FORMS ORDERING SERVICE

To obtain tax booklets, single copies of any PA Corporation Tax form, or any brochure, use one of these services:

Automated 24-hour FACT & Information Line

1-888-PATAXES (1-888-728-2937) *Touch-tone service required.*

Automated 24-hour Forms Ordering Message Service

1-800-362-2050 *Serves taxpayers without touch-tone phone service.*

Services for Taxpayers with Special Hearing and/or Speaking Needs

1-800-447-3020 *(TT only)*

Written Requests:

PA Department of Revenue
Tax Forms Service Unit
711 Gibson Blvd.
Harrisburg, PA 17104-3200

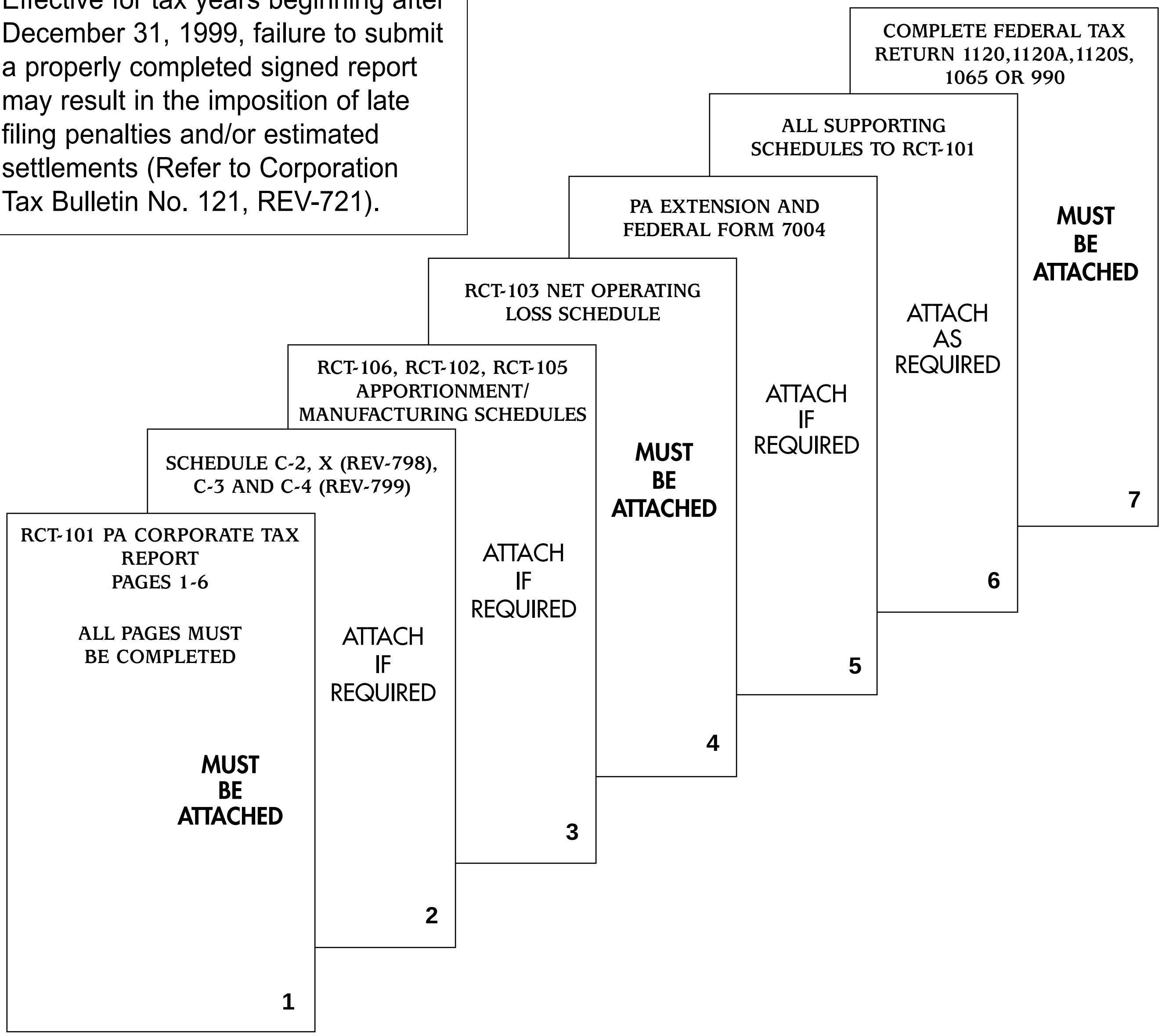
e-mail: ra-forms@state.pa.us

Online Customer Service Center

If you have Internet access, you may be able to find the answer to your question by using the Department's Online Customer Service Center. You can use the ***Find an answer*** feature, which lets you search for the answers to commonly asked questions, or if you can't find your answer instantly, you can use the ***Ask a question*** feature and a customer service representative will answer your question. Visit the Department's Web Site at www.revenue.state.pa.us to use this new service.

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

Effective for tax years beginning after December 31, 1999, 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).



Assemble the completed 2003 PA Corporate Tax Report in the following order:

Sequence Description	Filing Requirements
1. RCT-101 PA Corporate Tax Report Pages 1 through 6 completed and assembled in order.	**ALL TAXPAYERS MUST FILE A COMPLETE RCT-101, EVEN IF NO TAX IS DUE.**
2. Schedule C-2, X, C-3 and C-4.	ATTACH IF REQUIRED
3. 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.)
4. RCT-103 Net Operating Loss Schedule	**ALL TAXPAYERS MUST INCLUDE A COMPLETE RCT-103 TO CLAIM A NET OPERATING LOSS DEDUCTION/CARRY FORWARD.**
5. PA Extension Approval Letter and Federal Form 7004	IF REQUIRED (Those who obtain a Pennsylvania approved extension to file.)
6. All supporting schedules to the PA Corporate Tax Reports, **including a Consolidated Balance Sheet.**	AS REQUIRED (To support specific adjustments and computations on the RCT-101.)
7. 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 **must** be submitted for **all** taxpayers.	**ALL TAXPAYERS MUST INCLUDE A COMPLETE COPY OF THE FEDERAL RETURN.**

GENERAL INSTRUCTIONS

FEDERAL S CORPORATIONS WITH NO PA-S ELECTION

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.

PRIOR PERIOD FORMS ARE NOT ACCEPTABLE.
"DO NOT use a 2003 RCT-101 for any period other than 2003."

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). Payments of $20,000 or more **must be** remitted by Electronic Funds Transfer (EFT). Failure to make a payment by an approved method may result in the imposition of a 3% penalty of the tax due, up to $500.00.

Taxpayers must register to participate in this program. Register online through the Electronic Tax Information and Data Exchange System (e-TIDES) at **www.etides.state.pa.us.** To obtain specific tax document filing requirements, download the Electronic Filing Program Guide (REV-330) from the Department's Web Site at **www.revenue.state.pa.us.** Click on "Forms and Publications", then "Business Taxes", to locate the REV-330. If you do not have internet capability, the Electronic Filing Program Guide and EFT Authorization Agreement can be mailed or faxed to you by dialing 1-800-368-2050.

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. 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 beginning date of fiscal period in which the Certificate of Authority was issued or Pennsylvania activity began, 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. 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 indicating "Out of Existence (Final Report)" in Section E: Corporate Status Change found on Page 5 of RCT-101 and indicate the date business ceased and the date assets were distributed.

By completing this section of RCT-101, a corporate taxpayer wishing to be removed from the active records of the PA Department of Revenue will no longer be required to file the Out of Existence/Withdrawal Affidavit. However, taxpayers desiring to dissolve or formally withdraw with the Department of State are still required to file an Application for Corporate Clearance (REV-181).

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" (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. **Failure to submit the "Distribution of Assets" could delay the acceptance of the return as a Final Report resulting in continued Corporate Tax reporting requirements.**

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 corporate tax reports 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 these reports.

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.

Negatives should be a "signed field". Negative amounts should be written as a minus signed amount (-3,456).

COMPLETING TAX REPORTS

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

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 on Page 5 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 Packet. 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 should be submitted on-line using the E-Service Center at www.revenue.state.pa.us. Select "Business Taxes" and follow registration instructions.**

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.

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. (Refer to Page 2 EFT Payment Requirement.)

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 -on Page 1 of the RCT-101 Annual Report, if an overpayment exists on **any** line (tax type) 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. **YOU MUST SELECT ONE OF THESE STEP F OPTIONS** if any STEP D, Calculation column amount is a negative number (meaning overpaid), even if the Calculation column TOTAL amount is a zero or positive amount (meaning a payment is still due).

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. The normal technique is:

- Completing STEP F on Page 1 of the RCT-101 Annual Corporate Tax Report.

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, or limitations regarding restricted credits 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.

AMENDED REPORTS/REPORTS OF CHANGE

Amended Reports – The RCT-101X, Amended PA Corporate Tax Report (2002) must be filed to amend the Capital Stock/Foreign Franchise, Loans or Corporate Net Income Taxes previously reported for tax period 2002. **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. 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-857I PA Corporation Tax Estimated Payment Packet, should be directed in writing to:

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

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. on workdays.

To use the system, call 1-888-PATAXES (728-2937), 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. A detailed response of every individual cash payment or credit by tax type.

REV-857I PA CORPORATION TAX ESTIMATED PAYMENT COUPON PACKET

The REV-857I coupon packet is only mailed to new corporations and corporations with established estimated payment needs. The package mailed at the beginning of the taxable period 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 packet. Photocopies or other facsimile, including computer generated forms, or reproductions of the computer generated coupon scan lines, are not acceptable and present processing difficulties which could delay the processing of payment information to the tax account. Use of the forms provided by the PA Department of Revenue will enhance the accuracy and timeliness of processing.

The PA Corporation Tax Estimated Payment Coupon Book Packet 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;
- Notify the Department of changes in address, filing period, and EIN.

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

RCT-101 - PAGE 1.

STEP A TAX PERIOD

Enter month and day (MM DD 2003) for the tax period beginning and month, day and year (MM DD YYYY) for tax period ending. The 2003 PA Corporate Tax Report is for use **only** with the tax periods beginning in 2003. **For corporations reporting on a 52-53 week basis, see instructions on Page 2, "Due Date."**

STEP B CHECK SPECIAL FILING STATUS

Regulated Investment Company – Check the block if the corporation is a regulated Investment Company. See Page 19 for details.

52-53 Week Filer – Check the block if the corporation is a 52-53 week filer.

Address Change – Check the block if the address reported in Step C is a change from prior tax periods. Be sure to file form REV-854.

First Report – Check the block if this is the corporation's first PA corporate tax report filing.

KOZ/EIP Credit – Check the block if the corporate taxpayer is claiming the Keystone Opportunity Zone Credit or the Employer Incentive Payment Credit.

File Period Change – Check the block if the filing period (tax period ending) is a permanent change. Be sure to file form REV-854.

STEP C NAME, ADDRESS AND TAXPAYER ID

Print or type the corporation name, complete address, Account ID, Federal ID (EIN) and telephone number.

STEP D TAX SUMMARY

Column A. Tax Liability. Carry tax liabilities from Pages 2, 3 and 4, Section A, B, and C, to Page 1:

- Line (10), Section A for Capital Stock/Foreign Franchise Tax (on Page 2).
- Loans Tax, Section D for Loans Tax (on Page 4).
- Line (12), Section C for Corporate Net Income Tax (on Page 3).

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.

Negatives should be a "signed field". Negative amounts should be written as a minus signed amount (-3,456).

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

Column B. Estimated Payments & Credits on Deposit. (See confirmation of Credits/Payments Page 5.) For each tax, enter the total of estimated payments and transfer credits applied to the current period.

Column C. RESTRICTED CREDITS. For each tax, enter the amount of restricted credit to be applied to the current tax year. **Restricted** credits may include those originating from special tax credit programs administered by the Department of Community and Economic Development and the Department of Community Affairs. (See Page 21 and 22.)

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

The Calculation column total should equal the sum of the three tax types. Confirm this amount by subtracting the total in Column B and total in Column C from the total in Column A.

STEP E TAX PAYMENT APPLICATION

If the Calculation column 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, Calculation column 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 Calculation column 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** Calculation column 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.
- 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. Refer to Page 2 for Electronic Funds Transfer (EFT) requirements.
- If payment was made by EFT, check the "Made Payment by EFT" box.

STEP F OVERPAYMENT

If **any tax type** is overpaid (if any amount is negative in Calculation column 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 trans-

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

STEP D

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 TRANSFER CREDITS ON DEPOSIT	C. RESTRICTED CREDITS	CALCULATION: A minus B minus C
CAPITAL STOCK FOREIGN FRANCHISE TAX				
LOANS TAX				
CORPORATE NET INCOME TAX				
TOTAL				

ENTER WHOLE DOLLARS ONLY

If Calculation column TOTAL is greater then zero, complete STEP E.

If Calculation column TOTAL is less than zero, complete STEP F.

If Calculation column TOTAL is zero, no payment due.

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

STEP E

ENTER WHOLE DOLLARS ONLY

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

TOTAL PAYMENT MUST EQUAL THE CALCULATION COLUMN TOTAL FROM STEP D.

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

ferred 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**.

SIGNATURE

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. E-mail address is optional.

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

Holding Company – 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 Page 19 for details. Taxpayers electing the special 10% holding company apportionment should also enter 1 on Line 4a of Schedule A-1 and 10 on Line 4b of Schedule A-1.

Family Farm – Check the block if the corporation is a family farm and is not subject to the Capital Stock/Foreign Franchise Tax.

If the corporation is **NOT** incorporated under the laws of the Commonwealth of Pennsylvania and the corporation's only activity in Pennsylvania is an investment in a limited liability company, check the block "Investment in LLC". If this block is checked, it will not be necessary to complete the remainder of Page 2.

AVERAGE BOOK INCOME:

History of Earnings: The history of earnings should include all taxable periods within the last five years **regardless of when PA activ-**

ity 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 (YYYY) 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 "signed fields." 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.

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 1999 through 2001. On January 16, 2002, it is purchased by VMJ Corporation and changes to a calendar year end. On December 31, 2002, its five year history of earnings would include the following:

	BEGINNING	ENDING
Oldest Period	070198	063099
	070199	063000
	070100	063001
	070101	011502
Current Tax Period	011602	123102

The fiscal year ending June 30, 1998 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, 184 ÷ 365 = .504 which is placed to the right of the decimal point. The entry on Line (3) would be 4.504.

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

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

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

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

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

NET WORTH:

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

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.

ALL taxpayers **MUST** include beginning and ending balance sheets **REGARDLESS** of federal requirements.

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 forms.

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 CALCULATIONS:

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 x .250000 = $50,000).

Line (18). Multiply Line (17) by the tax rate applicable for the current year, 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.

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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.

SECTION B:

This information is used by the Department of Revenue to help calculate the additional Depreciation Deduction. See instructions for Schedule C-3 and C-4 for additional details.

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).

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.

Business Trust – Check the block if the taxpayer is a business trust and files as a partnership or disregarded entity for federal income tax purposes.

Solicitation Only – Check the block if the corporate taxpayer's activity in Pennsylvania is limited to activity protected under P.L. 86-272.

LLC – Check the block if the corporate taxpayer is a limited liability company filing as a partnership or a disregarded entity for Federal Income Tax purposes.

PA-S – Check the block if the corporate taxpayer has a valid PA S election for the current tax year.

TAXABLE BUILT-IN GAINS – 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).

If any of these blocks are checked, it will not be necessary to complete the remainder of Page 3 unless the corporate taxpayer is a PA-S corporation with taxable built-in gains.

DEDUCTIONS FROM AND ADDITIONS TO INCOME:

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

Line (2).

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

- Provide a detailed schedule showing the calculation of net U.S. Interest Deduction and include a listing 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. This is the amount of additional depreciation allowed under Act 89 of 2002 for IRC Section 168(k) property. See instructions for Schedule C-3 for additional details.

d. 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, 2c, and 2d on Line (2), Total Deductions.

Line (3). 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 on Page 12 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. This is amount of Bonus Depreciation claimed by the corporate taxpayer under IRC Section 168(k) in the calculation of federal taxable income. See instructions for Schedule C-3 for additional details.

e. OTHER ADDITIONS (attach schedule).

Insert the sum of Lines 3a, 3b, 3c, 3d and 3e on Line (3) Total Additions.

Line (4). Line (1) less Line 2 plus Line 3.

If all business is transacted in Pennsylvania, skip Lines (5) through (8). Enter the amount from Line (4) on Line (9).

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

Line (6). Enter the amount of income to be apportioned by adding the loss or subtracting the income reflected on Line (5) to or from Line (4).

Line (7). Enter the Apportionment Percentage from Schedule C-1, Line 5.

Line (8). Enter the income apportioned to Pennsylvania by multiplying Line (6) by Line 7.

Line (9). 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 (10). Add the income or deduct the (loss) reflected on Line (8) to or from Line (7). If the entire business is transacted in Pennsylvania, enter the amount from Line (5) on Line (9). If a loss, add to form RCT-103.

NET OPERATING LOSS DEDUCTION

Line (11). 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 (12). PA Taxable Income or Net Loss. Line (11) must equal Line (9) minus Line (10).

Line (13). Compute and enter the PA Corporate Net Income Tax by multiplying the amount reflected on Line (11) by the current rate of **9.99%** (.0999). All taxes due should be shown in whole dollar amounts.

SECTION D: LOANS TAX - PAGE 4

CORPORATE LOANS TAX INFORMATION

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

If the report is being completed for a foreign corporation, and Question 1 does not apply to this corporation, then it will not be necessary to complete Section D of RCT-101. If Question 1 does apply, then check the box to the right.

If the report is being completed for a domestic corporation, or for a foreign corporation, who answered yes to Question 1, if either Question 2 or Question 3 applies, then check the box to the right of the appropriate question. If Question 2 or Question 3 does apply, then the taxpayer is required to complete Section D of RCT-101.

Enter the interest rate used to compute the interest paid.

Enter the "nominal value of taxable indebtedness" determined by dividing the interest paid by the interest rate.

The total nominal value is entered in the block marked Tax Indebtness.

If the taxpayer is required to complete this section, and the taxpayer actually paid no interest to Pennsylvania individual resident or resident partnership during the current tax year, the taxpayer must enter zero.

Use the following worksheet to calculate the Loans Tax.

Taxable Indebtedness x .004	________
Less Treasurer's Commission*	________
Loans Tax - Enter in Section D	

* 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.

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-l. 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.

SCHEDULE C-l: 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 (la) by Line (lb). 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 (RCT-106) – 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.

SECTION E: CORPORATE STATUS CHANGES

Corporate taxpayers who have ceased all business activity (domestic corporation) or ceased business activity in PA (foreign corporation) and have disposed of all assets, or PA assets, may be removed from the active records of the Bureau of Corporation Taxes by doing the following:

1. Indicate in this section that the current year report is the final report by checking the box to the right of "Out of Existence (Final Report)".
2. Enter the date business activity, or business activity in PA ceased.
3. Enter the date of the disposition of assets or disposition of PA assets and complete the Disposition of Assets Schedule. If the taxpayer had no assets to distribute, the taxpayer must indicate this by checking the box to the right of "no assets to distribute".

Taxpayers who held any assets during the year are required to complete the Disposition of Asset Schedule.

If taxpayer sells 51% or more of any class of asset during the tax period the taxpayer should check the box. Taxpayers who sell 51% or more of any class of asset are required to obtain a Bulk Sale Certificate by completing an Application for Corporate Clearance and filing a PA Corporate Tax Report, RCT-101, up to the date of the sale. Attach additional schedule if necessary.

SECTION F: GENERAL INFORMATION QUESTIONNAIRE

Taxpayers are required to provide a brief description of business activities in Pennsylvania. Multistate corporations are required to provide a brief description of business activities outside of PA and indicate all other states where the taxpayer has business activity (use the two letter postal abbreviations). If taxpayer has no activity in Pennsylvania this must be indicated in this area.

Taxpayers should indicate in this section if they are incorporated under the laws of the Commonwealth of Pennsylvania. Taxpayers incorporated under the laws of another jurisdiction, and whose only activity in Pennsylvania is the solicitation of sales, must indicate so in this section. Taxpayers are required to indicate by what means these sales are solicited.

Page 5

If the Federal Government has changed the taxable income for any prior year, taxpayer must indicate this on RCT-101 to include the first and last tax periods changed. The taxpayer must also file RCT-128 with the PA Department of Revenue reporting the changes in income for each tax year.

The taxpayer must report the name of any corporation, which holds a majority of the stock of the taxpayer, and the name(s) of any corporation in which the taxpayer owns a majority of the stock. This is done by checking the applicable box(es) and completing Schedule X.

Page 6

Taxpayers must report the location of any real property utilized in the Commonwealth of Pennsylvania during the current tax period. Include an indication if the property was rented or owned by the taxpayer and if the property was located in a Keystone Opportunity Zone/Keystone Opportunity Expansion Zone.

Taxpayers annual affirmation of corporate officer information is now included on the RCT-101. When information is provided on RCT-101, the REV-1605 is not required. REV-1605 is available and should be used to report changes in corporate officers during the year.

PAID PREPARER'S MAILING ADDRESS

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. If the block is not checked, the Notice of Settlement will be mailed to the corporation's address. If a request for information is mailed to the preparer, a copy of this request is also sent to the taxpayer.

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.

DEPRECIATION OF REAL PROPERTY UNDER SECTION 1250 OF THE INTERNAL REVENUE CODE ON AN ACCELERATED DEPRECIATION BASIS. [See instructions for Section C, Line 3(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.

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 B.

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 15 and 14 of federal Schedule C from foreign corporations that meet the 80% voting and value test of IRC Section I 504(a)(2) and otherwise would qualify for 100% deduction under IRC 243 (a) 51 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 2(a).

Schedule X: Other Companies of Which This Company Owns All or a Majority of the Stock

Corporate taxpayers who answer yes to Question 3, Section F of RCT-101 are required to report the name, federal EIN, and PA Corporate Account ID, if applicable, of all corporate entities of which the corporate taxpayer owns more than 50% of the stock. In addition, taxpayers who own more than 50% of the stock of other corporate entities are required to submit a consolidated balance sheet. Taxpayers who answer Yes to Question 2 of Section F must disclose the Name, EIN and PA Account ID Number, if applicable, of any corporation which owns all or a majority of the stock of the taxpayer.

Schedule C-3: Adjustment for Bonus Depreciation

Decoupling From Federal Bonus Depreciation

Act 89 of 2002, signed June 29, 2002, requires corporate taxpayers who elect the bonus depreciation under IRC Section 168(k) to make the following adjustments in arriving at Pennsylvania Taxable Income:

A. Add to Federal Taxable Income the amount of bonus depreciation expensed on the Federal Income Tax return.

B. Deduct from Federal Taxable Income additional PA depreciation which is calculated as follows: (Federal Depreciation on Section 168(k) property – Bonus Depreciation claimed in the current year X 3/7.

C. In the year of disposition of an asset, the taxpayer may decrease taxable income by the amount of bonus depreciation on that asset disallowed in the year of acquisition and not deducted as additional depreciation.

(These provisions apply to tax periods beginning after September 10, 2000.)

When filing PA corporate tax reports, RCT-101, taxpayers who expensed Federal Bonus Depreciation in the calculation of Federal Taxable Income are required to include Schedule C-3, Adjustment for Bonus Depreciation, showing the calculation of these adjustments and the amount of bonus depreciation to be recovered in subsequent years. In addition, if the taxpayer disposes of Section 168(k) property during the tax period, the taxpayer must also include Schedule C-4 showing the calculation of the remaining bonus depreciation being recovered in the year of disposition.

This Schedule must be updated each year and submitted with RCT-101 (i.e., Schedule C-3 for 2003 will reflect the adjustments made for 2001 and 2002 along with the adjustments made for 2003). Enter information for prior years from Schedule C-3 as filed for 2002.

Column B-Federal Depreciation
This is the amount of depreciation expense, including the bonus depreciation, reported on the federal tax return for all property that qualified for the bonus depreciation and for which the taxpayer claimed the bonus depreciation, either in the current year or in a prior year, in the calculation of federal taxable income. Carry this amount to RCT-101, Section B Line 1, current year federal depreciation of 168(k) property. This does not include Section 179 expenses related to this property.

Column C-Bonus Depreciation
This is the amount of Bonus Depreciation deducted in the current year. Carry this amount to RCT-101, Section C, Line 3d, Current Year Bonus Depreciation.

Column E-Additional PA Depreciation
Column D x 3/7.

Column F-Other Adjustment
In some cases, the remaining bonus depreciation to be recovered is less than 3/7 of current year depreciation on that asset. In those cases, enter the excess of 3/7 of current year depreciation over the bonus depreciation to be recovered. Carry this amount to RCT-101, Section B, Line 3, Other Adjustment.

Column G-Adjustment for Disposition of 168(k) Property
This is the amount of disallowed bonus depreciation disallowed for property disposed of during the tax period minus the additional PA Depreciation deducted while this property was held. Schedule C-4 must be attached. Carry this amount to RCT-101, Section B, Line 2, Current Year Adjustment for Sale of 168(k) property.

Column H-Additional PA Depreciation plus Adjustment for Disposition

Column E minus Column F plus Column G. Carry this amount to RCT-101, Section C, Line 2c, current year additional PA depreciation plus adjustment for disposition.

Column I-Balance
Prior balance plus current year Column C minus current year Column H. This is a running total of federal depreciation disallowed less additional PA depreciation, other adjustments, and adjustment for disposition of assets. This column may not be less than zero.

Schedule C-4: Adjustment for Disposition of Section 168(k) Property & Recapture of Depreciation on Listed Property

Column B-Federal Accumulated Depreciation
Accumulated depreciation of Section 168(k) property disposed of during the year plus accumulated depreciation used to calculate recapture when business use falls to 50 or less. This amount should not include Section 179 expense. Do not include depreciation on property for which all disallowed bonus depreciation has been recovered.

Column C-Disallowed Bonus Depreciation
Bonus depreciation disallowed in the calculation of PA Corporate Net Income in the year of purchase. Do not include bonus depreciation which was fully recovered in prior years.

Column E-Additional PA Depreciation

Additional depreciation allowed in the calculation of PA Corporate Net Income in the year of purchase and in subsequent years. (Column D x 3/7)

Column F-Adjustment for Disposition
Adjustment for the gain on sale of Section 168(k) property (Column C – Column E). Carry total to Column G of Schedule C-3.

How It Works

The following are examples of how the adjustments for Bonus Depreciation will work:

Example 1

On October 1, 2002, the taxpayer purchases a $100,000 piece of equipment to be depreciated over 7 years using MACRS.

Federal Depreciation for December 31, 2002 is as follows:

100,000	x	.30	=	30,000
70,000	x	.1429	=	10,003
Total Federal Depreciation				40,003

The PA Adjustments for 2002 would be as follows:

2002 Federal Depreciation	40,003	Column B of Schedule C-3
- 2002 Bonus Depreciation	30,000	Column C of Schedule C-3
	10,003	Column D of Schedule C-3
	x 3/7	
2002 Additional PA Depreciation	4,287	Column E of Schedule C-3

Federal Depreciation for December 31, 2002 is as follows:

2003	70,000	x	.2449	=	17,143

The PA Adjustments for 2003 would be as follows:

2003 Federal Depreciation	17,143	Column B of Schedule C-3
-2003 Bonus Depreciation	0	Column C of Schedule C-3
	17,143	
	X 3/7	
2002 Additional PA Depreciation	7,347	Column E of Schedule C-3

On January 2, 2004, the taxpayer sold this piece of equipment for 50,000. The Federal gain would be as follows:

Sales Price		50,000
Cost	100,000	
- Accumulated Depreciation	57,146	
Basis		42,854
Federal Gain		7,146

PA Adjustments for this transaction would be as follows:

Federal Accumulated Depreciation	57,146	Column B of Schedule C-4
Less Disallowed Bonus Depreciation	30,000	Column C of Schedule C-4
	27,146	Column D of Schedule C-4
	x 3/7	
Additional PA Depreciation Allowed in Subsequent years	11,634	Column E of Schedule C-4

The Adjustment for Disposition, Column F of Schedule C-4 would equal $18,366 (30,000 – 11,634).

Example 2

On October 1, 2001, the taxpayer purchases a $100,000 piece of equipment to be depreciated over 7 years using MACRS.

Federal Depreciation for December 31, 2001 is as follows:

100,000	x	.30	=	30,000
70,000	x	.1429	=	10,003
Total Federal Depreciation				40,003

The PA Adjustments for 2001 would be as follows

2001 Federal Depreciation	40,003	Column B of Schedule C-3
- 2001 Bonus Depreciation	30,000	Column C of Schedule C-3
	10,003	Column D of Schedule C-3
	x 3/7	
2001 Additional PA Depreciation	4,287	Column E of Schedule C-3

On October 1, 2002, the taxpayer purchases another $100,000 piece of equipment to be depreciated over 7 years using MACRS.

Federal Depreciation for December 31, 2002 is as follows:

100,000	x	.30	=	30,000	Purchased in 2002
70,000	x	.1429	=	10,003	Purchased in 2002
70,000	x	.2489	=	17,143	Purchased in 2001
Total Federal Depreciation				57,146	

The PA Adjustments for 2002 would be as follows

2002 Federal Depreciation	57,146	Column B of Schedule C-3
- 2002 Bonus Depreciation	30,000	Column C of Schedule C-3
	27,146	Column D of Schedule C-3
	x 3/7	
2002 Additional PA Depreciation	11,634	Column E of Schedule C-3

Example 3

Assume the same facts as Example 1 except that in 2004 the business use of the property fell to 40%. The taxpayer would be required to calculate a recapture of depreciation on FF 4797 as follows:

Depreciation allowed in prior years	57,146
Recomputed depreciation	8,572
Recapture Amount	48,574

By policy, when an asset no longer qualifies as Sec 168(k), and the taxpayer is required to recapture depreciation in the calculation of Federal Taxable Income, this event is handled the same as a sale of Sec 168(k) property. The adjustment for this item will be calculated as follows:

Federal Accumulated Depreciation	57,146	Column B of Schedule C-4
Less Disallowed Bonus Depreciation	30,000	Column C of Schedule C-4
	27,146	Column D of Schedule C-4
	x 3/7	
Additional PA Depreciation Allowed in Subsequent years	11,634	Column E of Schedule C-4

The adjustment of $18,366 (30,000 – 11,634) would also be reported as an "Adjustment for Disposition" in Column F of Schedule C-4.

Example 4

On October 1, 2002, the taxpayer purchases an automobile for $30,000. The Federal Bonus Depreciation on this automobile would be $9,000. Under Federal Guidelines, the taxpayer would be required to report Bonus Depreciation up to the limitation of $7,600 and would not be permitted to claim MACRS Depreciation on this asset. Under Act 89 of 2002, the taxpayer would be required to add the Bonus Depreciation to Federal Taxable Income in the calculation of PA Taxable Income. Since the taxpayer was not permitted to deduct MACRS Depreciation the additional PA Depreciation Deduction would be zero ($0 x 3/7 = $0). The taxpayer would be allowed to reclaim the $7,660 over the life of the property and any amount which was not recovered would be deductible at the time of disposition of the asset.

Example 5

On July 1, 2003, ABC Corporation purchases equipment with a basis of $100,000. This property qualifies for the Federal Bonus Depreciation under IRC Sec. 168(k). By claiming the Bonus Depreciation, and depreciating the remaining basis of the property using MACRS over seven years, Federal Depreciation of this asset for 2003 would be calculated as follows:

Bonus Depreciation	100,000 x .50 =	50,000
MACRS Depreciation	(100,000 – 50,000 x .1429 =	7,145
Federal Income Tax Depreciation		57,145

In the calculation of PA Taxable Income for 2003, ABC Corporation would be required to add the Bonus Depreciation to Federal Taxable Income and calculate the additional deduction as follows:

Total Depreciation	57,145
Less Bonus Depreciation	50,000
MACRS Depreciation	7,145
	x 3/7
Additional PA Depreciation Deduction	3,062

Disallowed Bonus Depreciation to be recovered in subsequent years would be $46,938 ($50,000 – 3,062).

The additional PA Depreciation Deduction for tax periods ending 2004 through 2010 would be as follows:

2004	$50,000 x .2449 =	12,245 x 3/7	=	5,248
2005	$50,000 x .1749 =	8,745 x 3/7	=	3.748
2006	$50,000 x .1249 =	6,245 x 3/7	=	2,676
2007	$50,000 x .0893 =	4,465 x 3/7	=	1,914
2008	$50,000 x .0892 =	4,460 x 3/7	=	1,911
2009	$50,000 x .0893 =	4,465 x 3/7	=	1,914
2010	$50,000 x .0446 =	2,230 x 3/7	=	956
Total				18,367

At this point, the asset would be fully depreciated for Federal Income Tax purposes. However, the taxpayer has not recovered the full amount of the disallowed bonus depreciation. For the tax period ending December 31, 2010, ABC Corporation would be allowed an additional deduction of $28,571 (46,938 – 18,367). This deduction would be reported on Schedule C-4 and Column G of Schedule C-3. The total deduction of PA Depreciation on this asset in 2010 would be $29,527 (28,571 + 956).

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 Jan. 1, 1998, **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.

Effective Jan. 1, 2001, this definition has been expanded to include all entities filing as corporations with the IRS under Federal "check the box" rules.

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 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 (See Page 15).**

Effective January 1, 2001, this definition has been expanded to include all entities filing as corporations with the IRS under Federal "check the box" rules.

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-l, 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 subrentals. 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 Commonwealth. The denominator of the fraction is the total number of port days spent outside and inside the Commonwealth.

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

- **Water Transportation Companies Operating on Inland Waters:**

  All business income of water transportation companies operating on inland waters is apportioned to the Commonwealth of Pennsylvania by multiplying the business income by a fraction. The numerator of the fraction is the taxpayer's total revenue miles within the Commonwealth during the taxable period. The denominator of the fraction is the total revenue miles of the taxpayer everywhere during the taxable period. In the determination of revenue miles, one-half of the mileage of all navigable waterways bordering between the Commonwealth and another state shall be considered Commonwealth miles. A revenue mile means the revenue receipts derived from the transportation by the taxpayer of persons or property one mile.

EXEMPTIONS TO FOREIGN FRANCHISE TAX

Pollution Control Devices are exempt from the Foreign Franchise Tax. Equipment, machinery, facilities and other tangible property employed or utilized within the Commonwealth of Pennsylvania for water and air pollution control or abatement devices which are being employed or utilized for the benefit of the general public are exempt. Effective January 1, 1991, Act 22 of 1991 limited the Pollution Control Devices exemption to **tangible property only**; intangible property is **not** exempt. Corporations claiming this exemption should exclude the original cost value from the numerator of the property factor and attach an appropriate schedule to the Insert Sheet (RCT-106). This schedule should reflect a description of the pollution control device, location and value. A copy of the certification issued by the PA Department of Environmental 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 x [(average net income ÷ .095) + (.75) *(net worth)*]) - $125,000

EXAMPLE:	**Corporation with $190,000 average book income and $3,000,000 net worth.**	
Average Book Income		
$190,000 ÷ .095 =	$2,000,000	
+		
Net Worth		
$3,000,000 x .75 =	$2,250,000	
	$4,250,000	**Capital Stock Value**
$4,250,000 ÷ 2 = $2,125,000 - $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 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 (5) through (7) of Section A, Page 2 of RCT-101.

EXAMPLES:
FIRST YEAR CORPORATION

	1-1-02		12-31-02							
Capital Stock	0		$ 50,000							
Retained Earnings	0		150,000							
	0	+	$200,000	=	$200,000	÷	2	=	$100,000	Average Net Worth
GOING CONCERN #1										
	1-1-02		12-31-02							
Capital Stock	$ 50,000		$ 50,000							
Retained Earnings	150,000		450,000							
	$200,000	+	$500,000	=	$700,000	÷	2	=	$350,000	Average Net Worth
GOING CONCERN #2										
	1-1-02		12-31-02							
Capital Stock	$50,000		$ 50,000							
Retained Earnings	(150,000)		450,000							
	($100,000)	+	$500,000							
	0	+	$500,000	=	$500,000	÷	2	=	$250,000	Average Net Worth
FINAL REPORT										
	1-1-02		12-31-02							
Capital Stock	$ 50,000		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 distributed during the taxable period to shareholders who are PA resident individuals, estates or trusts. The denominator of the fraction is all income distributed during the taxable period. Resident trusts shall not include charitable, pension or profit-sharing or retirement trusts.

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

Regulated investment companies should reflect their self-assessed tax on Line 10, Section A on Page 2 of RCT-101 and insert the abbreviation "Reg. Inv. Co." on the dotted line area on Lines (8) through (9). 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. Check "Holding Company" block in Section A.

EXAMPLE:

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

***Rounded to the nearest whole number.**

	Undistributed Personal Income Tax Income		Income Distributed to Pennsylvania Individuals Estates or Trusts ÷ by Total Income Distributed During Period		Apportioned Undistributed Personal Income Tax Income		Personal Income Tax Rate (2002 2.8%)		
(2)	$500,000	X	$1,000,000 / $50,000,000	=	$10,000	x	.028	=	$280 (B)

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

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.

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 partnership, 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.

Effective January 1, 2001, this definition has been expanded to include all entities filing as corporations with the IRS under Federal "check the box" rules.

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-l.

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.

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.

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

RESTRICTED 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 PA Department of Community and Economic Development (DCED) KOZ approval letter, and RCT-101 KOZ.

For tax years that begin on or after Jan. 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 PA Department of Community and Economic Development (DCED) 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 $200,000 annually per business firm.

The DCED 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 PA 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.

The Department of Revenue administers the application of the credit following approval by DCED.

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 Jan. 1, 2000 and Dec. 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 PA 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 childcare 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 PA 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 Office 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 PA 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 PA 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 PA 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 <u>for the tax year during which the cost was incurred.</u>

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.