



REV-1200 CT (12-06)

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
PO BOX 280705
HARRISBURG, PA 17128-0705

www.revenue.state.pa.us

COMMONWEALTH OF PENNSYLVANIA CT-1 PA CORPORATION TAX BOOKLET 2006 FOR CALENDAR YEAR 2006 AND FISCAL YEARS BEGINNING IN 2006

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

HIGHLIGHTS

NEW FOR 2006

- **NEW**—To assist taxpayers in reporting Net Income per Books, the Department has added Schedule A-2, Reconciliation of Net Retained Earnings of a Federal Subchapter S Corporation and Schedule A-3, Adjustments to Net Income per Books. Both Schedules are found on REV-961. See Page 18 for details.
- **NEW**—Taxpayers claiming exemption from Corporate Net Income Tax under P.L. 86-272 (solicitation of sales) must complete the section titled "Schedule to Support Claim of Exemption From Corporate Net Income Tax Under P.L. 86-272" found on REV-934.
- **NEW**—Beginning in 2006, a corporation with a valid federal Subchapter S Corporation election is no longer required to file a separate election to be a Pennsylvania S Corporation. See Page 1 for details.
- **NEW**—Beginning in 2006, Single Member Limited Liability Companies and Business Trusts, that are not classified as corporations for federal income tax purposes, are permitted to reduce Net Income per Books for distributions to qualified members. See Page 1 for details.
- **NEW**—Act 67 of 2006 amended the Tax Reform Code of 1971 to codify the Department of Revenue's position on the calculation of Net Income per Books of taxpayers with investments in Limited Liability Companies and Business Trusts. See Page 1 for details.
- **NEW**—Act 67 of 2006 amended the Tax Reform Code of 1971 to exclude all Restricted Professional Companies, that are not classified as corporations for federal income

tax purposes, from the definition of "Corporations" subject to Capital Stock Tax and Foreign Franchise Tax. See Page 1 for details.

NEW FOR 2007

- **NEW**—Act 116 of 2006 amended the Tax Reform Code of 1971 to increase the Net Operating Loss Limitation from \$2 million to the greater of \$3 million or 12.5 percent of PA Taxable Income prior to the Net Operating Loss Deduction (Effective Jan. 1, 2007).
- **NEW**—Act 116 of 2006 amended the Tax Reform Code of 1971 to change the calculation of the Corporate Net Income Tax apportionment. With this change, the sales factor will be weighted at 70 percent (Effective Jan. 1, 2007).
- **NEW**—Act 67 of 2006 amended the Tax Reform Code of 1971 by increasing the Capital Stock Valuation Reduction from \$125,000 to \$150,000 (Effective Jan. 1, 2007).

IMPORTANT - Taxpayers and practitioners can use the Department's Web site to stay up-to-date on the latest changes to law, tax rates and special instructions regarding form changes.

Estimated payments and extension of time requests should be made online. Log on to the e-Services Center at www.revenue.state.pa.us. Select "Business Taxes" and follow registration instructions.

Estimated coupon booklets are being phased out and you may not receive a 2007 estimated coupon booklet.

Tax rates for years beginning during	2006	2007
Capital Stock/Franchise Tax	4.89 mills	3.89 mills
Corporate Net Income	9.99 %	9.99 %

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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) 787-1984
NEIGHBORHOOD ASSISTANCE CREDIT	1-800-379-7448 OR (717) 787-1984
EMPLOYMENT INCENTIVE PAYMENT CREDIT	1-800-345-2555
JOBS CREATION TAX CREDIT	1-800-379-7448 OR (717) 787-7120
PENNSYLVANIA RESEARCH & DEVELOPMENT TAX CREDIT	(717) 783-6031
ORGAN AND BONE MARROW DONOR ACT	(717) 783-1064

FORMS ORDERING SERVICE

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

Internet: *www.revenue.state.pa.us*

Automated 24-hour FACT & Information Line
1-888-PATAXES (1-888-728-2937) *Touch-tone service is 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*

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, 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.

Pennsylvania Tax Update

Stay up-to-date on happenings at the PA Department of Revenue with the PA Tax Update, bi-monthly e-news letter. Visit the Department's Web site at www.revenue.state.pa.us and sign up for a PA Tax Update e-alert.

MAILING ADDRESSES

**RCT-101-PA CORPORATE TAX REPORT,
RCT-101-I-INACTIVE PA CORPORATE TAX REPORT**

BUREAU OF CORPORATION TAXES
PO BOX 280427
HARRISBURG, PA 17128-0427

**RCT-101X-AMENDED PA CORPORATE TAX REPORT,
RCT-128C-REPORTS OF CHANGE IN CORPORATE
NET INCOME TAX,**

BUREAU OF CORPORATION TAXES
PO BOX 280407
HARRISBURG, PA 17128-0407

REV-857-ESTIMATED TAX PAYMENTS

BUREAU OF CORPORATION TAXES
PO BOX 280420
HARRISBURG, PA 17128-0420

REV-854-EIN/FILING PERIOD/ADDRESS CHANGE

BUREAU OF CORPORATION TAXES
PO BOX 280707
HARRISBURG, PA 17128-0707

**REV-976-ELECTION NOT TO BE TAXED AS A
PENNSYLVANIA S CORPORATION**

BUREAU OF CORPORATION TAXES
PA "S" UNIT
PO BOX 280705
HARRISBURG, PA 17128-0705

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

PA DEPARTMENT OF REVENUE
BUREAU OF INDIVIDUAL TAXES
PO BOX 280509
HARRISBURG, PA 17128-0509

RCT-101D-DECLARATION OF DE MINIMIS ACTIVITY

BUREAU OF CORPORATION TAXES
PO BOX 280427
HARRISBURG, PA 17128-0427

REV-853-ANNUAL EXTENSION

BUREAU OF CORPORATION TAXES
PO BOX 280423
HARRISBURG, PA 17128-0423

**REV-1605-SCHEDULE CO-NAME OF CORPORATE
OFFICERS**

BUREAU OF CORPORATION TAXES
PO BOX 280430
HARRISBURG, PA 17128-0430

LEGISLATIVE CHANGES 2006

The following changes were enacted by the Pennsylvania Legislature and affect the filing of the PA Corporation Tax Report, RCT-101, and the calculation of the Capital Stock/Foreign Franchise Tax and the Corporate Net Income Tax for years beginning on or after Jan. 1, 2006.

PENNSYLVANIA S CORPORATIONS

Federal Subchapter S Corporations are no longer required to file the Pennsylvania S Corporation Election and Shareholders' Consent, REV-1640, in order to be granted Pennsylvania S Corporation status. Effective with tax years beginning on or after Jan. 1, 2006, any corporation with a valid Federal Subchapter S Corporation election is considered a Pennsylvania S Corporation. Any Federal Subchapter S Corporation that does not desire to be a Pennsylvania S Corporation, must file the Election Not to be Taxed as a Pennsylvania S Corporation, REV-976, on or before the due date or extended due date of the report for the first year in which the election is to be in effect. This election must be signed by all of the shareholders and once made cannot be revoked for five years. The completed REV-976 should be mailed to the following address:

Bureau of Corporation Taxes
PA "S" Unit
PO Box 280705
Harrisburg, PA 17128-0705

Qualified Subchapter S Subsidiaries may not be a Pennsylvania S Corporation, or elect not to be a Pennsylvania S Corporation, separate from the parent corporation. Federal Subchapter S Corporations doing business in Pennsylvania that do not make this election are required to file both RCT-101 and PA 20S/PA 65 and the shareholders of these corporations must report the income from these corporations on their PA Personal Income Tax Returns.

IMPORTANT: This election must be filed by all Federal Subchapter S Corporations that do not want to be a Pennsylvania S Corporation, regardless of any prior actions taken by the corporation on this issue.

NET INCOME PER BOOKS—LIMITED LIABILITY COMPANIES AND BUSINESS TRUSTS

Act 67 of 2006 amended the definition of "Average Net Income" by providing a reduction to the Net Income per Books of all Limited Liability Companies and Business Trust, not taxable as corporations for federal income tax purposes, for distributions made to members deemed to be materially participating under Section 469 of the Internal Revenue Code. Distributions made within 30 days of the end of the tax period may be treated as having been made in the preceding year and not in the year in which the distribution is made. Prior to 2006 only Limited Liability Companies and Business Trusts filing as partnerships with the Internal Revenue Service were entitled to this deduction. Taxpayers making this adjustment to Net Income per Books are required to complete Pennsylvania Schedule A-3, Adjustments to Net Income per Books (See Page 18 for instructions). Taxpayer's adjusting prior year Net Income per Books when calculating the 2006 Capital Stock Value are required to provide a separate Schedule A-3 for each year involved.

In addition, Single Member Limited Liability Companies and Business Trusts, disregarded for federal income tax purposes and whose income is reported on the personal income tax return of an individual, are entitled to a deduction for any distributions to the natural person. Again, distributions made within 30 days of the end of the tax period may be treated as having been made in the preceding year and not in the year in which the distribution is made. With this change, Single Member Limited Liability Companies and Business Trust, disregarded for federal income tax purposes and whose income is reported on the personal

income tax return of an individual, must include the following documents with the PA Corporate Tax Report, RCT-101:

1. A copy of federal Schedule C or federal Schedule E, reflecting the income (loss) of the Limited Liability Company or Business Trust that is included in the federal taxable income of the member.
2. PA Schedule L, Beginning and Ending Balance Sheets (REV-860).
3. PA Schedule M-1, Reconciliation of Net Income (Loss) per Books to Net Income (Loss) per return (Rev-860).
4. PA Schedule M-2, Reconciliation of Member's Capital Account (REV-860).
5. PA Schedule X, REV-798, providing the name and Social Security Number of the member.
6. PA Schedule A-3, Adjustments to Net Income per Books (REV-961), if reducing Net Income per Books for distributions made to the member.

NET INCOME PER BOOKS—CORPORATE MEMBERS OF LIMITED LIABILITY COMPANIES OR BUSINESS TRUSTS.

Act 67 of 2006 amended the Tax Reform Code of 1971 to codify the Department's position on the calculation of Net Income per Books of corporations with investments in Limited Liability Companies. When calculating the Net Income per Books of a taxpayer with investments in Limited Liability Companies, the taxpayer must remove the income, or loss, of the investee LLC from the Net Income per Books reported on the federal income tax return and add to the Net Income per Books any distributions received from the LLC during the year. Taxpayers making this adjustment must provide the following:

1. If the LLC or Business Trust files federal Form 1065, a copy of the federal Schedule K-1 issued by the LLC or Business Trust.
2. If the LLC or Business Trust is a disregarded entity, beginning and ending balance sheets for the LLC or Business Trust and a reconciliation of the beginning and ending member's capital account.
3. A complete PA Schedule A-3 (REV-961).

SINGLE MEMBER RESTRICTED PROFESSIONAL COMPANIES

Act 67 of 2006 amended the Tax Reform Code of 1971 to exclude all Restricted Professional Companies, which are not classified as corporations for federal income tax purposes, from the definition of "Corporations" subject to Capital Stock Tax and Foreign Franchise Tax beginning Jan. 1, 2006. Prior to that date, only Restricted Professional Companies deemed to be limited partnerships were exempt from the tax.

With this change, Single Member Restricted Professional Companies are required to file all PA Corporate Tax Reports up to and including tax years beginning prior to Jan. 1, 2006. The Department is asking these taxpayers to notify it of their status by filing an Out of Existence/Withdrawal Affidavit, REV-238. The individual completing the affidavit should enter "RPC" on the line normally used for the date business ceased and "Act 67 of 2006" on the line normally used for the date of the disposition of assets. By doing this the Bureau of Corporation Taxes will be able to close the account accordingly.

LEGISLATIVE CHANGES 2007

The following changes enacted by the Pennsylvania Legislature will affect the filing of the PA Corporation Tax Report, RCT-101, and the calculation of the Capital Stock/Foreign Franchise Tax and the Corporate Net Income Tax for years beginning on or after Jan. 1, 2007. Tax-payers must consider these changes when calculating any estimated payment requirements for 2007.

CAPITAL STOCK TAX AND FOREIGN FRANCHISE TAX

For tax years beginning on or after Jan. 1, 2007, through tax years beginning prior to Jan. 1, 2008, the Capital Stock/Foreign Franchise Tax rate has been reduced to 3.89 mills (.00389).

For tax years beginning on or after Jan. 1, 2007, the valuation reduction for the calculation of the Capital Stock Value is increased from \$125,000 to \$150,000.

CORPORATE NET INCOME TAX

For tax years beginning on or after Jan. 1, 2007, the Net Operating Loss limitation is increased from \$2 million to the greater of \$3 million or

12.5 percent of PA Taxable Income prior to the Net Operating Loss Deduction.

For tax years beginning on or after Jan. 1, 2007, the apportionment factor used in the calculation of the Corporate Net Income Tax will be computed by multiplying the Property and Payroll factors by 15 and multiplying the Sales factor by 70. The results are totaled and then divided by 100. As an example:

Property Factor	0.100000 X 15	=	1.500000
Payroll Factor	0.200000 X 15	=	3.000000
Sales Factor	0.500000 X 70	=	35.000000
Total			39.500000 / 100 =
CNI Apportionment Factor			0.395000

This change only applies to the calculation of the Corporate Net Income Tax. When calculating the Capital Stock Tax and the Foreign Franchise Tax the factors are still equally weighted.

WHAT MUST BE INCLUDED WITH THE THE PA CORPORATE TAX REPORT

When filing a PA Corporate Tax Report, RCT-101, all corporate taxpayers are required to attach forms and schedules to support the calculation of the tax liability. The type of information required depends on how the entity reports their income to the IRS. The following chart lists the forms and schedules that the taxpayer must include with the RCT-101 each year. This list is not meant to be all inclusive. (Explanation of Forms appears on Pages 18-20.)

IF TAXPAYER IS ORGANIZED AS:	TAXPAYER FILES WITH THE IRS	TAXPAYER MUST PROVIDE THE FOLLOWING WITH RCT-101
Corporation Business Trust Limited Liability Company, or Any other entity electing to file as a corporation under Federal Check the Box rules	Federal Form 1120, Federal Form 1120A, Federal Form 1120S, (Taxpayer elected to not be taxed as a Pennsylvania S Corporation) Federal Form 1120F, or Any other Corporate Income Tax Return	<ol style="list-style-type: none"> 1. Complete copy of Federal Income Tax return, on separate company basis. 2. Completed Federal Schedules L, M-1, & M-2 regardless of Federal Requirements. 3. Consolidated Balance Sheet (Corp owns more than 50% of another corp). See Page 10 of PA Tax Booklet. 4. RCT-103 to support Net Operating Loss Carry Forward, if applicable. 5. Schedule C-5--Schedule of Taxes 6. Schedule OA, Other Additions, and Schedule OD, Other Deductions, if applicable. 7. RCT-106 to support Apportionment Factors, if applicable 8. RCT-102 or RCT-105 to support the Manufacturing Exemption, if applicable. 9. Schedule C-2 to support the Dividend Deduction, if applicable. 10. Schedules C-3 and C-4 to support adjustments for Bonus Depreciation, if applicable. 11. Schedule X, if applicable. 12. Other supporting statements if necessary, with references to supporting statements on the applicable form. 13. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable. 14. Schedule A-3—Adjustment to Net Income per Books, if applicable. 15. REV-934—Schedule of Non-Business Income, if applicable. 16. REV-934—Schedule to Support Claim of Exemption From Corporate Net Income Tax Under P.L. 86-272, if applicable.
Corporation, Business Trust, Limited Liability Company, or Any other entity electing to file as a corporation under Federal Check the Box rules	Federal Form 1120S	<ol style="list-style-type: none"> 1. Complete copy of Federal Income Tax return, on separate company basis, with all supporting schedules. 2. Completed Federal Schedules L, M-1, & M-2 regardless of Federal Requirements. 3. Consolidated Balance Sheet (Corp owns more than 50% of another corp). See Page 10 of PA Tax Booklet. 4. RCT-106 to support Apportionment Factors, if applicable. 5. RCT-102 or RCT-105 to support the Manufacturing Exemption, if applicable. 6. Schedule X, if applicable. 7. Other supporting statements if necessary, with references to supporting statements on the applicable form. 8. Must separately file the PA-20S/PA-65 with the Pass Through Business Office at the address noted in the instructions. 9. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable. 10. Schedule A-3—Adjustment to Net Income per Books, if applicable.
Business Trust or Limited Liability Company	Federal Form 1065	<ol style="list-style-type: none"> 1. Complete copy of Federal Form 1065 on a separate company basis with all supporting schedules.. 2. Completed Federal Schedules L, M-1, & M-2 regardless of Federal Requirements. 3. Schedule of Net Income per Books, if different than Line 1 of Federal Schedule M-1, if applicable. 4. RCT-106 to support Apportionment Factors, if applicable 5. RCT-102 or RCT-105 to support the Manufacturing Exemption, if applicable. 6. Schedule X, if applicable. 7. Other supporting statements if necessary, with references to supporting statements on the applicable form. 8. Must separately file the PA-20S/PA-65 with the Pass Through Business Office at the address noted in the instructions. 9. Schedule A-3—Adjustment to Net Income per Books, if applicable.
Business Trust or Limited Liability Company (Single Member)	Disregarded Entity: Income reported on Federal Return of another Business Entity	<ol style="list-style-type: none"> 1. Proforma Federal Tax Return. 2. Completed Federal Schedules L, M-1, & M-2 regardless of Federal Requirements. 3. RCT-106 to support Apportionment Factors, if applicable 4. RCT-102 or RCT-105 to support the Manufacturing Exemption, if applicable. 5. Schedule of Net Income per Books if different than Line 1 of Federal Schedule M-1, if applicable. 6. Schedule X, if applicable. 7. Other supporting statements if necessary, with references to supporting statements on the applicable form. 8. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable. 9. Schedule A-3—Adjustment to Net Income per Books, if applicable.

IF TAXPAYER IS ORGANIZED AS:	TAXPAYER FILES WITH THE IRS	TAXPAYER MUST PROVIDE THE FOLLOWING WITH RCT-101
Business Trust or Limited Liability Company (Single Member)	Disregarded Entity: Income reported on Personal Income Tax Return of the Single Member	<ol style="list-style-type: none"> 1. PA Schedule L-Balance Sheets for the Beginning and End of the Tax Period. 2. PA Schedule M-1, Reconciliation of Income (Loss) per Books to Income (Loss) per Return. 3. PA Schedule M-2, Reconciliation of Member's Capital Account. 4. Federal Schedule C or Federal Schedule E of Federal Form 1040. 5. Schedule X. 6. RCT-106 to Support Apportionment Factors, if applicable 7. RCT-102 or RCT-105 to support the Manufacturing Exemption, if applicable. 8. Other supporting statements if necessary, with references to supporting statements on the applicable form.

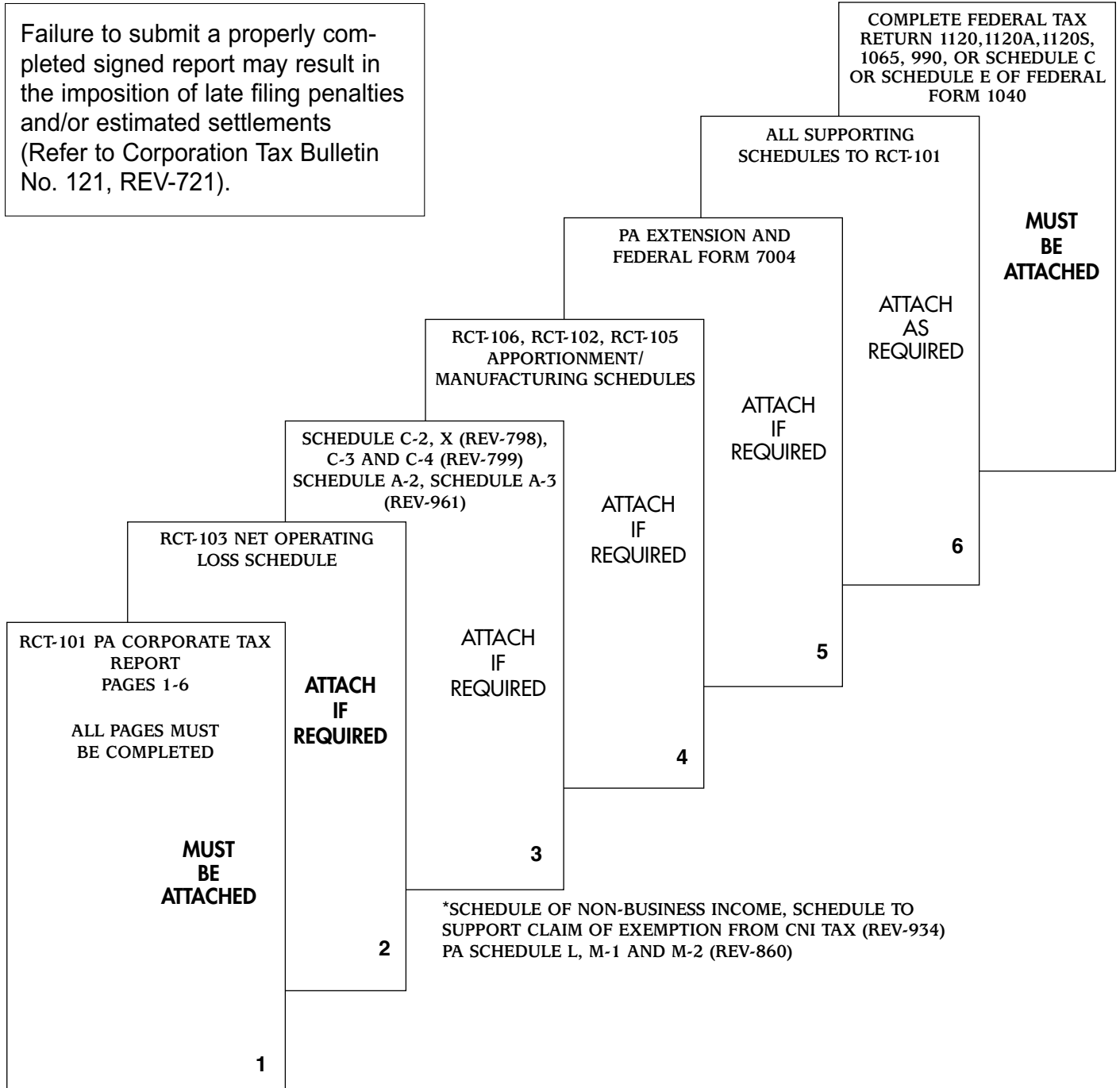
In addition, in certain situations corporate taxpayers are also required to provide additional information when filing the RCT-101. Examples of these are as follows:

IF THE CORPORATE TAXPAYER IS	TAXPAYER MUST ALSO PROVIDE
A non-PA Corporation, with activity outside of PA in prior years, filing a PA Corporate Tax Report for the first time.	Five year history of earnings. (If the Corporation has not been in existence for five years then a schedule of the Net Income per Books for all tax periods since incorporation).
Claiming a Manufacturing, Processing, or Research and Development Credit.	<p>A detailed description of activity from raw materials to finished product (i.e., company or product brochures in first year).</p> <p>A schedule reporting the end of month balance of interest generating accounts (single factor manufacturing exemption only).</p>
Apportioning Income for the first time.	A copy of a tax return from another state.
Filing the final PA Corporate Tax Report.	Complete Schedule DA-Disposition of Assets Schedule, REV-861.
Apportioning Income or Capital Stock Value, or claiming a Manufacturing, Processing, or Research and Development Exemption, and has an investment in pass-through entities. See Page 23 for details.	A complete copy of the federal Form 1065 for the investee partnership. If the investee partnership provided the corporate taxpayer with Schedule H-Corp of the PA 20S/PA-65, the corporate taxpayer should submit a copy of this schedule, along with Federal Schedule-K, in lieu of the Federal Form 1065 for the investee partnership.
Keystone Opportunity Zone/Keystone Opportunity Expansion Zone	<p>A completed RCT-101 KOZ, showing the calculation of the credit.</p> <p>A copy of the Keystone Opportunity Zone approval letter issued by the Department of Community and Economic Development for the current year.</p>
Employment Incentive Payment Credit	Schedule W – Certifications for new employees

WHEN IS A FORM OR SCHEDULE REQUIRED?

FORM	USED FOR	REQUIRED WHEN CORPORATE TAXPAYER:
RCT-106, Page 1	Calculating proportion of taxable assets	Is claiming exemption for the following assets when calculating Capital Stock or Foreign Franchise Tax: Real and tangible personal property located outside PA Stock of Corporations incorporated under the laws of PA Net worth of Corporation of which the taxpayer owns more 50% interest U.S. Government Securities PA Municipal Securities Investment in the stock of a National Bank Student Loan Assets
RCT-106, Page 2	Support of Three Factor Apportionment	Has taxable activity in at least one other state and is apportioning income to the other state based on property, payroll and sales. RCT-106 is also required by taxpayers who are required to utilize special apportionment methods (revenue miles, etc.).
RCT-102	Support of Single Factor Manufacturing Exemption	Qualifies for the Manufacturing Exemption and either elects to use the Single Factor Manufacturing Exemption or does not qualify for the three factor manufacturing exemption. Only applies to Capital Stock and Franchise Tax.
RCT-105	Support of Three Factor Manufacturing Exemption	Has taxable activity in at least one other state and qualifies for the Manufacturing Exemption. Only applies to Capital Stock and Franchise Tax.
RCT-103	Support of Net Operating Loss Deduction	When taxpayer is deducting a Net Operating Loss Carryforward in the calculation of Corporate Net Income Tax.
Schedule C-2 REV-798	Support of Dividend Deduction	When taxpayer is claiming a Dividend Received Deduction in the calculation of Corporate Net Income Tax.
Schedule C-3 REV-799	Bonus Depreciation Adjustment	When taxpayer is claiming a deduction to recover disallowed Federal Bonus Depreciation in the calculation of Corporate Net Income Tax.
Schedule C-4 REV-799	Adjustment for Sale of Sec 168(k) Property	When taxpayer is claiming a deduction to recover remaining Federal Bonus Depreciation in the calculation of Corporate Net Income Tax in the year an asset is sold.
Schedule C-5 REV-860	Schedule of Tax Expense	All taxpayers subject to Corporate Net Income Tax must complete and submit this schedule when the Federal Income Tax Return reports tax expense, even if these taxes are not imposed on or measured by net income.
Schedule OA REV-860	Other Additions	When taxpayer is reporting an "Other Addition" on RCT-101, Section C, Line 3E.
Schedule OD REV-860	Other Deductions	When taxpayer is reporting an "Other Deduction" on RCT-101, Section C, Line 2D.
REV-860 PA Schedule L PA Schedule M-1 PA Schedule M-2	Beginning and Ending Balance Sheets Reconciliation of Income (Loss) per Books to Income (Loss) per return Reconciliation of Member's Capital Account	Single Member Limited Liability Company. Income reported on personal income tax return of member.
Schedule X REV-798	Parent and Subsidiary Corporations	When more than 50% of the stock of the taxpayer is owned by another corporation, individual or other business entity or when the taxpayer owns more than 50% of another corporation.
Schedule A-2 REV-961	Reconciliation of Beginning and Ending Retained Earnings reported on Schedule L of federal Form 1120S	Is filing federal Form 1120S and the change in the retained earnings plus distributions of a federal Subchapter S Corporation is different than the Net Income per Books of the corporation.
Schedule A-3 REV-961	Adjustments to Net Income per Books	Is adjusting the Net Income per Books reported on Line 1 of federal Schedule M-1 to arrive at the Net Income per Books reported on RCT-101.
REV-934	Schedule of Non-Business Income	Is claiming Non-Business Income
REV-934	Schedule to Support Claim of Exemption From Corporate Net Income Tax Under P.L. 86-272	Is a non-PA Corporation claiming to be exempt from Corporate Net Income Tax under P.L. 86-272.

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



Assemble the completed 2006 PA Corporate Tax Report in the following order:

Sequence Description

1. RCT-101 PA Corporate Tax Report Pages 1 through 6 completed and assembled in order.
2. RCT-103 Net Operating Loss Schedule.
3. Schedule C-2, X (REV-798), C-3 and C-4 (REV-799), Schedule A-2, Schedule A-3 (REV -961), PA Schedule L, M-1 and M-2 (REV-860).
4. RCT-106 Insert Sheet.
RCT-102 Single Factor Manufacturing Exemption
5. RCT-105 Three Factor Manufacturing Exemption
PA Extension Approval Letter and Federal Form 7004
6. All supporting schedules to the PA Corporate Tax Reports, including a Consolidated Balance Sheet.
7. Federal Form 1120, 1120A, 1120S, (Income statement, balance sheet and other schedules, including details of taxes expensed and Schedule M adjustments), 1065, 990 or Schedule C or Schedule E of federal Form 1040. A balance sheet must be submitted for all taxpayers.

PENNSYLVANIA CORPORATE TAX REPORT
INSTRUCTIONS FOR FORM RCT-101

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 elected not 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.

IMPORTANT: 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.

IMPORTANT: PRIOR PERIOD FORMS ARE NOT ACCEPTABLE. "DO NOT use a 2006 RCT-101 for any period other than 2006."

COPY OF FEDERAL FORM 1120 OR 1120S

IMPORTANT: 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. This is in addition to any requirement to supply a copy of the Federal Tax Return with any other filing.

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. If the single member of the LLC is an individual the LLC shall attach a copy of Schedule C or Schedule E of federal Form 1040 along with PA Schedules L, M-1, and M-2 (REV-860) and Schedule X (REV-798).

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. **IMPORTANT:** 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, PO Box 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 percent 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. If you do not have internet capability, the EFT Authorization Agreement can be mailed or faxed to you by dialing 1-800-362-2050.

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.

IMPORTANT: 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 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 "Disposition of Assets", Schedule DA (REV-861) 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.

IMPORTANT: 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. Corporate taxpayers reporting the disposition of PA real estate must provide evidence that the transfer of title has been filed with the Recorder of Deeds of the respective county. This information must be provided in order to be removed from the active records of the Bureau of Corporation Taxes.

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
PO BOX 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. Taxpayer's filing the 2006 RCT-101-I for this purpose must check the reinstatement box found in Step J, Corporate Status Changes, and enter the beginning date of the first tax period in which business resumed (effective date).

IMPORTANT: Foreign corporations who conducted business outside of Pennsylvania while being marked "Out of Existence" with the PA Department of Revenue must provide a five year history of earnings when completing the PA Corporate Tax Report for the first period when the taxpayer resumed PA activity.

RECORDING DOLLAR AMOUNTS

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

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 6 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-8571 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.

IMPORTANT: A request for a federal extension does not automatically qualify the corporation for a PA extension. Extension requests should be submitted online using the e-Services Center at www.revenue.state.pa.us. Select "Business Taxes" and follow registration instructions.

Newly registered accounts should allow two business days after registering to use the e-tides site to file a Corporation Tax Extension or make a Corporation Tax Payment.

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 7 EFT Payment Requirement.)

PENALTIES IMPOSED FOR FAILURE TO FILE REPORTS WHEN DUE

- 10 percent of first \$1,000 of settled tax
- 5 percent of next \$4,000 of settled tax
- 1 percent 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 under STEP F. YOU MUST SELECT ONE OF THESE STEP F OPTIONS if an overpayment condition occurs.

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 (2006) must be filed to amend the Capital Stock/Foreign Franchise, Loans or Corporate Net Income Taxes previously reported for tax period 2006.

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.

Beginning Jan. 1, 2006, the Department of Revenue will only consider for resettlement Amended PA Corporate Tax Reports (Form RCT-101X) received within eighteen (18) months of the date of settlement of the tax report being amended. Amended PA Corporate Tax Reports received more than eighteen (18) months from the date of settlement of the original PA Corporate Tax Report will not be considered for resettlement. Information provided to the Department by the taxpayer in any form other than an Amended PA Corporate Tax Report (RCT-101X) will not be considered for resettlement. A taxpayer seeking a refund for a tax year settled more than eighteen (18) months ago may be able to pursue its statutory remedy by timely filing a Petition for Refund with the Board of Appeals.

IMPORTANT: The filing of an Amended PA Corporate Tax Report does not replace the filing of a petition. In addition, filing an Amended PA Corporate Tax Report does not extend a corporate taxpayer's time period to file an appeal

New for 2006

Taxpayers filing an Amended PA Corporate Tax Report, RCT-101X, based on the filing of an amended federal income tax return (Corrected Report as defined in 61 Pa Code §153.65) are required to indicate this on Page 1 of RCT-101X, along with providing the date the amended federal income tax return was filed with the IRS. Under 61 Pa Code §153.65 (b) a taxpayer is required to file a Corrected Report within 30 days of the filing of the amended federal income tax return.

Reports of Change – Changes in taxable income based on federal audits must be submitted on form RCT-128B (for tax years prior to 1981) or RCT-128C (for tax years 1981 and thereafter). A copy of the Revenue Agent's Report showing changes in net income for each year, as well as, a separate company breakdown of the changes must be included.

QUESTIONS ON FILING FORMS

Questions regarding the filing of PA Corporation Tax forms, including forms from the REV-8571 PA Corporation Tax Estimated Payment Packet, should be directed in writing to:

**PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATION TAXES
CT FORMS
PO BOX 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.

PA CORPORATION TAX ESTIMATED PAYMENT COUPON PACKET (REV-857-I)

The REV-857-I 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.

SPECIFIC INSTRUCTIONS

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 2006) for the tax period beginning and month, day and year (MM DD YYYY) for tax period ending. The 2006 PA Corporate Tax Report is for use only with the tax periods beginning in 2006.

STEP B CHECK SPECIAL FILING STATUS

Regulated Investment Company – Check the block if the corporation is a regulated Investment Company. See Page 28 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 (18), Section A for Capital Stock/Foreign Franchise Tax (on Page 2).
- Loans Tax, Section D for Loans Tax (on Page 4).
- Line (13), 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 10.) 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 31 and 32.)

Calculation. Subtract the amounts in Column B and Column C from those in Column A and enter the results in Calculation column.

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 7 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

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

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 7 for Electronic Funds Transfer (EFT) Requirements.

**ENTER
WHOLE
DOLLARS
ONLY**

remaining portion of the credit is applied to the next tax period for Estimated Tax purposes.

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

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**

Investment in LLC – 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.

Holding Company – Check the block if the corporation is a qualified holding company and is electing to use the special 10 percent apportionment for Capital Stock/Foreign Franchise Tax. See Page 25 for details. Taxpayers electing the special 10 percent 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.

AVERAGE BOOK INCOME:

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

Enter the taxable period’s beginning and ending dates by inserting the 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. In the case of a single member Limited Liability Company or Business Trust, disregarded for federal income tax purposes, whose member is a business entity, the book income is derived from the pro-forma federal income tax return. If the single member of the federal “disregarded entity” LLC or Business Trust is a natural person, the LLC is required to file a copy of Schedule C or Schedule E of federal Form 1040 along

with PA Schedules L, M-1, and M-2 (REV-860) and Schedule X (REV-798).

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). This provision was expanded to all Limited Liability Companies and Business Trusts not classified as corporations for federal income tax purposes, effective January 1, 2006. 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 complete Schedule A-3, located on REV- 961.

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.

IMPORTANT: 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 2003 through 2005. On Jan. 16, 2006, it is purchased by VMJ Corporation and changes to a calendar year end. On Dec. 31, 2006, its five year history of earnings would include the following:

	BEGINNING	ENDING
Oldest Period	070102	063003
	070103	063004
	070104	063005
	070105	011506
Current Tax Period	011606	123106

The fiscal year ending June 30, 2002 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, $184 \div 365 = .504$ 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

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

NET WORTH:

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

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

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

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

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 Page 16. 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 percent manufacturing exemption. Line (16) would be .250000 and Line 17 would be \$50,000 ($\$200,000 \times .250000 = \$50,000$).

Line (18). Multiply Line (17) by 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.

IMPORTANT: Effective for tax years beginning Jan. 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 – Single Entity/Multi Member - Check the appropriate 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 is a federal Subchapter S Corporation who has not elected to not be taxed as a Pennsylvania S Corporation, or a Qualified Subchapter S Subsidiary whose parent has not made the election to not be a Pennsylvania S Corporation, for the current 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). Taxable built in gains from Schedule D, Federal form 1120 are entered on Line 1 of Section C, RCT-101.

IMPORTANT: 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 18 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 Feb. 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 percent 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. All taxpayers reporting expenses for taxes on their federal income tax return must complete Schedule C-5, Schedule of Taxes, even if no taxes are imposed on or measured by net income. (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 Mar. 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.
- 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 the 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 or disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. "Business income" includes all income that is apportionable under the Constitution of the United States. "Nonbusiness income" is all income other than business income. The Schedule of Nonbusiness Income (REV-934) 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, REV-934.

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, REV-934.

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.

Net losses from any tax periods, which begin in 1989 to 1994, cannot be used to offset income earned during tax periods that begin in 1997 and thereafter. The maximum amount of NOL carryforward that can be utilized in any one year is \$2,000,000. Losses from the oldest tax periods must be used first.

Assuming no short periods, net losses should be utilized as follows:

Losses from 1995 and thereafter can be carried forward ten tax years effective for years beginning on or after Jan. 1, 1998.

Losses from 1998 and thereafter can be carried forward 20 tax years effective for years beginning on or after Jan. 1, 2002.

Short periods are considered to be one tax year for purposes of computing the carryforward.

DETERMINATION OF TAX

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

Line (13). Compute and enter the PA Corporate Net Income Tax by multiplying the amount reflected on Line (12) by the current rate of 9.99 percent (.0999). All taxes due should be shown in whole dollar amounts.

SECTION D: LOANS TAX - PAGE 4

CORPORATE LOANS TAX INFORMATION

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

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 Indebtedness.

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	<input type="text"/>

* Compute and enter treasurer's commission. This amount is computed as follows: 5 percent on first \$1,000 of tax or fractional part thereof; 1 percent on amount of tax over \$1,000 but not exceeding \$2,000; 1/2 of 1 percent 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-1. Corporations not claiming the manufacturing exemption should obtain this information from form RCT-106, Page 2.

SINGLE-FACTOR

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

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

- 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-

- 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-1: APPORTIONMENT SCHEDULE FOR CORPORATE NET INCOME TAX

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

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

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

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

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

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

TABLE 3 (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.

IMPORTANT: 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.

- 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-

- 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:

- 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)".
- Enter the date business activity, or business activity in PA ceased.
- 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 Schedule DA, Disposition of Asset Schedule.

If taxpayer sells 51 percent or more of any class of asset during the tax period the taxpayer should check the box. Taxpayers who sell 51 percent 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, individual or other business entity 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.

When completing the affirmation of corporate officer section, Limited Liability Companies, Business Trusts and other unincorporated entities required to file RCT-101 should enter the names and Social Security Numbers of individuals who are responsible for the tax and/or business matters of the entity (i.e. Tax Matter Partner, Managing Partner, Trustee).

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.

SUPPLEMENTAL SCHEDULES

SCHEDULE A-2—RECONCILIATION OF RETAINED EARNINGS OF A FEDERAL SUBCHAPTER S CORPORATION

Currently the PA Department of Revenue utilizes the change in retained earnings reported on Schedule L of federal Form 1120S, plus distributions reported on federal Form 1120S to verify the Net Income per Books reported by a federal Subchapter S Corporation. While this method normally results in no change to the Net Income per Books reported by the taxpayer there are occasions when the taxpayer makes other adjustments to retained earnings which would not affect net income per books. When this occurs the taxpayer should complete Schedule A-2, reconciling the retained earnings reported on federal Schedule L to the net income per books reported on federal Schedule M-1 and the distributions reported on federal Schedule K. In completing Schedule A-2, the taxpayer must provide a complete description of all increases and decreases recorded to retained earnings in the current year.

Line 1—Enter Beginning Retained Earnings from Column B, Line 24 of Schedule L on federal Form 1120S.

Line 2—Enter Net Income per Books as reported on Line 1 of Federal Schedule M-1.

Line 3—List all other increases to retained earnings. Taxpayers must provide a detailed description of these items. Attach an additional sheet if necessary.

Line 4—Total of Lines 1, 2 and 3.

Line 5—Distributions (other than dividends).

In most cases the amount of distributions (other than dividends) reported on federal Schedule K equals the amount of distributions debited against the retained earnings during that year. In this case the taxpayer will enter the distributions from federal Schedule K on Line 5a and report the same amount on Line 5d.

When a taxpayer accrues distributions at the end of a tax year it may be necessary to adjust the distributions reported on federal Schedule K for the accrued distributions to arrive at the distributions debited against retained earnings during the current year. In this case the taxpayer would complete this section as follows:

Line 5a—Enter the distributions (other than dividends) reported on federal Schedule K.

Line 5b—Enter the accrued distributions or distributions payable reported on the beginning balance sheet on federal Schedule L.

Line 5c—Enter the accrued distributions or distributions payable reported on the ending balance sheet on federal Schedule L.

Calculate the distributions debited against retained earnings in the current year by subtracting Line 5b from Line 5a and adding Line 5c. This is entered on the far right line on Line 5c.

Line 6—Enter the amount of dividend distributions reported on federal Schedule K.

Line 7—List all other decreases to retained earnings. Taxpayers must provide a detailed description of these items and include an additional sheet if necessary.

Line 8—Total Lines 5, 6 and 7.

Line 9—Subtract Line 8 from Line 4. This must equal retained earnings from Column D, Line 24 of Schedule L on federal Form 1120S.

SCHEDULE A-3—ADJUSTMENTS TO NET INCOME PER BOOKS

To be used by taxpayers who are required to make adjustments to Net Income per Books reported on the federal income tax return to arrive

at Net Income per Books, calculated on a separate company basis, to be used in the calculation of the Capital Stock Value.

Line 1—Enter “Net Income per Books” as reported on the federal income tax report as submitted with the PA Corporate Tax Report (RCT-101).

Important: All corporate taxpayers filing federal Forms 1120, 1120S, and 1065 must complete Schedule M-1, regardless of federal requirements.

Additions

Line 2—Enter the amount of dividends reported in the calculation of federal taxable income but not included in the calculation of net income per books reported on Line 1.

Line 3—Enter losses from subsidiary corporations deducted in calculating net income per books reported on Line 1.

Line 4—Enter losses from Limited Liability Companies deducted in calculating net income per books reported on Line 1.

Line 5—Enter all distributions received from Limited Liability Companies not included in the calculation of net income per books reported on Line 1.

Line 6—All other additions required in the calculation of net income per books to be used in the determination of the Capital Stock Value. These adjustments must be itemized.

Line 7—Total of Lines 1 through 6.

Reductions

Line 8—Enter income from subsidiary corporations included in net income per books reported on Line 1.

Line 9—Enter income from Limited Liability Companies included in net income per books reported on Line 1.

Line 10—Enter the amount of distributions to materially participating members as defined in Section 469 of the Internal Revenue Code. This deduction may only be taken by Limited Liability Companies who file federal Form 1065. Taxpayers reporting this item as a reduction in net income per books must complete Part B of this schedule.

Line 11—All other reductions claimed in the calculation of net income per books to be used in the determination of the Capital Stock Value. These adjustments must be itemized.

Line 12—Total of Lines 8 through 11.

Line 13—Line 7 minus Line 12. This is the net income per books used in the calculation of the Capital Stock Value. Carry this amount to “Book Income” column on the “CUR YR” line on Page 2 of the RCT-101.

PART B

To be completed by Limited Liability Companies filing federal Form 1065 only.

Limited Liability Companies claiming a deduction for distributions to materially participating members, as defined in IRC Section 469, must provide the Name and Social Security Number, or EIN, of the member receiving the distribution along with the amount of the distribution made to each member and a description of how each member qualifies as materially participating under IRC Section 469. Failure to provide this information may result in the Department disallowing the deduction at settlement.

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 percent owned foreign corporations listed on Lines 13 and 14 of federal Schedule C times 70 percent.
- Line (4) Enter dividends from 20 percent or more owned foreign corporations listed on Lines 13 and 14 of federal Schedule C times 80 percent.
- Line (5) Enter dividends listed on Lines 13 and 14 of federal Schedule C from foreign corporations that meet the 80 percent voting and value test of IRC Section 1 504(a)(2) and otherwise would qualify for 100 percent 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 percent of the stock. In addition, taxpayers who own more than 50 percent 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 or SSN and PA Account ID Number, if applicable, of any corporation, individual or other business entity 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.

IMPORTANT: This Schedule must be updated each year and submit-

ted with RCT-101 (i.e., Schedule C-3 for 2006 will reflect the adjustments made for 2001, 2002, 2003, 2004, and 2005 along with the adjustments made for 2006). Enter information for prior years from Schedule C-3 as filed for 2005.

Column A-End of Tax Year

Enter the ending date of each tax year in which the taxpayer adjusted taxable income for federal bonus depreciation.

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.

PA SCHEDULES L, M-1 AND M-2

Beginning in 1998, the Bureau of Corporation Taxes has required Single Member LLC's or Business Trusts, whose member is an individual reporting the activity of the LLC and Business Trust on Schedule C of a personal income tax return, to provide balance sheets for the beginning and end of the tax period, a reconciliation of beginning and ending member's equity account, and the name and social security number of the member reporting the income on their personal income tax return. Beginning in 2006, these Single Member LLC's and Business Trusts will be required to provide a copy of Schedule C or Schedule E of federal Form 1040 along with PA Schedules L, M-1, or Business Trust and M-2 (REV-860) and Schedule X (REV-798).

NOTE: Since Schedule M-1 is a reconciliation of Net Income per Books to taxable income reported on Schedule C or Schedule E of federal Form 1040, other income or expenses related to the Limited Liability Company or Business Trust reported on other schedules should be reported as income or expenses reported on the books and not reported on Schedule C or Schedule E (Line 3 and Line 5).

IMPORTANT: Single Member LLC's and Business Trusts, whose member is a Business Entity, are still required to attach a pro-forma federal tax return to RCT-101.

SCHEDULE C-5—SCHEDULE OF TAXES REV-860

Section 401(3) of the Tax Reform Code of 1971 requires taxpayers to "add-back" taxes imposed on or measured by net income, expensed on the Federal Income Tax Return, in calculating PA Corporate Taxable Income. Schedule C-5 includes the most common taxes expensed by corporate taxpayers on the federal income tax return. This schedule MUST be completed and submitted by all corporate taxpayers who are subject to the Corporate Net Income Tax and the total must equal the total tax expense reported on the federal income tax return.

Please refer to Corporation Tax Bulletin 97 for a list of Taxes Imposed on or Measured by Net Income. Corporation Tax Bulletins are available under Corporation Taxes in the Business Taxpayer area at www.revenue.state.pa.us

IMPORTANT: Not all corporations will have expensed every tax listed on this schedule.

SCHEDULE OA-OTHER ADDITIONS SCHEDULE OD-OTHER DEDUCTIONS REV-860

All taxpayers reporting Other Additions on RCT-101, Section C, Line 3E, and Other Deductions on RCT-101, Section C, Line 2D, are required to include a completed Schedule OA and/or Schedule OD with the RCT-101.

SCHEDULE DA—DISPOSITION OF ASSETS SCHEDULE-REV-861

This schedule replaces Page 2 of the Out of Existence/Withdrawal Affidavit and must be completed and submitted by all corporate taxpayers who have indicated they desire to be removed from the active records of the Bureau of Corporation Taxes.

The Description of Assets column should give a brief description of the assets sold, assigned or distributed in the final year of the corporate taxpayer's existence. Similar assets may be included on one line with a general description (i.e. automobiles) rather than listing each individual asset separately.

The Cost of Assets As Reported on Balance Sheets column should report the cost of the assets, prior to depreciation, as would have been reported on the balance sheet immediately prior to the sale or distribution of the assets.

If the gain on the disposition of an asset is not reported on Schedule D or Federal Form 4797 then the taxpayer must provide an explanation of the reasons why the gain is not reported in the calculation of

federal taxable income.

INSTALLMENT SALES - If the liquidating distribution includes a note receivable due to an installment sale, the corporate taxpayer must insure that the entire gain from the installment sale has been included in net income per books. If the entire gain has not been recognized in net income per books prior to the year of the distribution, the corporation is required to recognize the remaining gain in the year of distribution.

SCHEDULE OF NON-BUSINESS INCOME REV-934

Taxpayers reporting non-business income must include REV-934 when filing RCT-101. (This schedule was previously part of RCT-106.)

SCHEDULE TO SUPPORT CLAIM OF EXEMPTION FROM CORPORATE NET INCOME TAX UNDER P.L. 86-272.

Taxpayers that check on the box on Page 3 of the RCT-101, indicating their activity in Pennsylvania is limited to activity protected under P.L. 86-272, and therefore exempt from PA Corporate Net Income Tax, must complete this section on REV-934 each year. Taxpayers answering yes to any of these questions are subject to Corporate Net Income Tax. Failure to answer all questions in this section could result the imposition of Corporate Net Income Tax for this period.

DECLARATION OF DE MINIMIS PA ACTIVITY- RCT-101D

Non-Pennsylvania corporations whose Pennsylvania activity during a tax year is considered de minimis, as outlined in Tax Bulletin 2004-01, are no longer required to file a complete PA Corporate Tax Report, RCT-101, for that period. Instead these corporations may file the RCT-101D, affirming that PA activity during that period is de minimis. In filing RCT-101D a corporation is reminded of the following:

1. RCT-101D is not a tax report and is not settled by the Department of Revenue. For this reason the statute of limitations regarding the settlement and resettlement of the RCT-101 do not apply to RCT-101D.
2. For a taxpayer to utilize any tax benefits which would have been generated in a year the taxpayer filed RCT-101D, in a year where the taxpayer is required to file a complete RCT-101, the taxpayer will be required to file a complete RCT-101 for each year, beginning with the year in which the benefit is generated through the year in which the benefit is to be used.

In cases where the taxpayer files RCT-101D and later files RCT-101, the taxpayer will be liable for all taxes due for these periods. Applicable interest will also be imposed from the original due date of the report to the date the taxes are paid. The imposition of late filing penalties will be based on the filing date of the RCT-101D.

Example 1

Company A files RCT-101D for Dec. 31, 2004 on Mar. 14, 2005. On Apr. 15, 2006 the taxpayer files RCT-101 for Dec. 31, 2004 in order to utilize a Net Operating Loss from this period in the calculation of the Dec. 31, 2005 Corporate Net Income Tax. The RCT-101 for Dec. 31, 2004 reports \$200 of Franchise Tax, which is paid with the report. In this case the taxpayer would be assessed interest on \$200 from Apr. 15, 2005 to Apr. 15, 2006. Since the taxpayer did file RCT-101D for 2004 prior to the due date of the RCT-101 for 2004, late filing penalty will not be imposed.

Example 2

Same facts as Example 1 except Company A did not file RCT-101D until December 15, 2005. In this case, since RCT-101D was not filed prior to the due date of the RCT-101 for 2004, Company A would be assessed both interest and late filing penalty.

Tax Bulletin 2004-1 is available on the PA Department of Revenue Web site at www.revenue.state.pa.us.

HOW IT WORKS

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

Example 1

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	$100,000 \times .50 =$	50,000
MACRS Depreciation	$(100,000 - 50,000) \times .1429 =$	<u>7,145</u>
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	<u>50,000</u>
MACRS Depreciation	7,145
	<u>x 3/7</u>
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	$\$50,000 \times .2449 = 12,245 \times 3/7 =$	5,248
2005	$\$50,000 \times .1749 = 8,745 \times 3/7 =$	3,748
2006	$\$50,000 \times .1249 = 6,245 \times 3/7 =$	2,676
2007	$\$50,000 \times .0893 = 4,465 \times 3/7 =$	1,914
2008	$\$50,000 \times .0892 = 4,460 \times 3/7 =$	1,911
2009	$\$50,000 \times .0893 = 4,465 \times 3/7 =$	1,914
2010	$\$50,000 \times .0446 = 2,230 \times 3/7 =$	<u>956</u>
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).

Example 2-Bonus Depreciation

On Oct. 1, 2001, ABC Corporation purchased a machine with a basis of \$100,000, furniture for \$20,000 and a "luxury" automobile for 30,000 (100% use in business). ABC Corporation elects to take the 30 percent Bonus Depreciation. The corporation then depreciates the remaining cost of the machine and the furniture over seven years using MACRS, Half Year Convention, and the automobile for five years using MACRS, Half Year Convention. Depreciation in 2001 would be as follows:

Bonus Depreciation-Machine (100,000 x .30)	\$30,000	
Furniture (20,000 X .30)	6,000	
Bonus Depreciation-Auto (30,000 x .30)	<u>7,660</u> *	
Total Bonus Depreciation		\$43,660
Section 167 Depr-Machine (70,000 x .1429)	\$10,003	
Section 167 Depr-Furniture (14,000 X .1429)	2,000	
Section 167 Depr-Auto	<u>0</u> *	
Total 167 Depreciation		<u>12,003</u>
Total Depreciation on Section 168(k) Property		\$55,663

ABC Corporation also expensed \$130,000 of Depreciation on assets purchased prior to September 10, 2001.

*Since 30 percent of the cost of the automobile exceeded the Luxury Automobile Limit of \$7,660 for 2001, the entire limit is classified as Bonus Depreciation and the taxpayer is not entitled to Section 167 Depreciation on this asset for 2001.

On Aug. 1, 2002, ABC purchased another piece of equipment for \$120,000. The corporation expensed 30 percent of the cost of this piece of equipment under Section 168(k) and depreciated the remaining cost over seven years using MACRS, Half Year Convention. Depreciation on Section 168(k) Property for 2002 would be as follows:

Bonus Depreciation-Machine purchased in 2002	\$36,000	
Section 167 Depr-2002 Machine (84,000 x .1429)	\$12,004	
Section 167 Depr-2001 Furniture (14,000 X .2429)	3,429	
Section 167 Depr-2001 Machine (70,000 x .2449)	17,143	
Section 167 Depr-2001 Automobile (22,340 x .32)	<u>4,900</u> *	
Total 167 Depreciation		<u>37,476</u>
Total Depreciation on Section 168(k) Property		\$73,476

ABC also expensed \$100,000 of Depreciation on assets purchased prior to September 10, 2001. *Second year limit on luxury automobiles purchased in 2001.

In 2003, ABC Corporation did not purchase any depreciable assets. Depreciation on Sec 168(k) property for 2003 would be as follows:

Section 167 Depr-2002 Machine (84,000 x .2449)	\$20,572
Section 167 Depr-2001 Machine (70,000 x .1749)	12,243
Section 167 Depr-2001 Furniture (14,000 X .1749)	2,449
Section 167 Depr-2001 Automobile (22,340 x .1920)	<u>2,950</u> *
Total Depreciation on Section 168(k) Property	\$38,214

ABC also expensed \$80,000 of Depreciation on assets purchased prior to September 10, 2001.

*Third year limit on luxury automobiles purchased in 2001.

In 2004, ABC Corporation sold the automobile purchased in 2001 and the machine purchased in 2002. In addition, ABC purchased a machine with a cost of 160,000 and office equipment with a cost of \$25,000. The corporation expensed 50 percent of the cost of the machine as Bonus Depreciation and depreciated the remainder of the cost over 7 years using MACRS, half year convention. The corporation also expense 50 percent of the cost of the office equipment and depreciated the remainder over 5 years using MACRS half-year convention. Depreciation for 2004 would be as follows:

Bonus Depreciation-2004 Machine (160,000 x .50)	\$80,000
Bonus Depreciation-2004 Office Equip (25,000 x .50)	<u>12,500</u>
Total Bonus Depreciation	\$92,500
Section 167 Depr-2002 Machine (84,000 x .1749 x .50)*	\$7,345
Section 167 Depr-2001 Auto (22,340 x .1152 x .50)**	888
Section 167 Depr-2004 Office Equip (12,500 X .20)	2,500
Section 167 Depr-2004 Machine (80,000 x .1429)	11,432
Section 167 Depr-2001 Furniture (14,000 X .1249)	1,749
Section 167 Depr-2001 Machine (70,000 x .1249)	<u>8,743</u>
Total Section 167 Depreciation on Section 168(k) property	<u>32,657</u>
Total Depreciation on Section 168(k) property	\$125,157

ABC also expensed \$60,000 of depreciation on assets purchased prior to Sept. 10, 2001.

*Taxpayer is entitled to 1/2 year depreciation in year of sale.

**1/2 of fourth year limit on luxury automobiles purchased in 2001.

When calculating Corporate Net Income Tax for 2004 the taxpayer was also able to take a deduction for the disallowed Bonus Depreciation on the assets sold, which was not recovered over the life of the property.

During 2005, ABC Corporation did not participation in any transactions involving assets which qualified for the Special Depreciation Deduction under IRC Section 168(k). Depreciation on Section 168(k) property for ABC Corporation for 2005 would be as follows:

Section 167 Depr-2004 Office Equip (12,500 X .32)	\$4,000
Section 167 Depr-2004 Machine (80,000 x .2449)	19,592
Section 167 Depr-2001 Furniture (14,000 X .0893)	1,249
Section 167 Depr-2001 Machine (70,000 x .0893)	<u>6,251</u>
Total Section 167 Depr on Section 168(k) Property	\$31,092

In addition, ABC Corporation expensed \$30,000 of depreciation on assets on which they were not able to claim the special depreciation deduction under IRC Sec 168(k).

In 2006, ABC Corporation disposed of the machine purchased in 2001. Depreciation on Section 168(k) property for 2006 would be as follows:

Section 167 Depr-2004 Office Equip (12,500 X .1920)	\$ 2,400
Section 167 Depr-2004 Machine (80,000 x .1749)	13,992
Section 167 Depr-2001 Furniture (14,000 X .0892)	1,249
Section 167 Depr-2001 Machine (70,000 x .0892 x .50)*	<u>3,122</u>
Total Section 167 Depr on Section 168(k) Property	\$20,763

*Taxpayer is entitled to 1/2 year depreciation in year of sale.

In addition, ABC Corporation expensed \$60,000 of depreciation on assets on which they were not able to claim the special depreciation deduction under IRC Sec 168(k).

Additional information required to complete Schedule C-4.

Federal Depreciation on machine purchased in 2001 and sold in 2006.

Year	
2001 Bonus Depreciation	\$30,000
2001 Section 167 Depreciation	10,003
2002 Section 167 Depreciation	17,143
2003 Section 167 Depreciation	12,243
2004 Section 167 Depreciation	8,743
2005 Section 167 Depreciation	6,251
2006 Section 167 Depreciation	<u>3,122</u>
Total	\$87,505

Based on the information above, the example on the following page shows how Schedule C-3 and Schedule C-4 will appear for 2006.

STATUTORY BASIS AND EXPLANATION OF TAXES

CAPITAL STOCK TAX (DOMESTIC CORPORATIONS)

CAPITAL STOCK TAX - BASIS

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

Effective Jan. 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 filing as a partnership with the IRS. Effective January 1, 2006, this exclusion was expanded to include all restricted professional companies not classified as corporations for federal income tax purposes. The term corporation as it applies to domestic and foreign entities has been amended to include all business trusts, excluding REITs and RICs.

The REIT exclusion does not apply and a real estate investment trust or qualified real estate investment trust subsidiary is subject to Capital Stock/Franchise Tax if more than 50 percent of the voting power, shares or value of the trust is owned or controlled by a single corporation that is not one of the following: (1) a real estate investment trust as defined in Section 856 of the Internal Revenue Code of 1986; (2) a qualified real estate investment trust subsidiary under Section 856(i) of the Internal Revenue Code of 1986; (3) a regulated financial institution as defined by Section 401(6) of Article IV of the Tax Reform Code of 1971; or (4) formed as a holding company, subsidiary or affiliate of a regulated financial institution prior to Dec. 1, 2003.

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. Also excluded for the definition of corporations subject to the Capital Stock Tax are the following:

1. Entities which are exempt organizations as defined by Section 501 of the Internal Revenue Code of 1986.
2. An entity organized as a not-for-profit organization under the laws of this Commonwealth or the laws of any other state which:
 - a. would qualify as an exempt organization as defined by Section 501 of the Internal Revenue Code of 1986.
 - b. would qualify as a homeowners association as defined by Section 528(c) of the Internal Revenue Code of 1986.
 - c. is a membership organization subject to the Federal limitations on deductions from taxable income under Section 277 of the Internal Revenue Code of 1986 but only if no pecuniary gain or profit inures to any member or related entity from the membership organization.
 - d. is a nonstock commodity or a nonstock stock exchange.
3. Family Farm Corporations
4. A cooperative agricultural association subject to 15 Pa.C.S. Ch. 75.
5. Entities subject to the following taxes
 - a. Bank and Trust Companies Shares Tax (Article VII of the Tax Reform Code)
 - b. Insurance Companies subject to the Gross Premiums Tax (Article IX of the Tax Reform Code of 1971)
 - c. Mutual Thrift Tax (Article XV of the Tax Reform Code)
 - d. Title Insurance Company Shares Tax (Article VIII of the Tax Reform Code)

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.

IMPORTANT: 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 Secu-

rities 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 14.

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 percent 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 percent 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 Jan. 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 percent 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 corpo-

ration owned by family members bears to all of the stock in such other corporation, providing that family members own 50 percent or more of the stock of such other corporation. Where more than one class of stock is issued, the 75 percent 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

The definition of a foreign entity for Foreign Franchise Tax includes the same types of entities subject to the Capital Stock Tax. While the Capital Stock Tax is imposed on entities organized under the laws of the Commonwealth of Pennsylvania, the Foreign Franchise Tax is imposed on entities organized under the laws of other jurisdictions and doing business in and liable to taxation within the Commonwealth or carrying on activities in the Commonwealth. Doing business in the Commonwealth includes 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. 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.

ADDITIONAL SCHEDULES FOR APPORTIONMENT/ EXEMPTIONS

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

APPORTIONMENT OF FOREIGN FRANCHISE TAX

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

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

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

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

THREE-FACTOR APPORTIONMENT

Page 2 of the Insert Sheet (RCT-106) is used to compute the three-factor apportionment. All amounts, not in agreement with information on federal Form 1120, 1120S, or 1065 must be reconciled.

Since most Limited Liability Companies and Business Trusts are subject to the Capital Stock or Foreign Franchise Tax the property, payroll, and sales of the investee LLC or Business Trust would not be included in the three-factor apportionment of the investor corporation in calculating the Capital Stock or Foreign Franchise Tax, regardless of the federal filing status of investee LLC or Business Trust. A corporate taxpayer with an investment in a LLC or Business Trust that files a federal partnership return, or is disregarded for federal income tax purposes, would include the activity of the investee LLC or Business Trust in the three-factor apportionment used in the calculation of the Corporate Net Income Tax.

Since a corporate taxpayer's investment in a Limited Liability Company or Business Trust can be treated differently for Capital Stock/Foreign Franchise Tax and Corporate Net Income Tax it is possible for a taxpayer to be required to complete two RCT-106's. When completing RCT-106 a corporate taxpayer must indicate which tax the apportionment schedule applies to; Capital Stock/Foreign Franchise Only, Corporate Net Income Tax Only, or both Capital Stock/Foreign Franchise and Corporate Net Income Taxes.

Property Factor

The numerator of the fraction is the average value of the taxpayer's real and tangible personal property owned and used or rented and used in Pennsylvania during the taxable period. The denominator of the fraction is the average value of all the taxpayer's real and tangible personal property owned and used or rented and used during the taxable period.

Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from sub-rentals. The average value of property is determined by averaging the values at the beginning and ending of the taxable period, but the Pennsylvania Department of Revenue may require the averaging of monthly or daily values during the taxable period if reasonably required to properly reflect the average value of the taxpayer's property.

A corporation's ownership interest in a partnership or other unincorporated entity (hereinafter referred to as a partnership) shall be included in the apportionment fraction as a direct interest of the corporation in the assets of the partnership. A portion of the partnership's real and personal property, both owned and used or rented and used during the taxable period, to the extent of the taxpayer's interest in the partnership, shall be included in the numerator and denominator of the taxpayer's property factor. The owned and used property should be reflected on the Partner's Share of Property Owned by Partnerships 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 or PA Schedule H-Corp issued by the partnership 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.

The value of Construction In Progress included in any amounts reported on Table 1-Property Factor must be entered on the "Less Construction In Progress (if included above)" line.

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 Partner's Share of Payroll from Partnerships 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 Partner's Share of Sales from Partnerships 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.

Investments in unincorporated entities

A corporate taxpayer's investment in an unincorporated entity is considered a direct ownership in the corporation's share of the assets of the unincorporated entity rather than an intangible interest (61 Pa. Code § 153.29 and 72 P.S. § 7402(2)). When determining the property, payroll and sales factors, the numerator, and the denominator, of each factor must include the property, payroll and sales of the corporate taxpayer plus the corporate taxpayer's share of the property, payroll and sales of the unincorporated entity. In situations where the corporate taxpayer has an investment in a business entity which is subject to the Capital Stock or Foreign Tax, but not subject to the Corporate Net Income Tax (i.e. a Limited Liability Company that files Federal Form 1065 with the IRS), the apportionment factors used in the calculation of the Corporate Net Income Tax will include the property, payroll and sales of the LLC while the activity of the LLC will not be included in the apportionment factor used for the calculation of the Capital Stock or Foreign Franchise Tax.

P.L. 86-272

Taxpayers reporting property owned and/or rented in Pennsylvania and also claiming exemption from Corporate Net Income Tax under P.L. 86-272 must provide a description of this property.

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.

IMPORTANT: 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 Jan. 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 percent plus

75 percent of net worth from which product shall be subtracted \$125,000, the algebraic equivalent of which is:

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									
		1-1-06		12-31-06					
Capital Stock		0		\$ 50,000					
Retained Earnings		0		150,000					
		0	+	\$200,000	=	\$200,000	÷	2	= \$100,000 Average Net Worth
GOING CONCERN #1									
		1-1-06		12-31-06					
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									
		1-1-06		12-31-06					
Capital Stock		\$50,000		\$ 50,000					
Retained Earnings		(150,000)		450,000					
		(\$100,000)	+	\$500,000	=	\$500,000	÷	2	= \$250,000 Average Net Worth
		0	+	\$500,000	=	\$500,000	÷	2	= \$250,000 Average Net Worth
FINAL REPORT									
		1-1-06		12-31-06					
Capital Stock		\$ 50,000		0					
Retained Earnings		150,000		0					
		\$200,000	+	0	=	\$200,000	÷	2	= \$100,000 Average Net Worth

EXAMPLE:				
(1)	<u>Total of Monthly Net Asset Values</u> \$633,000,000	÷	<u>No. of Months</u> 12	= <u>Net Asset Value</u> = \$52,750,000
*Rounded to the nearest whole number.				
(2)	<u>Undistributed Personal Income Tax Income</u> \$500,000	X	<u>Income Distributed to Pennsylvania Individuals Estates or Trusts ÷ by Total Income Distributed During Period</u> \$1,000,000 \$50,000,000	= <u>Apportioned Undistributed Personal Income Tax Income</u> \$10,000
(3)	<u>(A)</u> \$3,975	+	<u>(B)</u> \$307	= <u>Total Tax</u> \$4,282

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

EXAMPLE: Corporation with \$190,000 average book income and \$3,000,000 net worth.	
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 12 for Average Book Income and Net Worth regarding details for Limited Liability Companies.

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 above.)
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 above.)

“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 percent 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 percent 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 percent 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 (1) on Line 4A, (10) on Line 4B and the elected taxable proportion of .100000 on Line 4C and Line (5) of Schedule A-1 on Page 2 of RCT-101. Check "Holding Company" block in Section A.

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.

These are as follows:

1. Entities which are exempt organizations as defined by section 501 of the Internal Revenue Code of 1986.
2. An entity organized as a not-for-profit organization under the laws of this Commonwealth or the laws of any other state which:
 - a. would qualify as an exempt organization as defined by section 501 of the Internal Revenue Code of 1986.
 - b. would qualify as a homeowners association as defined by section 528(c) of the Internal Revenue Code of 1986.
 - c. is a membership organization subject to the Federal limitations on deductions from taxable income under section 277 of the Internal Revenue Code of 1986 but only if no pecuniary gain or profit inures to any member or related entity from the membership organization.
 - d. is a nonstock commodity or a nonstock stock exchange.
3. Entities subject to the following taxes
 - a. Bank and Trust Companies Shares Tax (Article VII of the Tax Reform Code)
 - b. Insurance Companies subject to the Gross Premiums Tax (Article IX of the Tax Reform Code of 1971)
 - c. Mutual Thrift Tax (Article XV of the Tax Reform Code)
 - d. Title Insurance Company Shares Tax (Article VIII of the Tax Reform Code)
4. A business trust which qualifies as a regulated investment company under section 851 of the Internal Revenue Code of 1986 and which is registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940 or a related business trust which confines its activities in this Commonwealth to the maintenance, administration and management of intangible investments and activities of regulated investment companies.
5. A business trust which is either a real estate investment trust or a qualified real estate investment trust subsidiary, as defined in section 856 of the Internal Revenue Code of 1986.

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, busi-

ness 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 Jan. 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.

IMPORTANT: 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 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 Jan. 1, 1999, a Triple Weighted Sales Factor MUST be used to apportion a taxpayer's Pennsylvania taxable income or losses. On form RCT-106, Page 2, Table 3, Line D is the computation of the Triple Weighted Sales Factor which is then carried over to form RCT-101, Schedule C-1.

NET OPERATING LOSSES

Effective for tax periods beginning on or after Jan. 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 million effective for tax years beginning Jan. 1, 1999 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 percent Premiums Tax for life insurance (the rate is applied against the premium), and 3 percent premiums tax for all other types.

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
PO BOX 280704
Harrisburg, PA 17128-0704

ATTENTION PENNSYLVANIA BUSINESSES: YOU MAY OWE USE TAX

If you or your business buys items that are subject to Sales Tax, for which the seller does not charge and collect the tax on the invoice (or receipt), you are personally responsible for remitting the tax directly to the PA Department of Revenue. This tax is called USE TAX.

Purchases made over the Internet, through toll-free numbers (800, 888, and 877), from mail order catalogs, or from an out-of-state location are examples of purchases that would be subject to USE TAX if Sales Tax was not paid. The tax rate is the same as the Sales Tax, 6 percent state, and 1 percent local tax, if the purchaser is located in Philadelphia or Allegheny County.

Businesses currently registered for Sales Tax should report and remit Use Tax liabilities when filing Sales and Use Tax returns. Use Tax liabilities can be reported on a **PA-1 Use Tax Return**. The Use Tax is due on, or before, the 20th day of the month after the month in which the purchase was made.

It is also important to note that the Department can identify businesses that report minimal Use Tax. Underreporting of Use Tax can trigger an audit by the Department.

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 Jan. 1, 1999. For tax years that begin on or after Jan. 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, even if 100 percent of PA activity is conducted in the zone.

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 RCT-101 KOZ and a copy of the approval letter issued by the Department of Community and Economic Development. 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 percent 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 percent 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 percent 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.

The Department of Revenue administers the application of the credit following approval by the PA Department of Community and Economic Development.

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 percent of the first \$9,000 of qualified first year wages for the first year of employment, 20 percent of the first \$9,000 of qualified wages for the second year of employment, and 10 percent 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 percent 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 percent 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 information on certification of employees, call the Department of Labor and Industry Tax Credit Hotline at 1-800-345-2555. For information on the calculation of the EIP credit call (717) 787-1064.

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 fea-

sible 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 percent, 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 percent 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.

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 Sept. 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, P.O. Box 280703, Harrisburg, PA 17128-0703, or telephone (717) 783-6031.

Effective for awards made Dec. 15, 2003 and thereafter, the taxpayer can apply to the PA Department of Community and Economic Development (DCED) to sell or assign a PA R&D credit if there has been no claim of allowance filed within one year from the date that the Department of Revenue approved the credit. Contact DCED at 400 North St., 4th Fl., Keystone Bldg., Harrisburg, PA 17120-0225; telephone (717) 787-7120 or 1-800-379-7448; Web site www.newpa.com.

ORGAN AND BONE MARROW DONOR ACT

Act 65 of 2006 establishes a tax credit for employers who incur certain employee expenses in relation to organ donation or donations of bone marrow. Taxpayers applying for this credit must file the Application for Organ and Bone Marrow Donor Credit, on or before the 15th day of the fourth month following the close of the taxpayer's year. For more information please call 717-783-1064 or check our web site at www.revenue.state.pa.us.

KEYSTONE INNOVATIVE ZONES

Keystone Innovation Zones (KIZs) are designated zones that may be established in communities that host institutions of higher education – colleges, universities, and associate degree technical schools. These zones are designed to foster innovation and create entrepreneurial opportunities. They do this by gathering and aligning the combined resources of educational institutions, private businesses, business support organizations, commercial lending institutions, venture capital networks (including angel investors), and foundations (KIZ partners). As part of the program, \$25 million per year in tax credits will be available for KIZ companies. These are companies less than 8 years old that are in an industry segment that is a priority of the zone partnership and located within the boundaries of the Zone. These credits will first become available during 2006. Additional information on this program is available on the Department of Community and Economic Development Web site at www.newpa.com.