



# pennsylvania

DEPARTMENT OF REVENUE

BUREAU OF CORPORATION TAXES  
PO BOX 280705  
HARRISBURG PA 17128-0705  
www.revenue.state.pa.us

## CT-1 PA CORPORATION TAX BOOKLET 2009 FOR CALENDAR YEAR 2009 AND FISCAL YEARS BEGINNING IN 2009

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

### HIGHLIGHTS

- 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 5 for details.
- Act 67 of 2006 amended the Tax Reform Code of 1971 to exclude from the definition of "Corporations" subject to Capital Stock and Foreign Franchise Tax all Restricted Professional Companies that are not classified as corporations for federal income tax purposes.
- Act 48 of 2009 amended the Tax Reform Code of 1971 to increase the Net Operating Loss Limitation to the greater of \$3 million or 15 percent of PA taxable income prior to the Net Operating Loss Deduction. See Page 17 for details.
- Act 48 of 2009 amended the Tax Reform Code of 1971 to change the calculation of the Corporate Net Income Tax apportionment. The sales factor is now weighted at 83 percent. See Page 14 for details.
- Taxpayers claiming exemption from Corporate Net Income Tax under P.L. 86-272 (solicitation of sales) must complete the Schedule to Support Claim of Exemption from Corporate Net Income Tax Under P.L. 86-272 (REV-986). See Page 18 for details.
- Act 119 of 2006 eliminated the settlement process and replaced it with an assessment process.
- Pennsylvania corporate taxpayers may now file the PA Corporate Tax Report (RCT-101) electronically. A list of software vendors approved for electronic filing can be found by visiting the e-Services Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).
- NOTE: The Department has established new mailing addresses for Corporate Tax Reports (RCT-101, RCT-101I, RCT-101D, RCT-101X, RCT-128C) and payments.

If you are including payment, please use the following address:

**PA DEPT OF REVENUE  
PAYMENT ENCLOSED  
PO BOX 280427  
HARRISBURG PA 17128-0427**

If you are requesting a refund or transfer of credit, please use the following address:

**PA DEPT OF REVENUE  
REFUND REQUESTED  
PO BOX 280706  
HARRISBURG PA 17128-0706**

If you are neither including payment nor requesting a refund, please use the following address:

**PA DEPT OF REVENUE  
NO PAYMENT, NO REFUND  
PO BOX 280708  
HARRISBURG PA 17128-0708**

**IMPORTANT** - Use the Department's Web site to stay up-to-date on tax law changes, tax rates and special instructions regarding form changes.

Estimated payments and requests for extensions of time to file should be made online. Visit the e-Services Center at [www.revenue.state.pa.us](http://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 2010 estimated coupon booklet.

Tax rates for years beginning in	2009	2010
Capital Stock/Franchise Tax	2.89 mills	2.89 mills
Corporate Net Income	9.99 %	9.99 %

# TABLE OF CONTENTS

## GENERAL INSTRUCTIONS

	PAGE		PAGE
What must be included with the PA Corporate Tax Report	.1	Filing Period	.6
Assembly of the Corporate Tax Report RCT-101	.4	Extension of Time to File	.6
Federal S Corporations with No PA-S Election	.5	Penalties	.7
Copy of Federal Form 1120 or 1120S	.5	Interest	.7
Where to File/Pay	.5	Transfers/Refunds of Corporate Taxes	.7
EFT Payment Requirement	.5	Assignment of Tax Credit (Overpayment)	.7
Due Date of Report and Payment	.5	Department Notices	.7
Filing Requirements	.6	Amended Reports/Reports of Change	.8
Out of Existence/Withdrawal	.6	Questions on Filing Forms	.8
Reinstatement	.6	Confirmation of "Deposits on Account" for a Non-Filed Year	.8
Recording Dollar Amounts	.6	REV-857-I Estimated Payment Coupon Packet	.8
Completing Tax Reports	.6		

## SPECIFIC INSTRUCTIONS

	PAGE		PAGE
<b>LINE BY LINE INSTRUCTIONS FOR THE PA CORPORATE TAX REPORT RCT-101</b>		<b>SECTION C: CORPORATE NET INCOME TAX</b>	.12
<b><u>RCT-101-PAGE 1</u></b>		Business Trust	.12
STEP A Tax Period	.9	Solicitation Only	.12
STEP B Check Special Filing Status	.9	LLC	.12
STEP C Name, Address, Business Activity Code & Taxpayer ID	.9	PA-S	.12
STEP D Tax Summary	.9	Taxable Built-in Gains	.12
STEP E Tax Payment Application	.9	Deduction from and Additions to Income	.12
STEP F Overpayment	.9	Apportionment and Allocation	.13
		Net Operating Loss Deduction	.13
		Determination of Tax	.13
<b><u>RCT-101-PAGE 2</u></b>		<b><u>RCT-101-PAGE 4</u></b>	
<b><u>SECTION A: CAPITAL STOCK/FOREIGN FRANCHISE TAX</u></b>	.10	<b><u>SECTION D: LOANS TAX</u></b>	.13
Investment in LLC	.10	<b><u>SCHEDULE A-1: APPORTIONMENT SCHEDULE FOR CAPITAL STOCK/FOREIGN FRANCHISE TAX</u></b>	.14
Holding Company	.10	<b><u>SCHEDULE C-1: APPORTIONMENT SCHEDULE FOR CORPORATE NET INCOME TAX</u></b>	.14
Family Farm	.10	<b><u>RCT-101-PAGES 5 and 6</u></b>	
Average Book Income	.10	<b><u>SECTION E: CORPORATE STATUS CHANGES</u></b>	.14
Net Worth	.11	<b><u>SECTION F: GENERAL INFORMATION QUESTIONNAIRE</u></b>	.15
Capital Stock Value/Taxable Value/Tax Calculation	.11	Paid Preparer's Mailing Address	.15
<b><u>RCT-101-PAGE 3</u></b>			
<b><u>SECTION B</u></b>	.12		

## SUPPLEMENTAL SCHEDULES

	PAGE		PAGE
Schedule A-2	.16	Schedule DA, Schedule REV-861	.18
Schedule A-3	.16	Installment Sales	.18
Schedule C-2	.17	REV-934	.18
Schedule X	.17	REV-986	.18
PA Schedules L, M-1, and M-2	.17	RCT-101D	.18
RCT-103	.17	Schedule C-3	.19
Schedule C-5	.18	Schedule C-4	.19
Schedule OA, Schedule OD	.18		

## APPORTIONMENT, EXEMPTIONS AND ALLOCATION

	PAGE		PAGE
Apportionment of Taxable Income	.21	Apportionment of Capital Stock and Foreign Franchise	.22
Three-Factor Apportionment	.21	Apportionment & Investments in Unincorporated Entities	.22
Property Factor	.21	Claiming Exemptions to Capital Stock or Foreign Franchise	.22
Payroll Factor	.21	Exemptions to Capital Stock Tax	.22
Sales Factor	.21	Constitutional Exemptions	.22
Special Apportionment Fractions	.21	Statutory Exemptions	.23
Railroad, Truck, Bus or Airline Companies	.21	Holding Companies	.23
Pipeline or Natural Gas Companies	.22	Family Farm	.23
Water Transportation Companies Operating on High Seas	.22	Nonbusiness Income	.24
Water Transportation Companies Operating on Inland Waters	.22		

## MISCELLANEOUS

	PAGE		PAGE
Regulated Investment Companies	.25	Use Tax	.25
Unauthorized Insurance	.25	Restricted Credits	.25

**CONTACT NUMBERS**

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

**TAX CREDITS CONTACT NUMBERS**

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) 787-1064

**FORMS ORDERING SERVICE**

To obtain tax booklets, single copies of PA Corporation Tax forms or brochures, use one of these services:

**Internet:** [www.revenue.state.pa.us](http://www.revenue.state.pa.us)

**Toll Free Phone Services**

**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** (TTY only)

**Written Requests:**

PA DEPARTMENT OF REVENUE  
TAX FORMS SERVICE UNIT  
711 GIBSON BLVD.  
HARRISBURG PA 17104-3200

**Online Customer Service Center**

Find the answer to your question using the Department’s Online Customer Service Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

**Pennsylvania Tax Update**

Stay up-to-date on Department of Revenue news with the *PA Tax Update*, a free, bi-monthly e-newsletter. Visit [www.revenue.state.pa.us](http://www.revenue.state.pa.us) to 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,  
RCT-101X-AMENDED PA CORPORATE TAX REPORT,  
RCT-101D-DECLARATION OF DEMINIMIS ACTIVITY,  
RCT-128C-REPORTS OF CHANGE IN CORPORATE NET  
INCOME TAX**

If you are including payment, please use the following address:

PA DEPT OF REVENUE  
PAYMENT ENCLOSED  
PO BOX 280427  
HARRISBURG PA 17128-0427

If you are requesting a refund or transfer of credit, please use the following address:

PA DEPT OF REVENUE  
REFUND REQUESTED  
PO BOX 280706  
HARRISBURG PA 17128-0706

If you are neither including payment nor requesting a refund or transfer of credit, please use the following address:

PA DEPT OF REVENUE  
NO PAYMENT, NO REFUND  
PO BOX 280708  
HARRISBURG PA 17128-0708

### **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

### **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

## **NEW FOR 2009**

The sales factor has been eliminated in the calculation of the KOZ/KOEZ/KOIZ credit. Taxpayer's claiming the KOZ/KOEZ/KOIZ credit will calculate the credit based on property and payroll factors only. See RCT-101 KOZ for details.

The Capital Stock/Franchise Tax Rate will remain at 2.89 mills.

When calculating Corporate Net Income Tax the three factor apportionment is weighted as follows:

Property Factor 8.5 %

Payroll Factor 8.5 %

Sales Factor 83 %

The limitation on the use of net losses generated in prior years has been increased to the greater of \$3 million or 15 percent of the PA Taxable Income before the Net Operating Loss Deduction.

## **NEW FOR 2010**

The Capital Stock/Franchise Tax Rate will remain at 2.89 mills.

The Capital Stock Valuation Reduction will increase to \$160,000.

When calculating Corporate Net Income Tax the three factor apportionment will be weighted as follows:

Property Factor 5 %

Payroll Factor 5 %

Sales Factor 90 %

The limitation on the use of net losses generated in prior years will increase to the greater of \$3 million or 20 percent of the PA Taxable Income before the Net Operating Loss Deduction.



## WHAT MUST BE INCLUDED WITH 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 income to the IRS. The following chart lists the forms and schedules 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 17-20.

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 1120C, 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"> <li>1. Complete copy of federal Income Tax return, on separate company basis.</li> <li>2. Completed federal Schedules L, M-1 &amp; M-2 regardless of federal requirements.*</li> <li>3. Consolidated balance sheet (Corporation owns more than 50 percent of another corporation). See Page 10 of PA Tax Booklet.</li> <li>4. RCT-103 to support Net Operating Loss carry-forward, if applicable.</li> <li>5. Schedule C-5—Schedule of Taxes</li> <li>6. Schedule OA, Other Additions, and Schedule OD, Other Deductions, if applicable.</li> <li>7. RCT-106 to support apportionment factors, if applicable</li> <li>8. RCT-102 or RCT-105 to support the manufacturing exemption, if applicable.</li> <li>9. Schedule C-2 to support the dividend deduction, if applicable.</li> <li>10. Schedules C-3 and C-4 to support adjustments for bonus depreciation, if applicable.</li> <li>11. Schedule X, if applicable.</li> <li>12. Other supporting statements if necessary, with references to supporting statements on the applicable form.</li> <li>13. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable.</li> <li>14. Schedule A-3—Adjustment to Net Income per Books, if applicable.</li> <li>15. REV-934—Schedule of Non-Business Income, if applicable.</li> <li>16. REV-986—Schedule to Support Claim of Exemption From Corporate Net Income Tax Under P.L. 86-272, if applicable.</li> </ol>
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"> <li>1. Complete copy of federal Income Tax return, on separate company basis, with all supporting schedules.</li> <li>2. Completed federal Schedules L, M-1 &amp; M-2 regardless of federal requirements. *</li> <li>3. RCT-102 or RCT-105 to support the manufacturing exemption, if applicable.</li> <li>4. Schedule X, if applicable.</li> <li>5. Other supporting statements if necessary, with references to supporting statements on the applicable form.</li> <li>6. Must <b>separately</b> file the PA-20S/PA-65 with the Pass Through Business Office at the address noted in the instructions.</li> <li>7. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable.</li> <li>8. Schedule A-3—Adjustment to Net Income per Books, if applicable.</li> </ol>
Business Trust or Limited Liability Company	Federal Form 1065	<ol style="list-style-type: none"> <li>1. Complete copy of federal Form 1065 on a separate company basis with all supporting schedules..</li> <li>2. Completed federal Schedules L, M-1 &amp; M-2 regardless of federal requirements. *</li> <li>3. RCT-106 to support apportionment factors, if applicable</li> <li>4. RCT-102 or RCT-105 to support the manufacturing exemption, if applicable.</li> <li>5. Schedule X, if applicable.</li> <li>6. Other supporting statements if necessary, with references to supporting statements on the applicable form.</li> <li>7. Must <b>separately</b> file the PA-20S/PA-65 with the Pass Through Business Office at the address noted in the instructions.</li> <li>8. Schedule A-3—Adjustment to Net Income per Books, if applicable.</li> </ol>
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"> <li>1. PA Schedule L—Balance Sheets for the Beginning and End of the Tax Period.</li> <li>2. PA Schedule M-1, Reconciliation of Income (Loss) per Books to Income (Loss) per Return.</li> <li>3. PA Schedule M-2, Reconciliation of Member's Capital Account.</li> <li>4. Federal Schedule C, E or F of federal Form 1040.</li> <li>5. Schedule X.</li> <li>6. RCT-106 to Support apportionment factors, if applicable.</li> <li>7. RCT-102 or RCT-105 to support the manufacturing exemption, if applicable.</li> <li>8. Schedule A-3—Adjustments to Net Income per Books, if applicable.</li> <li>9. Other supporting statements if necessary, with references to supporting statements on the applicable form.</li> </ol>
*Taxpayers required to file federal Schedule M-3 may submit this schedule in lieu of federal Schedule M-1.		

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 Federal Return of another Business Entity	<ol style="list-style-type: none"> <li>1. Proforma federal Tax Return.*</li> <li>2. Completed federal Schedules L, M-1 &amp; M-2 regardless of federal requirements.</li> <li>3. RCT-106 to support apportionment factors, if applicable</li> <li>4. RCT-102 or RCT-105 to support the manufacturing exemption, if applicable.</li> <li>5. Schedule of Net Income per Books if different than Line 1 of federal Schedule M-1, if applicable.</li> <li>6. Schedule X, if applicable.</li> <li>7. Other supporting statements if necessary, with references to supporting statements on the applicable form.</li> <li>8. Schedule A-2—Reconciliation of Retained Earnings of a Federal Subchapter S Corporation, if applicable.</li> <li>9. Schedule A-3—Adjustment to Net Income per Books, if applicable.</li> </ol>
<p>*If the single member of the LLC or Business Trust is a corporation for federal Income Tax purposes, the LLC or Business Trust shall attach a pro forma separate company federal Form 1120 or 1120S. 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.</p>		

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 Exemption.	<ol style="list-style-type: none"> <li>1. A detailed description of activity from raw materials to finished product (i.e., company or product brochures in first year).</li> <li>2. schedule reporting the end-of-month balance of interest generating accounts (single factor manufacturing exemption only).</li> </ol>
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.
Claiming the Keystone Opportunity Zone/Keystone Opportunity Expansion Zone or Strategic Development Area Credit.	<ol style="list-style-type: none"> <li>1. A completed RCT-101 KOZ, showing the calculation of the credit.</li> <li>2. A copy of the Keystone Opportunity Zone approval letter issued by the Department of Community and Economic Development for the current year.</li> </ol>
Claiming an 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: <ol style="list-style-type: none"> <li>1. Real and tangible personal property located outside PA</li> <li>2. Stock of Corporations incorporated under the laws of PA</li> <li>3. Net worth of Corporation of which the taxpayer owns more 50 percent interest</li> <li>4. U.S. Government Securities</li> <li>5. PA Municipal Securities</li> <li>6. Investment in the stock of a National Bank Student Loan Assets</li> </ol>
RCT-106, Page 2	Support of Three-Factor Apportionment or Special 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	Is deducting a Net Operating Loss carry-forward in the calculation of Corporate Net Income Tax.
Schedule C-2 REV-798	Support of Dividend Deduction	Is claiming a Dividend Received Deduction in the calculation of Corporate Net Income Tax.
Schedule C-3 REV-799	Bonus Depreciation Adjustment	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	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	Is subject to corporate net income tax and reports taxes paid as an expense on the federal income tax return.
Schedule OA REV-860	Other Additions	Is reporting an "Other Addition" on RCT-101, Section C, Line 3E.
Schedule OD REV-860	Other Deductions	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	Is a Single Member Limited Liability Company. Income reported on personal income tax return of member.
Schedule X REV-798	Parent and Subsidiary Corporations	Has more than 50 percent of its stock owned by another corporation, individual or other business entity or owns more than 50 percent 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 federal Schedule M-1 or federal Schedule M-3, 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-986	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 2009 PA Corporate Tax Report in the following order. Failure to submit a properly completed and signed report may result in the imposition of late filing penalties and/or estimated assessments.**

1. RCT-101 PA Corporate Tax Report Pages 1 through 6 completed and assembled in order.
2. Pennsylvania schedules and forms, as required and in the following order:
  - RCT-103, Net Operating Loss Schedule.
  - Schedule C-2, PA Dividend Deduction Schedule (REV-798)
  - Schedule X, (REV-798),
  - Schedule C-3, Adjustment for Bonus Depreciation (REV-799)
  - Schedule C-4, Adjustment for Disposition of Section 168(k) Property & Recapture of Depreciation on Listed Property (REV-799)
  - Schedule A-2, (REV-961)
  - Schedule A-3, Adjustments to Net Income per Books (REV -961),
  - PA Schedule L, Balance Sheets for Single Member Limited Liability Companies when the Income is Reporting of the Personal Income Tax Return of the Member (REV-860)
  - PA Schedule M-1, Reconciliation of Income (Loss) per Books to Income (Loss) per Return (REV-860)
  - PA Schedule M-2, Reconciliation of Member's Capital Account (REV-860)
  - RCT-106, Insert Sheet
  - RCT-102, Single-Factor Manufacturing Exemption
  - RCT-105, Three-Factor Manufacturing Exemption
  - Schedule of Nonbusiness Income (REV-934)
  - Schedule to Support Claim of Exemption From CNI Tax (REV-986)
3. Pennsylvania Extension Approval Letter
4. Federal Form 7004
5. All other documentation to support the RCT-101 PA Corporate Tax Report
6. Complete federal tax return and supporting schedules, as required and in the following order:
  - Federal Form 1120
  - Federal Form 1120S
  - Federal Form 1120C
  - Federal Form 1120F
  - Federal Form 1065
  - Schedule C, E or F of federal Form 1040

# PENNSYLVANIA CORPORATE TAX REPORT INSTRUCTIONS FOR FORM RCT-101

## GENERAL INSTRUCTIONS

### FEDERAL 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.

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.

### INACTIVE CORPORATIONS

Inactive corporations must complete and file form RCT-101-I. Only skeleton corporations - those performing no business activity and owning no assets anywhere - may use the RCT-101-I. Corporations that have business activity outside Pennsylvania must complete and file the PA Corporate Tax Report, RCT-101. A copy of federal Form 1120 must be attached and apportionment fractions must be reported.

**IMPORTANT:** Prior period forms are not acceptable. Do not use a 2009 RCT-101 for any period other than 2009.

### COPY OF FEDERAL FORM 1120 OR 1120S

**IMPORTANT:** A copy of the U.S. Corporation Income Tax Return - Form 1120, 1120C, 1120S, 1065, 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.

LLCs 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, E or F 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. A corporation filing a consolidated return to the federal government must include the following:

1. Separate company income statement reflecting taxable income that 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.

**IMPORTANT:** Failure to submit a properly completed and signed report may result in the imposition of late filing penalties and/or estimated assessments.

### WHERE TO FILE/PAY

Submit PA Corporate Tax Reports (RCT-101, RCT-1011, RCT-101D, RCT-101X, RCT-128C) and payments using one of the following addresses.

If you are including payment, please use the following address:

**PA DEPT OF REVENUE  
PAYMENT ENCLOSED  
PO BOX 280427  
HARRISBURG PA 17128-0427**

If you are requesting a refund or transfer of credit, please use the following address:

**PA DEPT OF REVENUE  
REFUND REQUESTED  
PO BOX 280706  
HARRISBURG PA 17128-0706**

If you are neither including payment nor requesting a refund, please use the following address:

**PA DEPT OF REVENUE  
NO PAYMENT, NO REFUND  
PO BOX 280708  
HARRISBURG PA 17128-0708**

If the total taxes owed are less than \$20,000, make 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 owed are \$20,000 or more, you must pay by Electronic Funds Transfer (EFT).

### EFT PAYMENT REQUIREMENT

The PA Departments of Treasury and Revenue have implemented a program that enables taxpayers to pay certain taxes through EFT. Payments of \$20,000 or more must be remitted by 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.

Taxpayers must register to participate in this program. Register online at [www.etides.state.pa.us](http://www.etides.state.pa.us), or call 1-800-362-2050 to request an EFT Authorization Agreement by mail or fax.

### 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 if no business activity was conducted during the taxable period.

First reports of foreign corporations must begin with the beginning date of the fiscal period in which the Certificate of Authority was issued or the date Pennsylvania activity began, whichever date is earlier.

**IMPORTANT:** All corporations are required to file annual reports even if 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

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  
PO BOX 280947  
HARRISBURG PA 17128-0947**

## REINSTATEMENT

A corporation considered 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, that the corporation name is available for use by calling (717) 787-1057. A corporation considered Out-of-Existence/Withdrawn, must be reinstated on 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 2009 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 that conducted business outside of Pennsylvania while 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 the taxpayer resumed PA activity.

## RECORDING DOLLAR AMOUNTS

All tax calculations must be shown in whole dollar amounts. Any amount less than 50 cents is eliminated, and any amount 50 cents or more is rounded up to the next dollar.

Negative amounts should be written as minus-signed amounts (-3,456).

## COMPLETING TAX REPORTS

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

The completed tax report must be signed and dated by a corporate officer. Other corporate employees such as a secretary, clerk or staff accountant may 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-857I Estimated Payment Coupon Packet. Indicate a permanent change in filing period on the RCT-101 (Page 1, Step B), 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](http://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 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 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 5 EFT Payment Requirement.)

## PENALTIES IMPOSED FOR FAILURE TO FILE REPORTS WHEN DUE

- 10 percent of first \$1,000 of determined tax
- 5 percent of next \$4,000 of determined tax
- 1 percent of determined 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

Interest is charged on late payments received after the due date of a tax report. Taxpayers should not precalculate interest or include interest with the tax amount reported on the RCT-101 (Step D, column A). The Department will forecast interest on unpaid tax balances and provide a notice to the taxpayer. Taxpayers may request a payoff of unpaid balances (that includes interest on unpaid tax and collection agency fees, if applicable) by contacting the Bureau of Corporation Taxes Accounting Division at (717)705-6225.

## TRANSFERS/REFUNDS OF CORPORATE TAXES

After completing Step D on Page 1 of the RCT-101 Annual Report, if an overpayment exists taxpayers must instruct the Department to either transfer the credit to the next tax year or consider the credit for refund. Taxpayers provide this instruction by selecting one of the options under Step F. If no option is selected, the department will automatically transfer the credit to the next tax year.

## ASSIGNMENT OF TAX CREDIT (OVERPAYMENT)

Department regulation (61 Pa. Code 151.21-151.22) provides authorization for taxpayers to assign a credit to another taxpayer. To accomplish the assignment, the Department of Revenue requires both assignor and assignee to complete REV-774, Assignment of Tax Credit.

Only credits that meet the following conditions can be assigned:

- All taxes (Corporate, Sales/Use, Employer, Liquid Fuels, etc), interest, penalties, fees and additions to tax owed by the taxpayer (assignor) must be paid in full, except those under active appeal or subject to appeal.
- Restricted credits (credits originating from special credit programs) may be sold or assigned. These credits include the Research and Development Tax Credit (R&D), Film Production Tax Credit (FPT), Neighborhood Assistance Tax Credit (NAT), Resource Enhancement and Protection Tax Credit (REAP), Keystone Innovation Zone Tax Credit (KIZ) and the Alternative Energy Production Tax Credit (AEPT).
- For information regarding the sale or assignment of R&D, KIZ, NAT and FPT credits, call the Department of Community and Economic Development at (717) 787-7120 or visit [www.NewPa.com](http://www.NewPa.com).
- For information regarding the sale or assignment of REAP tax credits, call the State Conservation Commission at (717) 787-8821 or visit [www.agriculture.state.pa.us/REAP](http://www.agriculture.state.pa.us/REAP).

- For information regarding the sale or assignment of AEPT tax credits, call the Department of Environmental Protection at (717)783-8411 or visit [www.depweb.state.pa.us](http://www.depweb.state.pa.us).

Additional information regarding the sale or assignment of tax credits can be obtained from Corporation Tax Bulletin 2008-02 from the Department of Revenue Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

Call the Bureau of Corporation Taxes Accounting Division at (717)705-6225 if you have questions regarding credit assignment or restricted credits limitations or to request the Rev-774 Assignment of Tax Credit Form. The form can also be obtained at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

## DEPARTMENT NOTICES

**Billing Notice** – This notice identifies a specific tax type and tax period having unpaid balances(s) due the Commonwealth that resulted from a recent event that occurred on the taxpayer's account. These events include filing of a tax report, adjustments to tax, penalty and payments or a direct result of account maintenance initiated by the Department. Taxpayers have 30 days to remit payment or request credit offset prior to the Department issuing an assessment.

**Assessment Notice** – This notice is provided to taxpayers as official notification of an unpaid or underpaid balance due the Commonwealth. Balances include tax, interest, penalty, other fees and forecasted interest. The elements of the notice are unique to a specific tax type and tax period. The date of the notice establishes a lien with the Commonwealth and initiates the window to petition for reassessment. Unpaid assessed balances in excess of \$300 are sent certified mail. Taxpayers must file petitions for reassessment on or before the due dates specified on notices.

**Basis of Assessment** – Attached to every Assessment Notice is a Basis of Assessment, which explains the adjustments made by the Department in the determination of the liability. This is in addition to other detailed worksheets that may have been prepared and provided to the taxpayer.

**Estimated Assessment Notice** – This notice identifies estimated liabilities that have been imposed for a specific tax type and tax period. Estimated liabilities are imposed for failure to file a complete corporate tax report. The assessment includes tax, interest and penalties that represent a first lien upon the entity's franchise and property, both real and personal. These liabilities are not subject to appeal. To resolve the estimate, taxpayers must file a complete corporate tax report. The Department of Revenue is required to remove estimated assessments 90 days following receipt of a complete tax report.

**Notice of Available Credit** – This notice confirms the disposition of a tax overpayment. Tax credits may develop from the filing of tax reports, adjustments to a tax liability by the Department of Revenue and the Department of the Auditor General, tax relief granted from various levels of appeal or from account maintenance initiated by the Department.

**Statement of Account** – This notice provides a summary of a taxpayer's account. Two categories of information are contained on the notice:

- **Summary of Active (filed) tax periods** – Tax periods displayed include periods most recently filed and those with open unpaid balances.
- **Summary of Non-filed tax periods (includes estimated tax and estimated prepayments)** – Tax periods displayed include the current non-filed tax period estimated prepayments and restricted credits.

**Audit Assessment Notice** – This notice is provided to taxpayers as official notification of an unpaid or underpaid balance due the Commonwealth as the result of a field audit. Balances include tax, interest, penalty, other fees and forecasted interest. The elements of the notice are unique to a specific tax type and tax period. The date of the notice establishes a lien with the Commonwealth and initiates the window to petition for reassessment. Unpaid assessed balances in excess of \$300 are sent certified mail. Taxpayers must file petitions for reassessment on or before the due dates specified on notices.

## AMENDED REPORTS/REPORTS OF CHANGE

**Amended Reports** – The RCT-101X, Amended PA Corporate Tax Report, must be filed when requesting the Bureau of Corporation Taxes to adjust the Capital Stock/Foreign Franchise, Loans or Corporate Net Income Taxes for a particular year.

Under Act 119 of 2006, the Department of Revenue will no longer be required to settle all PA Corporation Tax Reports beginning Jan. 1, 2008. Instead, reports will be considered accepted as filed unless the Pennsylvania Department of Revenue or Auditor General selects them for review or audit. During the transition period between the settlement process and the assessment process there will be two sets of procedures in place for the filing and processing of amended reports. The procedure used for a particular tax period will depend on whether the Department issued an Official Notice of Settlement for the tax period.

If the Department issued an Official Notice of Settlement prior to Jan. 1, 2008, the taxpayer will be allowed to file an Amended PA Corporate Tax Report, RCT-101X, anytime within 18 months of the settlement date. If after reviewing the amended report the Department determines the last settled or resettled tax is incorrect a resettlement will be issued. Amended PA Corporate Tax Reports received more than 18 months from the date of settlement of the original PA Corporate Tax Report will not be considered for resettlement. A taxpayer seeking a refund for a tax year settled more than 18 months ago may be able to pursue its statutory remedy by timely filing a Petition for Refund with the Board of Appeals. 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.

If the Department of Revenue did not issue an Official Notice of Settlement prior to Jan. 1, 2008, the provisions of Act 119 of 2006 will apply and no settlement will be issued. In that case the taxpayer may file an amended report anytime within three years of the filing of the original report. When filing the amended report the taxpayer must consent to an assessment period of three years from the filing of the original report or one year from the filing of the amended report, whichever expires last. If you fail to provide such consent the Department might not consider the amended report. Beginning in 2007 this consent to extend the assessment period is included as part of the affirmation statement at the bottom of Page 1 of RCT-101X. If, after reviewing the amended report, the Department determines the tax liability reflected on the taxpayer's PA Corporate Tax Account is incorrect, an adjustment will be made to the liability. The Department will then generate a credit for the amount of any overpayment, strike all or part of any previous assessment or issue an assessment for any additional tax liability.

The Amended PA Corporate Tax Report, RCT-101X, should only be filed if an original PA Corporate Tax Report, RCT-101, was previously filed for the same tax period. An amended report must contain documentation to support the adjustment(s). If the amended report is being filed to report a change in federal taxable income, a copy of federal Form 1120X must be attached along with proof of IRS acceptance of any decreases in taxable income.

Beginning in 2009, the PA Department of Revenue discontinued use of a year-specific amended PA Corporate Tax Report. Taxpayers filing amended reports using the new form are required to enter all dates along with tax rates and the capital stock/foreign franchise tax valuation reduction in affect for the year being amended. This information can be found at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

The instructions for 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.

The amount entered in Column A, Original Tax Liability, is the tax liability currently reflected on the Department of Revenue records. Unless the taxpayer has been notified of an adjustment, the liability on the Department's records will be the self-assessed tax reported on the originally filed RCT-101.

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 necessary.
4. Section G must provide a complete explanation of the reason for filing the RCT-101X.

**IMPORTANT:** The filing of an Amended PA Corporate Tax Report does not replace the filing of a petition, nor does it extend a corporate taxpayer's time to file an appeal.

Changes in federal taxable income must be reported to the department within 30 days of the change. Additional guidance can be found on our web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

## QUESTIONS ON FILING FORMS

Questions regarding the filing of PA Corporation Tax forms, including forms from the REV-857I PA Corporation Tax Estimated Payment Packet, should be directed in writing to:

**PA DEPARTMENT OF REVENUE  
BUREAU OF CORPORATION TAXES  
PO BOX 280701  
HARRISBURG PA 17128-0701**

## CONFIRMATION OF "DEPOSITS ON ACCOUNT" FOR A NON-FILED TAX YEAR.

Prior to filing a corporation tax report, taxpayers can confirm the total amount of deposits on account by calling 1-888-PATAXES (728-2937). You will be asked to enter your seven-digit account identification number and a specific tax year. Once confirmed, the system will provide:

1. Total deposits by tax type for a specific tax year; or
2. A detailed response for each cash deposit and credit by tax type for a specific tax year. (Note: "restricted credits" are NOT uniquely identified by name of program)

## 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 packet is mailed at the beginning of the taxable period and includes coupons, instructions and return envelopes for filing each coupon.

Corporations must use the preprinted coupons included in the packet. Photocopies or other representations of the original forms are not accepted.

The PA Corporation Tax Estimated Payment Coupon Packet contains coupons that permit a corporation to:

- Make up to four 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.

Indicate the type of return filed with the IRS. If the activity is included in the federal tax return of another company, either as part of a consolidated group or as a disregarded entity, indicate the type of return filed by the entity reporting the activity. If the taxpayer is a Single-Member Limited Liability Company and the member is an individual reporting the income on his/her personal income tax return, the 1040 Box should be checked.

#### Step A TAX PERIOD

Enter month and day (MM DD 2009) for the tax period beginning and month, day and year (MM DD YYYY) for tax period ending. The 2009 PA Corporate Tax Report is for use only with the tax periods beginning in 2009.

#### Step B CHECK SPECIAL FILING STATUS

**Regulated Investment Company** – Check the block if the corporation is a regulated investment company. See Page 25 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.

**Change Fed Group** – Check this box if the corporate taxpayer is filing a PA Corporate Tax Report for less than a full year due to a change in federal consolidated group.

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

**KOZ/EIP/SDA Credit** – Check the block if the corporate taxpayer is claiming the Keystone Opportunity Zone Credit, Strategic Development Area 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, BUSINESS ACTIVITY CODE AND TAXPAYER ID

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

The Business Activity Code entered here is the same Business Activity Code reported to the IRS on the federal income tax return.

#### Step D TAX SUMMARY

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

- Line 18, Section A for Capital Stock/Foreign Franchise Tax (on Page 2).
- Line 13, Section C for Corporate Net Income Tax (on Page 3).
- Loans Tax, Section D for Loans Tax (on Page 4).

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

Negative amounts should be written as minus-signed amounts (-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 Deposits on Account Page 8. 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 various state agencies. See Pages 25 and 26.

**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 be 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 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 or interest. These items will be calculated 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 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 \$20,000 or more, you must make payment through an Electronic Funds Transfer (EFT) Method. Refer to Page 5 for EFT requirements.
- If payment was made by EFT, check the "Made Payment by EFT" box under Step D.

#### Step F OVERPAYMENT

If any tax type is overpaid (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 instruct the Department of Revenue how to apply/refund the overpayment.

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

**STEP D**

Calculate 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 than zero, complete Step E.

If Calculation column total is less than zero, complete Step F.

If Calculation column total is zero, no payment due.

Confirm Column B and Column C above by calling 1-888-PATAXES (1-888-728-2937).

**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 5 for EFT requirements.

**ENTER  
WHOLE  
DOLLARS  
ONLY**

Taxpayers must select one, and only one, of the options listed below:

- A. Automatically transfer any current period tax overpayment to offset underpaid taxes in the current tax period. The remaining portion of the credit is applied to the next tax period for estimated tax purposes.
- B. Prior to issuing a refund, apply any current period tax overpayment credit to unpaid tax in the current tax period. Also offset other unpaid liabilities or Commonwealth obligations if applicable. A Notice of Available Credit will be mailed to the taxpayer confirming the disposition of the credit.

**NOTE:** If no option is selected the Department will automatically transfer overpayment credit to the next tax period

**SIGNATURE**

A corporate officer must sign the report. The signature must be original; 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 this block. If this block is checked, do not 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 23 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 - 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 LLC 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).

An LLC or Business Trust taxable as a partnership for federal income tax purposes may adjust book income for distributions to members deemed materially participating in the activities conducted by such LLC 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 LLCs and Business Trusts not classified as corporations for federal income tax purposes, effective Jan. 1, 2006. In addition, Single-Member LLCs and Business Trusts disregarded for federal income tax purposes and whose incomes are



reported on personal income tax returns of individuals are entitled to a deduction for any distributions to the natural person. For this purpose, distributions made to a member of a LLC or Business Trust within 30 days of the end of a given year may be treated as made in the preceding year. If net income per books is being adjusted for this item, the taxpayer is required to complete Schedule A-3, of REV- 961. When calculating the Net Income per Books of a taxpayer with an investment in a LLC or Business Trust, the taxpayer must remove the income (loss) of this LLC or Business Trusts 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).

### Other Book Income Issues

Corporations liquidating under IRC Section 337 must include the gains on sale of assets in book income in the history of earnings.

Forgiveness of debt is included in book income.

**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 2006 through 2008. On Jan. 16, 2009, it is purchased by VMJ Corporation and changes to a calendar year-end. On Dec. 31, 2009, its five year history of earnings would include the following:

	BEGINNING	ENDING
Oldest Period	070105	063006
	070106	063007
	070107	063008
	070108	011509
Current Tax Period	011609	123109

The fiscal year ending June 30, 2004, is excluded since it would extend the history of earnings beyond five years. Since the history of earnings is 4.5 years in length, 4 is placed to the left of the decimal point. The period extending beyond the four full years is 184 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.

The net worth for LLCs is 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 two 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 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 \$150,000 valuation deduction has been inserted on the forms.

**Line 15.** The \$150,000 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 x .250000 = \$50,000).

**Line 18.** Multiply Line 17 by the tax rate applicable for the current year, and enter this amount on Line 18. Taxpayers filing reports for short periods may prorate the tax based on the number of days in the tax year.

**TOTAL BEGINNING OF TAXABLE YEAR ASSETS**  
**TOTAL END OF TAXABLE YEAR ASSETS**

These amounts must equal the total assets reported on the balance sheets submitted with the report. All corporate taxpayers are required to provide beginning and ending balance sheets on a separate company basis, regardless of IRS requirements.

**RCT-101—PAGE 3.**  
**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.

**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).

**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 Member/Multi Member** - Check the appropriate block if the corporate taxpayer is an LLC 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 that 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, do not 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 U.S. 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 report-

ed 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 17 in this booklet.

- b. Interest on U.S. 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, (Fannie 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. 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.

All other deductions must be reported on PA Schedule OD, Other Deductions.

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 returns. All taxpayers reporting expenses for taxes on federal income tax returns must complete Schedule C-5, Schedule of Taxes, even if no taxes are imposed on or measured by net income. If a state's tax is based on the higher of a tax on net income or a tax on another item, such as gross receipts or net worth value, the taxpayer is required to add back the entire amount of the tax in years where the liability is based on net income. If a state's tax is a combination of a tax on net income and a tax on another item, such as net worth or gross receipts, the income portion of the tax is added back.

**NOTE:** The Capital Stock/Foreign Franchise Tax is not a tax measured by net income. The portion of Philadelphia Business Tax measured by net income must be included.

- b. Enter the total of the tax preference items as defined in Act No. 2 of March 4, 1971, as amended, to the extent that such preference items are not included in "Taxable Income" as returned to and ascertained by the federal government. A copy of federal Form 4626 must be attached to the report even though the tax preference items do not exceed the applicable federal deductions. The Accelerated Cost Recovery deduction under Section 57(a)(12)(B) of the Internal Revenue Code (Recovery Property which is 15 year realty) is a tax preference item. It should be included on this line, but only to the extent it is not included in taxable income as returned to and ascertained by the federal government.
- c. Employment incentive payment credit adjustment. In calculating 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 PA Schedule OA, Other Additions.

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 if that state has jurisdiction to subject the taxpayer to a net income tax regardless of whether 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 U.S. Constitution. 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 "Apportionment, Exemptions and Allocation" portion of the booklet for more detail.

- Line 5.** Enter the total amount of nonbusiness income (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 (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.

See instructions for RCT-103, found on Page 17 for details.

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.** Calculate 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.

### RCT-101 - PAGE 4 SECTION D: LOANS TAX

#### CORPORATE LOANS TAX INFORMATION

If the report is completed for a foreign corporation and Question 1 does not apply, do not complete Section D of RCT-101. If Question 1 does apply, check the box to the right.

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

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

Enter the interest rate used to calculate 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 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"/>

\*Calculate and enter treasurer's commission 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. Foreign corporations electing to use the single-factor must calculate the fraction exactly like domestic corporations. See the instructions for "Additional Schedules for Apportionment of Franchise Tax."

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

- a. Three-factor: Add the decimals on Lines 1c, 2c and 3c, and divide by 3 if all three proportions apply. A factor is ignored if both the numerator and denominator are zero. Divide the sum by 2 if only two of the proportions apply, or by 1 if only one proportion applies. Enter the resulting decimal on Line 5. Carry to six decimal places.

-OR-

- b. Single-factor: Divide Line 4a by 4b and enter the result on Line 5. Carry to six 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 and multiply by 8.5. The decimal should be computed to six places. (Table 1, Line D, 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 and multiply by 8.5. The decimal should be computed to six places. (Table 2, Line D, 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 by 83. The decimal should be computed to six places. (Table 3, Line D, from RCT-106, Page 2.)

**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.

- a. Three-factor apportionment—Add the decimals on Lines 1c, 2c and 3c and divide by 100, 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 17. If only two of the proportions apply and one of these is the sales factor, divide the sum by 91.5. If only one of the proportions apply then divide the sum by the weight of that factor (8.5 or 83). Please refer to Corporation Tax Bulletin 2006-01. This bulletin is available on our Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

-OR-

- b. Special apportionment—Divide Line 4a by 4b and enter the result on Line 5, carry to six decimal places.

## RCT-101 - PAGES 5 AND 6 SECTION E: CORPORATE STATUS CHANGES

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

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

Taxpayers who held any assets during the year are required to complete 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, indicate so 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 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.

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.

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 reporting the changes in income for each tax year.

Indicate the method of accounting used for federal income tax reporting and financial accounting purposes.

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, LLCs, 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

Enter "Y" or "N" in the block labeled "Mailed to Practitioner" to indicate if any notice resulting from the review of this tax report, or request for additional information is to be mailed to the preparer's address. If "Y" is entered in this box, the notices and all correspondence will be sent to the name and address provided in this section. If "N" is entered, all notices will be mailed to the corporation's address. If a request for information is mailed to the preparer, a copy will also be 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.

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

To be used by taxpayers who file federal Form 1120S when Net Income per Books does not equal the change in Retained Earnings reported on federal Schedule L plus distributions reported on the federal return. 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 or federal Schedule M-3, 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 federal Schedule M-1, or federal Schedule M-3.
- Line 3.** List all other increases to retained earnings. Taxpayers must provide a detailed description of these items. Attach 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**

This schedule is to be used by taxpayers 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, 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 federal Schedule M-1 or federal Schedule M-3, regardless of federal requirements.

**Additions**

- Line 2.** Enter 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 LLCs deducted in calculating net income per books reported on Line 1.
- Line 5.** Enter all distributions received from LLCs 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 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 LLCs included in net income per books reported on Line 1.
- Line 10.** Enter distributions to materially participating members as defined in Section 469 of the Internal Revenue Code. This deduction may only be taken by LLCs and Business Trusts not taxed as corporations for federal income tax purposes. 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 LLCs not taxed as corporations for federal income tax purposes.

LLCs 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.

## 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 2a.

## SCHEDULE X: OTHER COMPANIES OF WHICH THIS COMPANY OWNS ALL OR A MAJORITY OF THE STOCK

Corporate taxpayers who answer yes to Question 2, 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 1 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 that owns all or a majority of the stock of the taxpayer.

## PA SCHEDULES L, M-1 AND M-2

Beginning in 1998, the Bureau of Corporation Taxes has required any Single-Member LLC or Business Trust, 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 personal income tax return. These Single-Member LLCs and Business Trusts are required to provide copies of Schedule C, Schedule E or Schedule F of federal Form 1040 along with PA Schedules L, M-1 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, Schedule E or Schedule F of federal Form 1040, other income or expenses related to the LLC or Business Trust reported on other schedules should be reported as income or expenses reported on the books and not reported on Schedule C, Schedule E or Schedule F (Line 3 and Line 5).

**IMPORTANT:** Any Single-Member LLC or Business Trust, whose member is a Business Entity, is still required to attach a pro-forma federal tax return to RCT-101.

## RCT-103—NET OPERATING LOSS SCHEDULE

### PART A—Calculation of Net Operating Loss Limitation

Act 48 of 2009 increased the Net Operating Loss Limitation. For years beginning after December 31, 2008, the Net Operating Loss Limitation is the greater of \$3 million or 15 percent of the PA Taxable Income before the Net Operating Loss Deduction. To support the Net Operating Loss Carryforward allowed for the current year taxpayers are required to complete Part A of RCT-103 as follows:

- Line 1.** Enter the Taxable Income from RCT-101, Section C, Line 10
- Line 2.** Enter Total Net Operating Loss Carryforward to Current Period from RCT-103, Part B, Column 3.
- Line 3.** Multiply Line 1 by 15 percent (.15).  
If Line 3 is less than \$3 million then enter the lesser of Line 1 or Line 2 on Line 4, not to exceed \$3 million. If Line 3 is greater than \$3 million enter the lesser of Line 2 or Line 3 on Line 4.
- Line 4.** This is your Net Operating Loss Deduction for the current period.

### PART B

Complete this schedule to calculate the amount of net loss carryforward available to be deducted in the current period and the net loss carryforward to the next period. Enter all dates and amounts from periods with returns filed. If no net loss carryforward is available, enter "0". If short periods exist in calendar periods or fiscal periods, enter the month, day and year of the beginning and end of all short periods and the net loss carryforward for all short periods in the appropriate row of the table. Do not combine amounts.

**Column 1.** Beginning with the first line, enter the month, day and year (MMDDYYYY) corresponding to the beginning date of each tax period. Start with tax periods beginning in 1998 or with the entity's very first tax year, whichever is more recent. Do not include the current tax year.

**Column 2.** Enter the month, day and year (MMDDYYYY) corresponding to the ending date of the tax period indicated in Column 1.

**Column 3.** Enter the Net Loss Carryforward corresponding to each year end from the 2008 RCT-103 (Net Operating Loss Schedule) in Column 5.

**Column 4.** Enter the amount to be used as a net loss deduction to offset income in the tax period beginning in 2008. The total amount of net loss carryforwards should not exceed the amount reported on Part A, Line 4.

**Column 5.** Subtract Column 4 from Column 3 and enter the difference in this Column.

Net Operating Losses generated in tax periods beginning prior to Jan. 1, 1998 have expired and are not available for the 2008 tax period. Net Operating Losses generated in tax periods beginning after Dec. 31, 1996, and before tax periods beginning prior to Jan. 1, 1998 may be carried forward for 10 tax periods. Net Operating Losses generated in tax periods beginning after Dec. 31, 1997 may be carried forward 20 periods. Short years are considered to be one tax period for purposes of calculating the carryforward.

### Examples for Part A

#### Example A

Company A has a total Net Operating Loss available for the current period of \$4 million and PA Taxable Income before the Net Operating Loss deduction, Section C, Line 10, of \$2.5 million. Part A of RCT-103 would be completed as follows:

- |  |                   |
|--|-------------------|
| 1. Taxable Income from RCT-101, Section C, Line 10                                 | <u>2,500,000.</u> |
| 2. Total Net Operating Loss Carryforward to Current Period (Total, Column 3 below) | <u>4,000,000.</u> |
| 3. Line 1 times 15 percent (.15)   | <u>375,000.</u>   |
| 4. Net Operating Loss Deduction for current Tax Year                               | <u>2,500,000.</u> |

Since Line 3 is less than \$3 million, Company A would enter the lesser of Line 1 or Line 2 on Line 4. Company A's Net Operating Loss Deduction for this period would be \$2.5 million.

#### Example B

Company B has a total Net Operating Loss available for the current period of \$2.75 million and Taxable Income before the Net Operating Loss deduction, Section C, Line 10, of \$5 million. Part A of RCT-103 would be completed as follows:

- |  |                   |
|--|-------------------|
| 1. Taxable Income from RCT-101, Section C, Line 10                                 | <u>5,000,000.</u> |
| 2. Total Net Operating Loss Carryforward to Current Period (Total, Column 3 below) | <u>2,750,000.</u> |
| 3. Line 1 times 15 percent (.15)   | <u>750,000.</u>   |
| 4. Net Operating Loss Deduction for current Tax Year                               | <u>2,750,000.</u> |

Since Line 3 is less than \$3 million, Company B would enter the lesser of Line 1 or Line 2 on Line 4. Company B's Net Operating Loss Deduction for this period would be \$2.75 million.

### Example C

Company C has a total Net Operating Loss available for the current period of \$40 million and PA Taxable Income before the Net Operating Loss deduction, Section C, Line 10, of \$25 million. Part A of RCT-103 would be completed as follows:

1. Taxable Income from RCT-101, Section C, Line 10	<u>25,000,000.</u>
2. Total Net Operating Loss Carryforward to Current Period (Total, Column 3 below)	<u>40,000,000.</u>
3. Line 1 times 15 percent (.15)	<u>3,750,000.</u>
4. Net Operating Loss Deduction for current Tax Year	<u>3,750,000.</u>

Since Line 3 is greater than \$3 million, Company C would enter the lesser of Line 2 or Line 3 on Line 4. Company C's Net Operating Loss Deduction for this period would be \$3.75 million since 15 percent of PA Taxable Income is greater than \$3 million.

### Example D

Company D has a total Net Operating Loss available for the current period of \$40 million and PA Taxable Income before the Net Operating Loss deduction, Section C, Line 10, of \$20 million. Part A of RCT-103 would be completed as follows:

1. Taxable Income from RCT-101, Section C, Line 10	<u>10,000,000.</u>
2. Total Net Operating Loss Carryforward to Current Period (Total, Column 3 below)	<u>40,000,000.</u>
3. Line 1 times 15 percent (.15)	<u>1,500,000.</u>
4. Net Operating Loss Deduction for current Tax Year	<u>3,000,000.</u>

Since Line 3 is less than \$3 million, but the lesser of Line 1 and Line 2 is greater than \$3 million Company D would enter \$3 million on Line 4.

Company D's Net Operating Loss Deduction for this period would be \$3 million since 15 percent of PA Taxable Income is less than \$3 million.

### Example E

Company E has a total Net Operating Loss available for the current period of \$3.5 million and PA Taxable Income before the Net Operating Loss deduction, Section C, Line 10, of \$50 million. Part A of RCT-103 would be completed as follows:

1. Taxable Income from RCT-101, Section C, Line 10	<u>50,000,000.</u>
2. Total Net Operating Loss Carryforward to Current Period (Total, Column 3 below)	<u>3,500,000.</u>
3. Line 1 times 15 percent (.15)	<u>7,500,000.</u>
4. Net Operating Loss Deduction for current Tax Year	<u>3,500,000.</u>

Since Line 3 is greater than \$3 million, Company E would enter the lesser of Line 2 or Line 3 on Line 4. Company E's Net Operating Loss Deduction for this period would be \$3.5 million. Even though 15 percent of PA Taxable Income is \$7.5 million (calculated limitation) Company E only has \$3.5 million of Net Operating Loss Carryforward available for this tax period.

## SCHEDULE C-5—SCHEDULE OF TAXES REV-860

Section 401(3)1.(o) 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.

If a state's tax is based on the higher of a tax on net income or a tax on another item, such as gross receipts or net worth value, the entire amount of the tax is entered on the line labeled "Income Taxes - Other States" in years where the liability is based on net income. Otherwise the entire amount of the tax is included on the line labeled "Other Taxes-Not Based on Income".

If a state's tax is a combination of a tax on net income and a tax on another item, such as net worth or gross receipts, the income portion of the tax is entered on line labeled "Income Taxes-Other States". The remainder of tax is included on the line labeled "Other Taxes-Not Based on Income".

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](http://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, the taxpayer must provide an explanation 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 ensure the entire gain from the installment sale has been included in net income per books. If the entire gain was not 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 NONBUSINESS INCOME REV-934

Taxpayers reporting nonbusiness income must include REV-934 when filing RCT-101.

## SCHEDULE TO SUPPORT CLAIM OF EXEMPTION FROM CORPORATE NET INCOME TAX UNDER P.L. 86-272. REV-986

Taxpayers that check 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-986 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 in the imposition of Corporate Net Income Tax for this period.

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

## 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. For this reason the statute of limitations regarding the assessment of tax does not apply to RCT-101D.
2. For a taxpayer to realize any tax benefits from a year the taxpayer filed RCT-101D, the taxpayer will be required to file a complete RCT-101 for each year, beginning with the year the benefit is generated through the year 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 March 14, 2005. On April 15, 2006, the taxpayer files RCT-101 for Dec. 31, 2004, 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, paid with the report. In this case the taxpayer would be assessed interest on \$200 from April 15, 2005, to April 15, 2006. Since the taxpayer did file RCT-101D for 2004 prior to the due date of the RCT-101, late filing penalty will not be imposed.

#### **Example 2**

Same facts as Example 1, except Company A did not file RCT-101D until Dec. 15, 2005. In this case, since RCT-101D was not filed prior to the due date of the RCT-101, 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](http://www.revenue.state.pa.us).

## **SCHEDULE C-3: ADJUSTMENT FOR BONUS DEPRECIATION**

### **DECOUPLING FROM FEDERAL BONUS DEPRECIATION**

Act 89 of 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, calculated as follows: federal depreciation on Section 168(k) property 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 Sept. 10, 2000.

When filing PA corporate tax reports, 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. 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 recovered in the year of disposition.

**IMPORTANT:** This schedule must be updated each year and submitted with RCT-101 (i.e., Schedule C-3 for 2009 will reflect the adjustments

made for all prior years along with the adjustments made for 2009). Enter information for prior years from Schedule C-3 as filed for 2008.

#### **Column A. End of Tax Year**

Enter the end 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 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 percent 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 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.

An example of properly completed Schedules C-3 and C-4 is available on Revenue's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).



# APPORTIONMENT, EXEMPTIONS AND ALLOCATION

## APPORTIONMENT OF TAXABLE INCOME

Corporate taxpayers with activity in multiple states may be able to apportion taxable income. In order to apportion income, a corporation must be subject to tax in another state. Unless the taxpayer is required to use a special apportionment method, Corporate Net Income is apportioned to Pennsylvania using three-factor apportionment.

For tax years beginning on or after Jan. 1, 2009, the apportionment factor used in the calculation of the PA Taxable Income will be calculated as the total of 8.5 times the property factor, 8.5 times the payroll factor and 83 times the sales factor; divided by 100. An example of this calculation is as follows:

Property Factor	$0.100000 \times 8.5 =$	8.500000
Payroll Factor	$0.100000 \times 8.5 =$	8.500000
Sales Factor	$0.450000 \times 83 =$	37.350000
Total		54.350000
CNI Tax Apportionment	$54.350000 / 100 =$	<b>0.543500</b>

**NOTE:** This only applies to the calculation of the Corporate Net Income Tax

## THREE-FACTOR APPORTIONMENT

Page 2 of the Insert Sheet (RCT-106) is used to calculate the three-factor apportionment. All amounts differing from information on federal Form 1120, 1120S or 1065 must be reconciled. The totals from the RCT-106 are then transferred to the appropriate lines on Schedule C-1 of RCT-101.

### Property Factor

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

Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from subrentals. The average value of property is determined by averaging the values at the beginning and ending of the taxable period. 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, 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 is the total amount paid in Pennsylvania during the tax period by the taxpayer for compensation, and the denominator is the total compensation paid everywhere during the tax period. If the taxpayer has adopted the accrual method of accounting, all compensa-

tion properly accrued shall be deemed paid. Compensation is paid in this state if:

- The individual's service is performed entirely within Pennsylvania;
- The individual's service is performed within and outside Pennsylvania, but the service performed outside the state is incidental to the individual's service within the state; or
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 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:

- The income-producing activity is performed in this state; or
- The income-producing activity is performed 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 and receipts from sales of securities (unless a securities dealer) must be excluded from both the numerator and denominator of the sales factor.

## 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 is the taxpayer's total revenue miles within the Commonwealth during the taxable period. The denominator 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 calculated separately. The average of the two fractions, weighted in accordance with the ratio of total receipts from each such class of transportation every-

where 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 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 is the cubic foot capacity of the taxpayer's pipelines in the Commonwealth. The denominator 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 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 is the number of port days spent inside the Commonwealth. The denominator is the total number of port days spent outside and inside the Commonwealth. Port days do 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 calculated 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 is the taxpayer's total revenue miles within the Commonwealth during the taxable period. The denominator 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.

### APPORTIONMENT OF CAPITAL STOCK AND FOREIGN FRANCHISE TAX

A corporation is permitted to calculate and pay its Capital Stock or Foreign Franchise Tax by employing the same apportionment fractions used for corporate net income tax. A domestic or 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 calculate 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."

**IMPORTANT:** When calculating Capital Stock or Foreign Franchise Tax, the three factors are evenly weighted.

### APPORTIONMENT AND 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. 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 subject to the Capital Stock or Foreign Franchise Tax, but not subject to the Corporate Net Income Tax (i.e. an LLC 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. 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.

Since most LLCs 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 an LLC 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.

### CLAIMING EXEMPTIONS TO CAPITAL STOCK OR FOREIGN FRANCHISE TAX

When claiming an exemption to Capital Stock or Foreign Franchise Tax, the taxpayer must complete Schedule A-1 of the RCT-101. In addition the claim must be supported by completing the first page of RCT-106, Insert Sheet, or in the case of a corporation claiming the manufacturing, processing or research and development exemption the 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.

### 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 allowed:

### 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 are exempt only if subject to the PA Shares Tax. This includes PA LLCs and Business Trusts that are defined as corporations.
3. U.S. Government obligations, including obligations issued by Bank for Cooperatives, Commodity Credit Corp., Export Import Bank, Farmers Home Administration, Federal Deposit Insurance Corp., Federal Farm Credit Bank Consolidated System Wide Notes, Federal Financing Banks, Federal Home Loan Bank Notes and Consolidated Bonds, Federal Housing Administration Mutual Mortgage Insurance

Fund Debentures, Federal Intermediate Credit Bank Bonds, Federal Land Bank Bonds and Federal Land Bank Association Bonds, Federal Reserve Stock, Federal Savings & Loan Insurance Corporation, General Insurance Fund, Guam Bonds, Production Credit Association, Puerto Rico Bonds, Sales of Securities under Agreements to Repurchase, Small Business Administration Notes, Student Loan Marketing Association, Tennessee Valley Authority Power Program Bonds, U.S. Postal Service, U.S. Treasury Notes, Bonds, Bills, Obligations and Certificates, Virgin Islands Bonds, Zero Coupon bonds and notes.

4. A pass-through exemption is 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.

## 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 invested in and actually and exclusively employed in carrying on manufacturing, processing or research and development (except those corporations that exercise the right of eminent domain) is exempt. That portion of capital stock value invested in any property or business not 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 and abatement devices employed or utilized for the benefit of the general public are exempt. The pollution control devices exemption is limited to tangible property only. 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 schedules reflecting descriptions of the pollution control devices, locations and values. 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 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 guarantees of debt, certificates or other securities issued by entities 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 U.S. Department of the Treasury; obligations of federal agencies whose obligations represent the full faith and credit of the U.S.; 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.

## HOLDING COMPANIES

Any holding company may elect to calculate 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 that meets the following tests:

- (1) The company must have gross income, at least 90 percent of which is 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 "0.100000" on Line 5 of Schedule A-1 on Page 4 of RCT-101. Check "Holding Company" block in Section A.

## FAMILY FARM

A corporation that qualifies as a Family Farm is exempt from Capital Stock or Foreign Franchise Tax provided it 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; or the rearing, feeding, breeding and management of livestock. The business of agriculture also shall include aquaculture, 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 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; and
- 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 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 half-blood or legal adoption are treated as if they were related by 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 the proportion that stock of such other corporation owned by family members bears to all of the stock in such other corporation, providing that family members own 50 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.

### **Nonbusiness Income**

TRC § 401(3)2.(a)(1)(A) defines business income as 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 either the acquisition, the management or the disposition of the property is an integral part of the taxpayer's regular trade or business operations. The term includes all income apportionable

under the U.S Constitution. Nonbusiness income means all income other than business income.

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 to the extent the property is used in this state. 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 which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. 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.

Net rents and royalties from tangible personal property are also allocated to this state if the commercial domicile of the taxpayer is in PA and the taxpayer is not organized or subject to tax in the state where the property is utilized. "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed

3. Interest is allocable to this state if the taxpayer's commercial domicile is in this state.
4. 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.

## MISCELLANEOUS

<b>EXAMPLE:</b>				
(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 ÷ \$1,000,000 = \$53* x \$75 = \$3,975(A)
	*Rounded to the nearest whole number.			
(2)	<u>Undistributed Income for Personal Income Tax Purposes</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	=
		(B)	<u>Total Tax</u> \$307	=
(3)	<u>(A)</u> \$3,975	+	<u>(B)</u> \$307	=
			<u>Undistributed Income for Personal Income Tax Purposes</u> \$10,000	x
				<u>Personal Income Tax Rate (2006 3.07%)</u> .0307 = \$307 (B)

### REGULATED INVESTMENT COMPANIES

Every domestic corporation and every foreign corporation registered to do business in Pennsylvania, and maintains an office in Pennsylvania, has filed a timely election to be taxed as a regulated investment company with the federal government and duly qualifies to be taxed as a regulated investment company under the provisions of the Internal Revenue Code of 1954, shall be taxed as a regulated investment company. 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 \$1 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 income for PA personal income tax purposes of the regulated investment company multiplied by the personal income tax rate for the same period. See example above.

Income for PA personal income tax purposes 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 income for PA personal income tax purposes means all income, other than that undistributed on account of the Capital Stock or Foreign Franchise Tax, less all 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 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 income for PA personal income tax purposes is apportioned to Pennsylvania by a fraction. The numerator is all income distributed during the taxable period to shareholders who are PA resident individuals, estates or trusts. The denominator is all income distributed during the taxable period. Resident trusts shall not include charitable, pension, profit-sharing or retirement trusts.

Income for PA personal income tax purposes and other income of a company each shall be either 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 18, Section A on Page 2 of RCT-101 and insert the abbreviation "Reg. Inv. Co." on Line 17. 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.

### UNAUTHORIZED INSURANCE

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 30 days of each purchase or renewal. Such purchases are subject to a 2 percent Premiums Tax for life insurance (the rate is applied against the premium), and 3 percent premiums tax for all other types.

Any questions on the reporting and payment of Unauthorized Insurance Gross Premiums Tax can be directed to:

**UNAUTHORIZED INSURANCE  
BUREAU OF CORPORATION TAXES  
PO BOX 280704  
HARRISBURG PA 17128-0704**

### ATTENTION PENNSYLVANIA BUSINESSES: YOU MAY OWE USE TAX

If you or your business buys items 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 from the Internet, toll-free numbers (800, 888, and 877), from mail order catalogs or out-of-state locations 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 for purchases 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.

The Department can identify businesses that report minimal Use Tax, and underreporting of Use Tax can trigger an audit by the Department.

### Restricted Credits

Depending on the type of business, employers may be eligible for tax credits offered by the state.

For more information on the following tax credits, visit the Department of Revenue Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us):

- Coal Waste Removal and Ultraclean Fuels Tax Credit
- Employment Incentive Payment Credit
- Organ and Bone Marrow Donor Tax Credit

Research & Development Tax Credit

For more information and sale/assign procedures on the following tax credits, visit the Department of Community & Economic Development's Web site at [www.newpa.com](http://www.newpa.com):

Neighborhood Assistance Program Tax Credit

Keystone Opportunity Zone (KOZ) Credit

Keystone Innovation Zone Credit

Film Production Tax Credit

Educational Improvement Tax Credit

Jobs Creation Tax Credit

For more information on the following tax credit, visit the Department of Environmental Protection's Web site at [www.depweb.state.pa.us](http://www.depweb.state.pa.us):

Alternative Energy Production Tax Credit

For more information on the following tax credit, visit the Department of Agriculture's Web site at [www.agriculture.state.pa.us](http://www.agriculture.state.pa.us):

Resource Enhancement and Protection Tax Credit



**NOTES**

**NOTES**

**NOTES**

**NOTES**