

CORPORATION TAX BULLETIN 2010-01

Issued: August 25, 2010

Keystone Opportunity Zones/Keystone Opportunity Expansion Zones/Keystone Opportunity Improvement Zones

The Department of Revenue issues this Bulletin to clarify the expiration of tax benefits for Keystone Opportunity Zones (KOZ)/Keystone Opportunity Expansion Zones (KOEZ)/Keystone Opportunity Improvement Zones (KOIZ) and the calculation of the corporation tax credits in the year the benefits expire.

Beginning in 2010, tax benefits for Keystone Opportunity Zones/Keystone Opportunity Expansion Zones/Keystone Opportunity Improvement Zones will begin to expire. The effective date for the expiration of these tax benefits will be December 31st of the year in which they expire.

Tax Year End of December 31 st

A taxpayer with a tax year end of December 31st will be entitled to a credit for the entire year and there is no modification to the calculation of KOZ/KOEZ/KOIZ credit in the year the subzone or expansion subzone expires.

The **numerator of the property factor** will still be average property owned in the subzone or expansion subzone plus 8 times the rental expense in the subzone or expansion subzone for the entire year. The **denominator of the property factor** is the property located inside Pennsylvania for the year. The **numerator of the payroll factor** will be wages paid in the subzone or expansion subzone during the entire year with the **denominator** being the total wages paid in Pennsylvania for the year.

Tax Year Ending on a Date other than December 31 st

A taxpayer with a tax year ending on a date other than December 31st will be entitled to a credit based on its activity in the subzone or expansion subzone from the beginning of their tax year to December 31st.

In calculating the **property factor**, the **numerator** is the daily average of property located in the subzone or expansion subzone from the beginning of the tax year to December 31st plus 8 times the rental expense in the subzone or expansion subzone for the same period. The **denominator of the property factor** is the property located inside Pennsylvania for the entire year. The **numerator of the payroll factor** will be the wages paid in the subzone or expansion subzone from the beginning of the tax year to December 31 with the **denominator** being the total wages paid in Pennsylvania for the year.

Example

Corporation A is located in a Keystone Opportunity Zone which expires December 31, 2010. Corporation A has a tax year which begins October 1st and ends September 30th. Other information concerning Corporation A's year ending September 30, 2011 is as follows:

Property located in subzone on October 1 and December 31:	\$1,000,000
Monthly rent expense in subzone:	1,000
Average property owned in PA:	3,000,000
Total rent in PA:	100,000
Monthly payroll in subzone:	20,000
Total payroll in PA:	500,000
Capital Stock Tax:	100,000
Corporate Net Income Tax	250,000

Property Factor

In calculating the **numerator** of the property factor for the KOZ credit, the taxpayer will multiply the cost of the real and tangible personal property in the subzone by the number of days from the beginning of the tax year, October 1st, to December 31st (92 days), divided by 365. The taxpayer will add this to 8 times the rent expense in the subzone for October, November and December. This calculation is:

\$1,000,000 X 92/365 =	\$252,055
Plus 8 X Rent Expense in subzone for three months (\$1,000 X 3) X 8=	<u>24,000</u>
Property factor numerator	\$276,055

The **denominator** of the property factor is:

Average real and tangible personal property inside PA	\$3,000,000
Plus 8 X PA rent expense (\$100,000 X 8)	<u>800,000</u>
Property factor denominator	\$3,800,000

The **property factor** portion of the KOZ credit is:

$$\$276,055 / \$3,800,000 = 0.072646$$

Payroll Factor

In calculating the payroll factor the **numerator** is the wages paid in the subzone for October, November, and December (\$20,000 X 3). The **denominator** is the total payroll inside Pennsylvania for the entire year (\$500,000).

The **payroll factor** of the KOZ credit is:

$$\$60,000 / \$500,000 = 0.120000$$

Conditional Credit

To arrive at the conditional credit, Corporation A adds the property factor and the payroll factor and divides by 2. The result is then multiplied by the tax liability to arrive at the conditional credit.

Property factor	0.072646
Payroll factor	<u>0.120000</u>
	0.192646 / 2 = .096323

	Capital Stock Tax	Corporate Net Income Tax
Tax liability	\$100,000	\$250,000
	X .096323	X .096323
Conditional KOZ credit	\$ 9,632	\$ 24,081

Corporation A must mark the KOZ/EIP Credit box on Page 1 of the PA Corporate Tax Report (RCT-101) and enter the conditional credit in the Restricted Credit box for each tax. Corporation A must also include a copy of the KOZ approval letter issued by the Department of Community and Economic Development.