

CORPORATION TAX BULLETIN 124

APPLICATION OF ACT 51 2003 CALCULATION OF SALES FACTOR IN COMPUTING KOZ CREDIT

As a result of the Gilmour Manufacturing decision concerning “dock sales”, Section 515(D)(3)(I) of the KOZ Law has been amended to read as follows:

"Sales of tangible personal property are in the subzone, improvement subzone or expansion subzone if the property is delivered or shipped to a purchaser that takes possession within the subzone, improvement subzone or expansion subzone regardless of the F.O.B. point or other conditions of the sale."

The effects of this change on the calculation of the sales factor used for the KOZ credit are as follows:

- Sales of tangible personal property are KOZ sales:
 1. If the taxpayer ships goods to a location in a KOZ subzone, improvement subzone or expansion subzone.
 2. If the purchaser picks up the property in the KOZ subzone, improvement subzone or expansion subzone, regardless of the destination. This includes destinations outside of PA.
 3. If the purchaser arranges for a common carrier to pick up the property in the KOZ subzone, improvement subzone or expansion subzone, regardless of the destination. This includes destinations outside of PA.
- In the case of a multi-state corporation, the denominator of the sales factor to determine the KOZ credit will consist of all non-KOZ sales sourced to Pennsylvania in the calculation of the three-factor apportionment, plus KOZ sales, as defined under Section 515(D)(3)(I) of the KOZ Law. Since certain sales can be PA sales in the calculation of the KOZ credit and non PA sales in the calculation of the three factor apportionment, the numerator of the sales factor used for three factor apportionment will not necessarily equal the denominator of the sales factor used in the calculation of the KOZ credit as it has in the past.

This change is in effect for sales transactions that take place after December 22, 2003.

Example

Bob’s Distribution Center, Inc., is a wholesale distributor of auto parts. Bob’s Distribution Center has one location, which is located in a Keystone Opportunity Expansion Subzone. The taxpayer delivers parts to retailers, and customers also pick up parts at the taxpayer’s location. For the tax year of January 1, 2003, through December 31, 2003, the calculated corporation tax liabilities of Bob’s Distribution Center, Inc, are as follows:

Capital Stock Tax	\$5,000
Corporate Net Income Tax	\$3,000

Note: In this example all property is located in the KOZ and all payroll is attributable to the KOZ.

A breakdown of sales for this year is as follows:

1-1-03 to 12-22-03 (Pre Act 51)	12-23-03 to 12-31-03 (Act 51)
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Sales picked up by customer		
Destination to a KOZ	\$5,000 (A)	\$1,000 (G)
Destination to PA but not to a KOZ	\$45,000 (B)	\$2,000 (H)
Destination to another state	\$50,000 (C)	\$2,000 (I)
Sales Delivered by Taxpayer		
Destination to a KOZ	\$2,000 (D)	\$1,000 (J)
Destination to PA but not to a KOZ	\$5,000 (E)	\$2,000 (K)
Destination to another state	\$3,000 (F)	\$2,000 (L)

In calculating the KOZ Credit the Sales Factor for 1-1-2003 to 12-31-2003 would be as follows:

KOZ Sales

Pre Act 51 Sales (A + D)	\$7,000
Act 51 Sales (G+H+I+J)	<u>6,000</u>
Total KOZ Sales (Numerator)	\$13,000

PA Sales

Pre Act 51 Sales (A+B+D+E)	\$57,000
Act 51 Sales (G+H+I+J+K)	<u>8,000</u>
Total PA Sales (Denominator)	\$65,000

The KOZ/KOEZ Credit for Bob's Distribution Center, Inc will be as follows:

Property Factor	1.000000
Payroll Factor	1.000000
Sales Factor (13,000 / 65,000)	<u>0.200000</u>
	2.200000 / 3 = 0.733333

Capital Stock Tax	\$5,000	Corporate Net Income Tax	\$3,000
X	<u>0.733333</u>	X	<u>0.733333</u>
Capital Stock Tax Credit	\$3,667	Corporate Net Income Tax Credit	\$2,200

In subsequent years the sales factor will be calculated in the same manner as illustrated for the period of December 23, 2003 to December 31, 2003 in this example.