

## FOR GENERAL TAX QUESTIONS:

Online Customer Service Center  
[www.revenue.state.pa.us](http://www.revenue.state.pa.us)

Taxpayer Service & Information Center  
Personal Taxes: 717-787-8201  
Business Taxes: 717-787-1064  
e-Business Center: 717-783-6277

1-888-PATAXES (728-2937)  
Touch-tone service is required for this automated, 24-hour, toll-free line. Call to order forms or check the status of a corporate tax account.

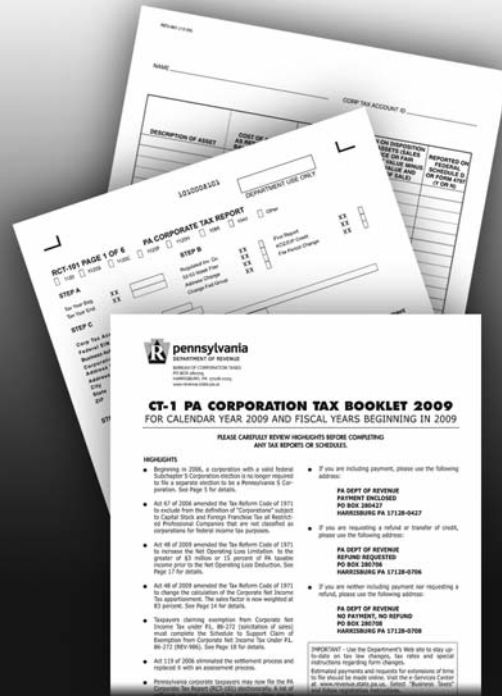
Forms Ordering Message Service  
1-800-362-2050

Services for Taxpayers with Special Hearing and/or Speaking Needs  
1-800-447-3020

Call or visit the Revenue district office nearest you, listed in the government pages of your local phone directory.

## CORPORATION TAXES

### SUBCHAPTER S CORPORATIONS LIMITED LIABILITY COMPANIES



While this brochure answers some of the most frequently asked questions regarding PA's corporation taxes, taxpayers are encouraged to review REV-1200, PA Corporation Tax Booklet, before completing any corporate tax reports or schedules.



All corporations and limited liability companies (LLC) formed under PA law – or formed under the laws of another state, but doing business in PA – are required to pay capital stock/foreign franchise tax.

All corporations and LLCs electing to file as corporations with the IRS that are formed under PA law – or

formed under the laws of another state, but doing business in PA – must pay corporate net income tax. PA S corporations are subject to corporate net income tax to the extent of any built-in gains recognized for federal income tax purposes. All other income of a PA S corporation is reported by shareholders and taxed at 3.07 percent, the PA personal income tax rate.

## CORPORATION TAXES

### How do I create a corporation or limited liability company?

Information on forming a corporation or LLC is available on the PA Department of State website, [www.dos.state.pa.us](http://www.dos.state.pa.us). In short, creating a corporation is a legal process that entails drawing up and filing articles of incorporation; to form a limited liability company, business organizers must file a certificate of organization.

Once created, a corporation or LLC should apply for an employer identification number with the Internal Revenue Service (IRS). Corporations or LLCs wishing to be classified as S corporations must also file federal Form 2553, Election by a Small Business Corporation, with the IRS.

Such businesses must also register for PA tax accounts online at [www.paopenforbusiness.com](http://www.paopenforbusiness.com) or by completing the PA Enterprise Registration Form, PA-100. The form is available at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) or by calling 1-800-362-2050.

### How do I obtain a PA Corporate Tax Account Identification Number?

Once a corporation or LLC is registered with the PA Department of State, business information is shared with the Department of Revenue so it may establish a PA Corporate Tax Account ID Number. The account number and notice of taxes to which the business is subject will automatically be provided to the corporation or LLC by letter.

Questions regarding establishment of a  $\mu$ PA Corporate Tax Account ID Number should be directed to the Revenue Department at 717-787-8353.

### Do nonprofit corporations need to file returns?

Yes. Only corporations exempt by provisions of Article

IV or VI of the PA Tax Reform Code do not have to file tax returns.

### What taxes are foreign (out-of-state) corporations required to pay?

If a business only conducts solicitation of sales of tangible personal property in PA, it is subject to foreign franchise tax. If business activities in PA involve more than solicitation of sales of tangible personal property, the company is also subject to corporate net income tax. To claim exemption from corporate net income tax, corporations must complete REV-986 and submit it with RCT-101, the Corporate Tax Report. Corporations involved in certain industries may be subject to specialty taxes in addition to or in lieu of corporate net income and capital stock/foreign franchise taxes.

### How does a business transfer account credits?

Transfer requests – on company letterhead and signed by an officer of the corporation – may be faxed to the Accounting Division at 717-705-6227 or mailed to the following address:

PA Department of Revenue  
PO Box 280701  
Harrisburg, PA 17128.

Each request must include account name, address, PA Corporate Tax Account ID Number and/or federal employee identification number and transfer periods.

### Describe nexus and the definition of doing business.

Nexus is a connection that determines a company is doing business in PA and is subject to PA taxes. Generally, a corporation that has physical presence in PA – including having employees or representatives or owning, leasing or employing property in PA – has established nexus and is doing business in PA.

### **What is a corporation's safe harbor amount?**

The safe harbor amount is the tax value from the second preceding period (base year) recalculated based on current rates and law. This value may be used as a basis for making current-year estimated prepayments. Failure to make adequate estimated prepayments could result in the imposition of additional interest.

### **What is the corporate net income tax weighted sales factor?**

Corporations required to apportion income must use the weighted sales factor when calculating PA tax liabilities or PA net operating losses. The apportionment formula is based on property, payroll and sales attributable to PA. The weighted factors do not apply to calculating capital stock/foreign franchise tax liabilities, rather all factors are equally weighted.

The sales factor weight is 90 percent for tax years beginning after Dec. 31, 2009 and property and payroll factors are each weighted at 5 percent.

### **What is a net operating loss?**

PA's net operating loss carry-forward allows corporate taxpayers to deduct losses from one year from profits in subsequent years. Losses can be carried forward and deducted from profits for up to 20 subsequent tax periods.

For tax periods beginning after Dec. 31, 2009, taxpayers are permitted to offset the greater of \$3 million or 20 percent. For information on other tax years, please refer to REV-1200, PA Corporation Tax Booklet.

## **SUBCHAPTER S CORPORATIONS**

For tax years beginning after Dec. 31, 2005, an entity with valid federal Subchapter S status is automatically considered a PA S corporation.

An S corporation can reduce its tax liability because the income earned is not taxed at the 9.99 percent corporate net income tax; rather income is passed through to shareholders who pay PA personal income tax on the business income at the rate of 3.07 percent. Shareholders of S corporations include their shares of income, loss or credit on their personal income tax returns.

### **How does a company go out-of-existence or withdraw from doing business in PA?**

The corporation should indicate on its Corporate Tax Report, RCT-101, that the report is a final report. REV-861, Schedule DA, Disposition of Assets, may also be required if the corporation held any assets during the year.

For tax periods beginning prior to Jan. 1, 2002, or for tax periods beginning on/after Jan. 1, 2002, for which an RCT-101 was filed but was not marked as final, REV-238, Out of Existence/Withdrawal Affidavit, should be filed.

Companies dissolving through or withdrawing from the PA Department of State must file REV-181, Application for Tax Clearance Certificate.

Organizations are also encouraged to review Tax Bulletins 53E, 53F, 53C and 53B, available on the department's website, or call 717-783-6052 for further information on going out-of-existence or withdrawing from doing business in PA.

### **What are the filing requirements for inactive corporations?**

A corporate tax return must be filed as long as an organization remains a registered corporation, even if no business was conducted. In such a case, RCT-101-I, Inactive PA Corporate Tax Report, must be filed. A corporation with any activity, real property, other assets or income is not considered inactive.

An S corporation is subject to corporate net income tax only to the extent of its built-in gains. It also remains subject to capital stock/foreign franchise tax and must file RCT-101 annually.

### **What if a federal Subchapter S corporation wishes to be taxed as a PA C corporation?**

A federal Subchapter S corporation that wishes to be taxed as a PA C corporation must elect not to be taxed as a PA S corporation using REV-976. This election must be signed by all shareholders and filed on or before the due date or extended due date of RCT-101.

### **Can the election not to be taxed as an S corporation ever be revoked?**

Once this election is made, it cannot be revoked for five years unless the taxpayer becomes a qualified subchapter S subsidiary.

Such requests must be made in writing to the Bureau of Corporation Taxes and submitted within the first 75 days of the tax year in which reinstatement to PA S status is requested. Each request must contain the name of the corporation, federal EIN, PA Corporate Tax Account ID Number and the effective date of revocation.

Each request must be signed by at least 51 percent of a corporation's shareholders. Each shareholder should also indicate his/her percentage of stock ownership in

## **LIMITED LIABILITY COMPANIES**

LLCs provide limited personal liability to their members and may be formed with one or more members. To establish an LLC in PA, a certificate of organization must be filed with the PA Department of State.

A restricted professional company is a unique type of LLC formed by two or more licensed professionals who restrict their practice to medicine, law or accounting. Such a company that did not elect to file as a corporation with the IRS is not subject to PA capital stock/foreign franchise tax or corporate net income tax, and therefore is not required to file RCT-101.

### **Does a corporate member of an LLC become subject to capital stock/foreign franchise tax?**

A domestic or foreign corporation with business activity in PA is subject to capital stock/foreign franchise tax. A foreign corporation is not subject to franchise tax if the corporation's only activity in PA is through the LLC.

### **Does PA follow federal LLC laws?**

Yes. LLCs that do not elect to file as corporations with the IRS are exempt from corporate net income tax. LLCs classified as federal corporations – including restricted professional companies – are subject to corporate net income tax.

### **Are there advantages to organizing as an LLC?**

Advantages and disadvantages to doing business as an LLC vary depending on the type of business. Indi-

viduals considering doing business as an LLC are encouraged to consult legal and/or accounting professionals to determine if this type of organization is appropriate.

PA Department of Revenue  
Bureau of Corporation Taxes  
PO Box 280705  
Harrisburg, PA 17128-0705

### **If a federal S corporation has been taxed as a PA C corporation prior to tax years beginning after Dec. 31, 2005, must REV-976 still be filed?**

Yes. REV-976, Election Not to Be Taxed as a PA S Corporation, must be filed regardless of any prior revocation or termination of PA S status.

### **What kind of PA tax return does an LLC file?**

Every LLC is subject to capital stock/foreign franchise tax and must file a Corporate Tax Report, RCT-101, regardless of federal classification. If the LLC is classified as a corporation for federal income tax purposes, it must complete the corporate net income tax portion of the RCT-101. If an LLC is classified as a partnership, it must also file an Information Return, PA-20S/PA-65.

### **How do LLCs calculate and file PA taxes?**

The capital stock/foreign franchise tax liability of an LLC is calculated using the formula used by all corporate taxpayers. However, the net worth of an LLC is the difference between the assets and the liabilities reported on the balance sheet.

LLCs filing as partnerships may deduct for distributions to members that qualify as materially participating under Internal Revenue Code Section 469. For years beginning after Dec. 31, 2005, this deduction was expanded to include all LLCs not classified as corporations for federal income tax purposes.