Tax Tip: Calculating Capital Stock/Foreign Franchise Tax

A taxpayer may claim an exemption for its share of the positive net worth of any corporation of which the taxpayer owns more than 50 percent of the stock when preparing the single factor proportion of taxable assets or the single factor manufacturing exemption for the purposes of the Capital Stock/Foreign Franchise Tax. An exemption may also be claimed for the daily average of exempt securities which are not held for the full tax period. A common error that occurs on submitted returns is the failure to adjust the average total assets for these claims. This is corrected by removing the book value from the total and replacing it with the exempt amounts. The following example illustrates how this can be accomplished.

Example

ABC, Inc. owns 100 percent of two other corporations XYZ, Inc. and HIJ, Inc. The beginning and ending balance sheets report $1,000 investment in each corporation. XYZ, Inc. has a beginning net worth of $15,000 and an ending net worth of ($3,000). HIJ, Inc. has a beginning net worth of $8,000 and an ending net worth of $12,000. ABC also owns a U.S. Treasury Bond with a book value of $100,000 which was held for the full year, a Philadelphia School District Bond with a beginning book value of $50,000 which was sold on July 1 of the current year and a Pittsburgh City Bond which was purchased on January 10 of the current year for $60,000 and held for the rest of the year. ABC also owns a piece of property located in New Jersey reported at $10,000 on the beginning and ending balance sheets. ABC has beginning assets of $560,000 with $630,000 in ending assets. ABC's tax year ends Dec. 31. Total assets (denominator) would be revised as follows:

CALCULATION

	BEGINNING	ENDNG	AVERAGE
Average Assets per Balance Sheets	$560,000	$630,000	$595,000
Less Book Value of:			
XYZ, Inc.	1,000	1,000	1,000
HIJ, Inc.	1,000	1,000	1,000
Philadelphia S.D. Bond	50,000	-0-	25,000
Pittsburgh City Bond	-0-	60,000	30,000
Plus Net Worth of:			
XYZ, Inc.	15,000	*-0-	7,500
HIJ, Inc	8,000	12,000	10,000
	$531,000	$580,000	$555,500
Plus Daily Average of:			
Philadelphia S.D. Bond	50,000 X 182/365 =		24,932
Pittsburgh City Bond	60,000 X 356/365 =		58,521
Revised Total Assets			$638,953

*Note: For the purpose of this calculation, the negative ending equity is considered to be (0), as noted in the case of XYZ, Inc.

For the purposes of calculating the single factor manufacturing exemption, the taxpayer would just calculate non-manufacturing assets as usual and divide by the revised Average Total Assets. For non-manufacturing corporations, the proportion of taxable assets will be calculated as:

Revised Average Total Assets	$638,953
Less Average Net Worth of:	
XYZ, Inc.	7,500
HIJ, Inc.	10,000
Less Daily Average of:	
Philadelphia School District Bond	24,932
Pittsburgh City Bond	58,521
Less Average Book Value of Treasury Bond	100,000
Less Average Book Value of New Jersey Property	10,000
Average Taxable Assets	$428,003

Proportion of Taxable Assets would be as follows:

$$\frac{\text{Average Taxable Assets}}{\text{Revised Average Total Assets}} = \frac{\$428{,}003}{\$638{,}953} = .669850$$