REV-588 (TR) 10-20

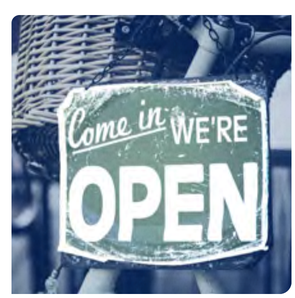
STARTING a BUSINESS in PENNSYLVANIA

....A GUIDE to PENNSYLVANIA TAXES

Tom Wolf, Governor

C. Daniel Hassell, Secretary of Revenue

pennsylvania
DEPARTMENT OF REVENUE



Dear Taxpayer,

Welcome to Pennsylvania's business community. We want to thank you for bringing growth and innovation to our local economy. Whether you are starting a brand new business or you are a new business owner purchasing an existing business, you will need to know some basic information about Pennsylvania state tax laws and regulations.

The Department of Revenue has created this guide to help business owners understand their filing obligations. The guide outlines the procedures to follow and the forms to file with the Pennsylvania Department of Revenue. Your responsibilities as a new business owner will vary depending on the type of organization or entity you operate. Certain types of businesses will need to immediately register for some business taxes in Pennsylvania while others may only need to report Pennsylvania income. Please review the information in this booklet to help determine which taxes apply to your business.

This guide is not intended as a substitute for services of tax and legal professionals nor is it intended to replace the Pennsylvania Business One-Stop Shop, located at www.business.pa.gov. This helpful resource connects entrepreneurs with important information on registering, operating, and growing a business. The website's digital library includes a link to the Entrepreneur's Guide: Starting and Growing a Business in Pennsylvania, which provides detailed information, instructions and personalized business checklists for entrepreneurs to help build a successful business.

For more information, visit our website at www.revenue.pa.gov or call our Customer Experience Center at 717-787-1064.

The department wishes you success in your future endeavors.

Sincerely,

C Daniel Hassell

C. Daniel Hassell
Secretary of Revenue

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IMPORTANT: This guide is published by the Pennsylvania Department of Revenue to provide information to business owners on how to register their business. It also provides an understanding of various tax obligations, as well as common mistakes to avoid. The guide is for informational purposes only and is not intended to constitute legal advice.

This guide will cover three general areas that apply to many businesses:

To receive email notifications containing links to newly posted tax information, including publications, important notices, and tax bulletins issued by the department, visit www.revenue.pa.gov and click on the "PA Tax Update Newsletter" link to register to receive this information.

BEFORE REGISTERING YOUR BUSINESS WITH DEPARTMENT OF REVENUE

1. **Confirm requirements with your financial institution and insurance company.**

2. **Check for special registrations, if applicable.**

3. **Confirm your professional licensure is current.***
   *Only applicable to Professional LLCs or Professional Corporations. All other business structures, skip to the next step.

4. **Check with the local municipality concerning taxes, zoning requirements, local licenses and permits and any other regulations.***
   *It is important to complete this step before proceeding with your business registration.

5. **Register your business structure.***
   *Make sure you have verified the business name you wish to use is available.

6. **Register your Fictitious Name.***
   *Only required if operating under a name that is not the Legal Name of the business or sole proprietor.

7. **Apply for a Federal Employer Identification Number (FEIN).**

For a more personalized checklist, visit business.pa.gov/register.

SECTION 1

BUSINESS TAXES in PENNSYLVANIA

Registering for PA Tax Accounts

Depending on your specific activities, your business may be required to report items such as sales and use tax or employer withholding. To register your business for state tax and employer accounts in Pennsylvania, you will need to complete the PA Enterprise Registration Form called the PA-100. You may complete the form online by visiting **www.pa100.state.pa.us**.

This form may also be used to add additional taxes or services, register a new entity that is acquiring all or part of an existing entity or request the Unemployment Compensation Experience record and Reserve Account Balance of a Predecessor.

The PA-100 enables taxpayers to establish multiple accounts, including:

- Employer Withholding Tax (as well as 1099 Miscellaneous Withholding)
- Promoter License
- Public Transportation Assistance Tax License
- Sales, Use, Hotel Occupancy Tax License
- Tobacco Product's License
- Transient Vendor Certificate
- Unemployment Compensation
- Use Tax, Wholesaler Certificate
- Workers' Compensation Coverage
- Vehicle Rental Tax

NOTE: Corporations, LLCs and business trusts registered with the Pennsylvania Department of State are not required to register with the Department of Revenue for corporation taxes. However, when a business registers with the Department of State, an EIN must be included so the Department of Revenue can establish a corporation tax account. Failure to include the EIN could result in the delay of processing corporate tax payments made to the Department of Revenue.

Tips to Complete the PA-100

Before you begin the PA-100, you will need the following:

1. EIN, Business Name, Business Address, Phone Number
2. School District and Municipality
3. NAICS Code
4. Owner(s) Name(s), SSN / ITIN
5. Date of First Operations (Inside and Outside of PA)
6. Business Entity Trade Name
7. Business Entity Fiscal Year End (MM/DD)
8. Form of Organization
9. For Profit or Non-Profit Status

New registrants must complete every item in Sections 1 through 10 and additional sections as indicated.

Registered enterprises must complete every item in Sections 1 through 6 and additional sections as indicated.

You will receive your account number(s) within 24-48 hours via e-mail if you provide your e-mail address in Section 4. If you do not provide your e-mail address, do not have an e-mail address, or do not receive your e-mail notification, you may retrieve your account number(s), simply by logging on to **www.pa100.state.pa.us**. In addition to specific tax account numbers, the department also issues a 10-digit Revenue Identification Number (Revenue ID) to all businesses that have any tax filing obligation with Pennsylvania. The Revenue ID number is referenced on all correspondence issued by the department.

IMPORTANT: You ***cannot*** use the PA Business Entity Registration Online PA-100 to:

- Register your name with the Department of State, Bureau of Corporations and Charitable Organizations
- Apply for Sales Tax Exempt Status (REV-72)
- Register for Motor Carrier Road Tax/ IFTA
- Register for Motor Fuels Tax Permit

NOTE: To register, file and pay for all Motor and Alternative Fuel Taxes, please visit **mypath.pa.gov**

How to Avoid Delays in Processing

- Review the registration form and accompanying sections to be sure that every item is complete.

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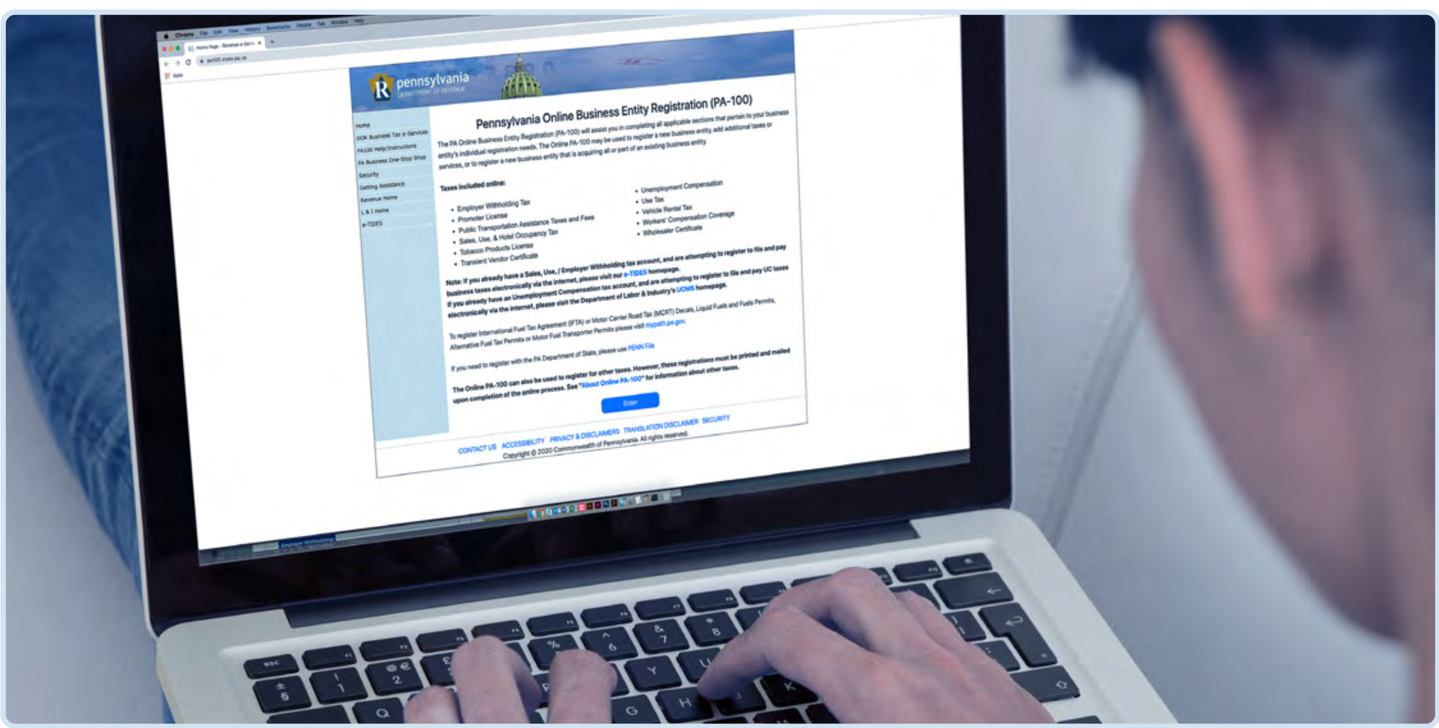
NOTE: It is your responsibility to notify the department in writing within 30 days of any change to the information provided on the registration form.

How to Check the Status

To check the status of your application, return to **www.pa100.state.pa.us**, log in with your e-Signature username and password and select "View" to see the status of the application. If your application has not yet moved to a "Successfully Processed" status, please allow up to 10 days before contacting the department. Once the status shows "Successfully Processed," you will receive an email with information regarding how to report and remit taxes, your filing and payment frequencies, and the due dates of your filings. Your license and account information will be mailed shortly after receiving the email.

PA-100 Application Status Descriptions:

- **Incomplete** - All sections, including payment information, if applicable, have NOT yet been completed. You may still edit or delete your application.
- **Submitted** - All sections, including payment information, if applicable, have been completed and either submitted and/or confirmed. Your application has been forwarded to the appropriate department(s) and can no longer be edited.
- **Under Review** - Your application has been received and is under review for compliance will all laws, rules and regulations under the department's jurisdiction. Please allow at least 10 business days prior to contacting the department for more information.
- **Successfully Processed** - Your application has been processed by the Department of Revenue. The numbers provided at the top of the application are for your reference only. Your license/account or certificate correspondence will be mailed to you within 7-10 business days. If the issuing department requires additional information, you will receive correspondence outlining what is needed to issue the requested license/account or certificate.



Employer Withholding

If you employ one or more persons, your business needs to register for an Employer Withholding Account (Section 9 of the PA-100). Pennsylvania law requires employers to withhold and remit PA personal income tax from employees' compensation in two common cases:

- When resident employees perform services within or outside PA; and
- When nonresident employees (other than residents of New Jersey, Maryland, Virginia, West Virginia, Ohio and Indiana from whose wages you withhold at the reciprocal state's tax rate) perform services within PA.

An employer is any individual, partnership, association, corporation, government body or other entity that employs one or more persons and is required under the Internal Revenue Code to withhold federal income tax from wages paid to an employee.

Please review the Employer Withholding Information Guide (REV-415) for more information on withholding PA personal income tax.

NOTE: Employers are also required to register for unemployment compensation insurance tax, imposed on employers and employees to help support employees for loss of wages should they become unemployed through no fault of their own. The rate is based on the employment history of the company. This tax is administered through the PA Department of Labor & Industry.

Filing & Payment Requirements

Employers should withhold taxes from each paycheck and remit to the department according to the Withholding Payment Schedule as follows:

- **Semi-Weekly** – If total withholding is $5,000 or greater per quarter ($20,000 per year), the taxes are due on the Wednesday following the pay dates for employers whose paydays fall on a Wednesday, Thursday or Friday; and on the Friday following the pay dates for employers whose paydays fall on Saturday, Sunday, Monday or Tuesday.
- **Semi-Monthly** - If total withholding is $1,000 to $4,999.99 per quarter, the taxes are due within 3 banking days of the close of the semi-monthly period.
- **Monthly** – If total withholding is $300 to $999 per quarter, the taxes are due the 15th day of the following month.
- **Quarterly** – If total withholding is under $300 per quarter, the taxes are due the last day of April, July, October and January.

The Employer Withholding Return (W-3) is required to be electronically filed every quarter even when no wages were paid during that period. Each W-3 should reconcile the total amount of withholding remitted within each quarter.

Employers are also required to electronically file annual reconciliation returns (REV-1667) by January 31 along with the W-2 forms for each employee. The REV-1667 should reconcile the total amount of withholding remitted for the entire tax year according to the W-3s filed.

Non-Employee Compensation

If you make payments to a nonresident who is not your employee for services in the course of your trade or business, you may be required to withhold PA personal income tax.

NOTE: Withholding is optional for payments less than $5,000 annually. However, if you are unsure of the total amount of payments that will be made during the year, the department encourages you to withhold and remit income tax from all payments made.

Governmental payors, including the Pennsylvania State System of Higher Education and its institutions, are exempt from the requirement of withholding on non- employee compensation and business income.

For more information on non-employee compensation, please visit our website at www.revenue.pa.gov.

How to File

Employers can file and pay business taxes online using our Electronic Tax Information and Data Exchange Service (e-TIDES) or TeleFile system.

E-TIDES is an Internet-based filing option that allows taxpayers to file returns and remit payments electronically without cost.

TeleFile is a telephone filing system designed for taxpayers who do not have computer access. Pre- registration is not necessary to use TeleFile, however, you will need your Account ID, EIN or SSN, 10 digit Revenue ID, and the period ending date of the period you wish to file for prior to calling. TeleFile is toll-free and can be accessed 24 hours a day, 7 days a week by calling 1-800-748-8299.

To register for electronic funds transfer, visit the Revenue e-Services center at **www.revenue.pa.gov** and file an Authorization Agreement for Electronic Tax Payments, (REV-331A).

NOTE: Tax payments of $1,000 or more must be remitted electronically through electronic funds transfer or by credit/debit card, or they may be paid with certified or cashier's checks.

TeleFile
1-800-748-8299

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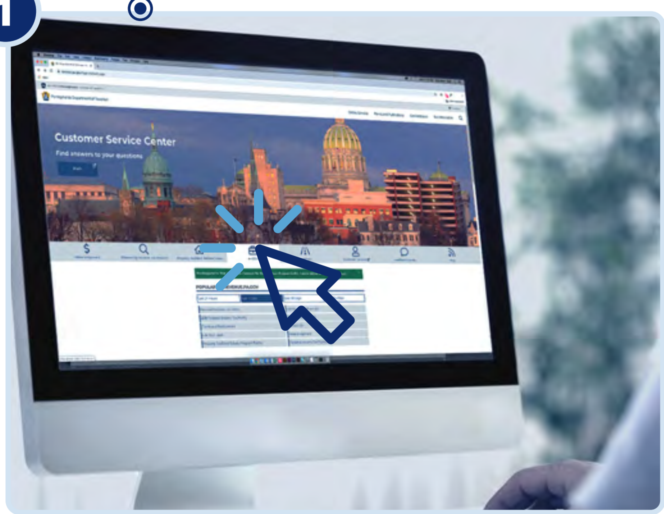

Starting at revenue.pa.gov, click the icon labeled **"e-TIDES"**

2

You are now ready to enter **e-TIDES** to either sign-in or create an account

Sales Tax

If your business sells taxable items or performs taxable services, you are required to obtain a sales tax license. Taxable items are subject to a 6% sales tax. Additionally, retailers in Allegheny County are required to collect an additional 1% local sales tax and retailers in Philadelphia are required to collect an additional 2% local sales tax. All three sales taxes are reported on the same tax return and under the same sales tax Account ID.

To determine if your business is required to collect and remit sales tax, review the Retailer's Information Guide (REV-717) or visit our website at www.revenue.pa.gov for more information on sales tax.

Filing & Payment Requirements

Sales tax must be collected at the time of sale, unless the sale is on credit. Taxes due on credit sales must be remitted within 30 days of the date of sale. A seller is liable for reporting and remitting taxes and fees with the tax return covering the period in which either a taxable sale was made or the tax, or fee, should have been collected.

The filing frequency may vary. When you are a new sales tax filer, you are set up as a quarterly filer, meaning that your returns are due in April, July, October and January. But your filing frequency can change. Every year the department reviews each business that files returns to determine whether or not the filing frequency should be changed. If such a change is made by the department, the business is notified in writing.

Payments and reports are required from sales tax licensees as follows:

- **Monthly returns with pre-payment obligations** – Businesses that have an actual sales/use tax liability for the third calendar quarter of the previous year totaling at least $25,000 but less than $100,000 have two prepayment calculation options. They can either remit payment equal to 50% of the actual tax liability from the same month of the previous year or at least 50% of the actual tax liability for the current period.

  Businesses remitting more than $100,000 for the third calendar quarter of the previous year must remit 50% of the actual tax liability due from the same month of the previous year. Prepayments are due by the 20th of the current month and returns for the period are due on or by the 20th of the following month.
- **Monthly returns** – Licensees whose actual tax liability is less than $25,000, but greater than $600 per quarter, must file monthly. Monthly returns are due the 20th day of the month that follows the month in which the tax was collected.
- **Quarterly returns** – Licensees whose total tax liability is less than $600 in the third calendar quarter, but greater than $300 annually, must file quarterly.

  The report for January, February and March is due by April 20; the report for April, May and June, is due by July 20; the report for July, August and September is due by Oct. 20; and the report for October, November and December is due by Jan. 20.
- **Semi-annual returns** – Licensees whose total tax liability is $300 or less annually must file semi- annually. The report for January through June is due on Aug. 20, and the report for July through December is due Feb. 20 of the following year.

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NOTE: It is important to know your filing and payment frequency. The Department of Revenue offers a vendor discount for timely filed returns and payments. This discount is limited to a flat rate or 1% of tax collected, whichever is lesser.

- **Monthly Filers:** $25 or 1% of tax collected
- **Quarterly Filers:** $75 or 1% of tax collected
- **Semi- Annual Filers:** $150 or 1% of tax collected

How to File

The department offers three electronic filing options: **e-TIDES**, TeleFile, and third party vendors. (See e-TIDES and TeleFile information under Employer Withholding Tax.)

The department also has third party vendors who will provide e-filing software for those taxpayers who do not wish to use the department's e-filing options. A list of approved software vendors is available on the department's website at **www.revenue.pa.gov**.

NOTE: Tax payments of $1,000 or more must be remitted electronically through electronic funds transfer or by credit/debit card, or they may be paid with certified or cashier's checks.

Displaying Sales Tax Licenses

All businesses selling products and services subject to sales tax are required to prominently display the license at the business. Sales tax licenses are issued free of charge and are renewable every five years. The Department of Revenue is authorized to issue citations to anyone who operates a business without a valid and current sales tax license. Convictions could result in fines of $300 to $1,500 per offense and/or imprisonment. A sales tax license may be suspended or revoked for failing to file tax reports or make payments.

EXAMPLE SALES TAX LICENSE

REV-IS10009 AFP (10-14)

LSALE

Commonwealth of Pennsylvania
Department of Revenue

SALES TAX LICENSE

ABC COMPANY
123 MAIN ST
ANYTOWN, PA 00000-0000 USA

Account ID:	00000000
Revenue ID:	0000000000
License Type:	Retail
Expiration Date:	01/01/2021

This license authorizes the holder to collect state and/or local sales, use and hotel occupancy tax. Licenses are issued for tax collection purposes and shall remain in force as specified herein unless sooner surrendered, suspended or revoked.

THIS LICENSE MUST BE PROMINENTLY DISPLAYED.
This license is not assignable or transferable.

Business Use Tax

If your business purchases items subject to sales tax for which the seller does not charge and collect sales tax on the invoice or receipt, your business is responsible for remitting the tax to the Department of Revenue. This is called use tax.

Use tax exposure occurs most often when a business buys taxable goods over the internet, through toll free numbers or through the mail and the vendor does not charge Pennsylvania sales tax. This is also true for purchases a business makes while out of state where no sales tax is charged. The items become taxable upon delivery into Pennsylvania.

Many businesses believe they save money by making "tax-free" purchases from out-of-state vendors, unaware that these transactions are often assessed upon audit by the department. Since assessments include interest and penalty on top of tax, businesses actually increase operational costs by not voluntarily addressing use tax obligations. The department's audit experience shows that most businesses owe use tax but many do not pay use tax. It is estimated that upon audit, 80% to 90% of businesses are found to owe use tax.

The use tax rate is the same as the sales tax rate: 6% state tax, plus an additional 1% local tax for items purchased in delivered to or used in Allegheny County and 2% local tax for Philadelphia.

Why is Use Tax Important?

Uniform collection and enforcement of use tax provides fairness. Pennsylvania businesses - those who employ our residents, pay state and local taxes and support our communities - are put at a 6% disadvantage against out of state businesses when sales or use tax is not paid on taxable items and services.

As internet and mail-order shopping becomes more popular among Pennsylvania businesses, use tax compliance helps to level the playing field among e-commerce retailers and Pennsylvania's brick and mortar stores.

Use tax is an important source of revenue for the Pennsylvania General Fund. Every dollar collected is a dollar available for government and public services.

From an enforcement standpoint, when the Department of Revenue receives information on purchases where use tax is owed but was not paid, it will assess the purchaser for not only the tax but also penalty and interest for late payment.

Is There a Credit for Tax Paid on an Item in Another State?

Yes. Pennsylvania grants a credit for sales tax paid to another state, provided the tax is legally due and paid, and that state offers reciprocal credit to PA. For example, if a PA business purchases and takes delivery of a taxable item in another state and pays a 5% sales tax there, the purchaser is responsible for reporting and remitting the 1% difference (use tax) due to PA upon the use of the property in PA. Credit against use tax is not granted for value-added taxes or sales taxes paid to foreign countries. Also, taxes paid to the federal government, such as customs duties, cannot be claimed as a credit against use tax.

How do I Pay Use Tax?

Any business that incurs use tax liabilities on a regular basis is encouraged to register for a sales/use tax account number by completing the **PA-100 PA Enterprise Registration Form**.

If you are already registered for sales tax, then you can file any use tax due with your sales tax return. If the sales tax return is filed timely, then the use tax is considered timely no matter the filing frequency of your business.

If you are not required to be registered for sales tax and you have a use tax liability that needs to be paid, you may still file the use tax return and pay electronically by completing the department's **Online PA-1 Use Tax Return** at **www.etides.state.pa.us/UseTax**. This return is due along with the payment of tax on or before the 20th day of the month after the month in which the purchase was made.

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IMPORTANT: A one-time registration for an e-Signature business tax account is required to log in. Visit www.pa100.state.pa.us.

What if Use Tax is not Paid?

The department identifies businesses that owe use tax through routine audits, self-assessment programs, complaints, investigations and lists of out-of-state purchases from vendors and other states. The department can also identify businesses that report minimal amounts of use tax. Underreporting of use tax can trigger an audit by the department. The Department of Revenue may issue an assessment for a use tax liability, on which both penalty and interest charges may be imposed. These additional charges can exceed 30% of the tax amount.

Pennsylvania Exemption Certificate

Purchaser Information

Some businesses may purchase an item with the intent to use it in a manner that has been deemed exempt from one of the following taxes:

- State and Local Sales/ Use Tax
- State 6% and Local 1% Hotel Occupancy Tax
- Public Transportation Assistance Taxes (PTA) and Fees
- Vehicle Rental Tax (VRT)
- Additional Local, City, County Hotel Tax

Depending on how you use the item or the type of business you conduct, you may not have to pay these taxes when making a purchase.

In order to claim a tax exemption, you must complete the REV-1220, Pennsylvania Exemption Certificate and give the completed form to the seller. A properly completed exemption certificate that provides a valid reason for exemption and is accepted in good faith will relieve the seller from the duty to collect tax.

The seller has the right to deny the certificate at any time. In these situations, the purchaser would need to pay the sales tax and petition the Board of Appeals for a refund.

Exemption Reasons

Businesses can use the REV-1220 to claim an exemption on certain property and services for the following reasons:

- The property or service is being directly and predominantly used in manufacturing, mining, dairying, processing, farming and/or shipbuilding.
- The purchaser is a government entity, instrumentality or political subdivision; municipal authority; cooperative Agricultural Association; electric cooperative or credit union.
- The property or service will be resold or rented in the ordinary course of business. Business owners who buy an item with the intention of resale at a later time do not need to pay sales tax. However, they will collect and remit the sales tax from the ultimate consumer. In most cases, these businesses should have already obtained a Sales Tax License Number by completing the PA-100 Application. For more information on wholesalers, please visit our website at **www.revenue.pa.gov**.
- The purchaser is a religious organization, volunteer fireman's organization, non-profit educational institution, charitable organization, or school district. Institutions of purely public charity obtain a sales tax exemption number (75 number) by completing the REV-72, Sales Tax Exemption Application.
- The purchaser is a direct pay permit holder, individual holding a diplomatic identification card, or tourist promotion agency. These entities do not receive account numbers. Direct pay permit holders can obtain their numbers from the Revenue website. Individuals with a diplomatic ID card can furnish their card as proof of eligibility for the exemption. Tourist promotion agencies must contact the department to receive a letter stating they are exempt. They will provide this letter to the seller when purchasing promotional materials for distribution to the public.
- The property or service will be used directly and predominately by purchaser performing a public utility service.

  The purchaser is located in Keystone Opportunity Zone or Expanded Zone (KOZ/KOEZ) and has been approved under the KOZ regulations. These entities should include their KOZ number which begins with 72, on Line 4.

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NOTE: Applications for a KOZ/KOEZ status are made through the Department of Community and Economic Development (DCED).

- The purchaser is providing goods and services under a construction contract with an exempt entity: a charitable organization, government entity, or a firm in designated KOZ.

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NOTE: The REV-1220 cannot be used to claim an exemption on the registration of a vehicle.

To claim an exemption from tax for a motor vehicle, trailer, semi-trailer or tractor with the PA Department of Transportation, Bureau of Motor Vehicles and Licensing, use:

- Form MV-1, Application for Certificate of Title for "first time" registrations.
- Form MV-4ST, Vehicle Sales and Use Tax Return/Application for Registration for all other registrations.

Seller Information

If you are the seller and your customer provides you with a Pennsylvania Exemption Certificate, you are responsible for ensuring that the form is properly completed. An incomplete certificate may subject the seller to the tax. You have the right to deny the certificate at any time. In these situations, the purchaser would need to pay the sales tax and petition the Board of Appeals for a refund.

Please review the exemption reasons listed under "Purchaser Information" and type of property or service to ensure it is consistent with the type of business or organization that you are selling to.

As the seller, you must be in possession of the certificate within 60 days of the date of sale/lease. It is best practice to collect the certificate at time of purchase.

Although the REV-1220 does not expire, the seller is only required to retain an exemption certificate for four years from the date of the exempt sale. However, the seller may periodically request another certificate.

! **IMPORTANT:** Certificates should not be returned to the Department of Revenue.

REV-1220 PENNSYLVANIA EXEMPTION CERTIFICATE

> Businesses can use the REV-1220 to claim an exemption on certain property and services...

REV-1220 (TR) 05-20

pennsylvania
DEPARTMENT OF REVENUE

PENNSYLVANIA EXEMPTION CERTIFICATE

- STATE AND LOCAL SALES AND USE TAX
- STATE 6% AND LOCAL 1% HOTEL OCCUPANCY TAX
- PUBLIC TRANSPORTATION ASSISTANCE TAXES AND FEES (PTA)
- VEHICLE RENTAL TAX (VRT)
- *ADDITIONAL LOCAL, CITY, COUNTY HOTEL TAX* *

This form cannot be used to obtain a Sales Tax Account ID, PTA Account ID or Exempt Status.

(Please Print or Type)
Read Instructions On Reverse Carefully

THIS FORM MAY BE PHOTOCOPIED – VOID UNLESS COMPLETE INFORMATION IS SUPPLIED

CHECK ONE:
- **PENNSYLVANIA TAX UNIT EXEMPTION CERTIFICATE** (USE FOR ONE TRANSACTION)
- **PENNSYLVANIA TAX BLANKET EXEMPTION CERTIFICATE** (USE FOR MULTIPLE TRANSACTIONS)

Name of Seller, Vendor or Lessor

Street	City	State	ZIP Code

NOTE: Do not use this form for claiming an exemption on the registration of a vehicle. To claim an exemption from tax for a motor vehicle, trailer, semi-trailer or tractor with the PA Department of Transportation, Bureau of Motor Vehicles, use one of the following forms:

FORM MV-1, Application for Certificate of Title (first-time registrations)

FORM MV-4ST, Vehicle Sales and Use Tax Return/Application for Registration (other registrations)

Property and services purchased or leased using this certificate **are exempt** from tax because: (Select the appropriate paragraph from the back of this form, check the corresponding block below and insert information requested).

1. Property or services will be used directly and predominately by purchaser in performing purchaser's operation of: ______
2. Purchaser is a/an: ______
3. Property will be resold under Account ID ______ (If purchaser does not have a PA Sales Tax Account ID, include a statement under Number 8 explaining why a number is not required).
4. Purchaser is a/an: ______ holding Sales Tax Exemption Number ______
5. Property or services will be used directly and predominately by purchaser performing a public utility service.
   PA Public Utility Commission PUC Number ______ and/or U.S. Department of Transportation MC/MX ______
6. Exempt wrapping supplies, Account ID ______ (If purchaser does not have a PA Sales Tax Account ID, include a statement under Number 8 explaining why a number is not required).
7. Canned computer software purchased by a financial institution subject to the Bank and Trust Company Shares Tax (Article VII) or the Mutual Thrift Institutions Tax (Article XV).
8. Other ______
   (Explain in detail. Additional space on reverse side).

I am authorized to execute this certificate and claim this exemption. Misuse of this certificate by seller, lessor, buyer, lessee or their representative is punishable by fine and imprisonment.

Name of Purchaser or Lessee	Signature	EIN	Date
Street	**City**	**State**	**ZIP Code**

1. **ACCEPTANCE AND VALIDITY:**
   For this certificate to be valid, the seller/lessor shall exercise good faith in accepting this certificate, which includes: (1) the certificate shall be completed properly; (2) the certificate shall be in the seller/lessor's possession within 60 days from the date of sale/lease; (3) the certificate does not contain information which is knowingly false; and (4) the property or service is consistent with the exemption to which the customer is entitled. For more information, refer to Exemption Certificates, Title 61 PA Code §32.2. An invalid certificate may subject the seller/lessor to the tax.
2. **REPRODUCTION OF FORM:**
   This form may be reproduced but shall contain the same information as appears on this form.
3. **RETENTION:**
   The seller or lessor must retain this certificate for at least four years from the date of the exempt sale to which the certificate applies.
   IMPORTANT: DO NOT RETURN THIS FORM TO THE PA DEPARTMENT OF REVENUE.
4. **NONPROFIT EXEMPT ORGANIZATIONS:**
   This form may be used in conjunction with form REV-1715, Exempt Organization Declaration of Sales Tax Exemption, when a purchase of $200 or more is made by an organization which is registered with the PA Department of Revenue as an exempt organization. These organizations are assigned an exemption number, beginning with the two digits 75 (example: 75000000).

SECTION 2

REPORTING PENNSYLVANIA INCOME

Business Structure

There are four principal kinds of business structures: sole proprietorships, partnerships (general or limited), limited liability companies and corporations (S corporation or C corporation).

Regardless of your business structure, every business has an income tax filing requirement in one form or another. How you report this income and how it is taxed can be different depending on the type of business structure you choose.

Sole Proprietorship

Many small businesses operate as sole proprietorships. This allows the single owner to have sole control and responsibility.

How to Report: Sole proprietors report income and expenses using PA Schedule C (Profit or Loss from Business or Profession) for each business. The sole proprietor then reports the profit or loss on a PA-40, PA Income Tax Return and pays tax at the state income tax rate of 3.07%. A taxpayer and spouse who jointly own a sole proprietorship must separately report their portion of the income or loss for the business.

If you expect to owe PA personal income tax, you may be required to make estimated tax payments during the year. If your income is expected to be over

$8,000 annually and is not subject to withholding by a PA employer, you must file and remit estimated payments by the 15th day of April, June, September and January.

Partnership

Partnerships are separate legal entities in which two or more parties are typically involved. Regardless of the type of partnership, it is important to have a partnership agreement. The partnership agreement should at least cover the contributions of each partner, the distribution of profits or losses, and the terms for dissolution. Without a written agreement, the profits and losses are presumed to be distributed equally. The department reserves the right to ask for a copy of this agreement at any time.

General Partnership

A general partnership is formed by an agreement entered into by each partner. This agreement may be informal, but it is advisable to have a written, legal agreement among all parties.

Limited Partnership

A limited partnership is a partnership having one or more general partners and one or more limited partners. The limited partners have limited exposure to liability and are not involved in the day-to-day management of the limited partnership.

Limited Liability Partnership

Limited liability partnerships (LLPs) are existing general or limited partnerships that file elections with the Bureau of Corporations and Charitable Organizations of the PA Department of State, claiming LLP status. Limited liability partnership status provides the general partners with limitations and additional protection on their personal liabilities as general partners.

How to Report: When preparing Pennsylvania tax documents, it is best to start with the completed federal Form 1065, U.S. Return of Partnership Income, and then proceed to the PA schedules, forms and returns. Partnerships must use PA personal income tax rules for determining income.

Partnerships, general and limited, are required to file a PA-20S/PA-65, PA S Corporation/Partnership Information Return, to report the adjustments to the federal income, deductions, gains, losses, etc. from their operations for PA personal income tax purposes. The partnership then passes any profits or losses through to their partners. They report this income or loss to their partners by providing each PA resident partner with PA Schedule RK-1, Resident Schedule of Shareholder/Partner/Beneficiary Pass-Through Income, Loss and Credits, and each nonresident partner with PA Schedule NRK-1, Nonresident Schedule of Shareholder/Partner/Beneficiary Pass- Through Income, Loss and Credits. These schedules show the partners what their share of the income or loss is by PA class of income and any other items required to be reported. Copies of all PA Schedules RK-1 and NRK-1 should be included with the PA-20S/PA-65. Also of note:

1. A partner that is an individual, estate, or trust must include their share of income from a partnership on their personal income tax return or fiduciary income tax return.
2. A partner that is a partnership or an S corporation will include its share of income from a partnership on its PA-20S/PA-65 return.
3. A partner that is a C corporation will include its share of income from a partnership on its corporation tax return.

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NOTE: **A partnership may file a PA-40 NRC, Nonresident Consolidated Income Tax Return, on behalf of its qualifying electing nonresident individual owners. The PA-40 NRC must be filed separately from all other PA tax returns and must include more than one nonresident member electing to be included on the PA-40 NRC. For more information, please review the PA-40 NRC Instructions.**

Partnerships that elect to be classified as corporations for federal income tax purposes are subject to corporate net income tax at the current rate of 9.99%. This income is reported on the Corporate Net Income Tax Report (RCT-101).

Limited Liability Company

Limited liability companies (LLCs) are popular because, similar to corporations, owners have limited personal liabilities for the debts and actions of the LLC. Other features of LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation.

Owners of an LLC are called members. Since most states do not restrict ownership, members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit single-member LLCs and LLCs jointly owned by husband and wife.

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NOTE: **A few types of businesses cannot be LLCs, such as banks, insurance companies and nonprofit organizations.**

Single-Members/How to Report: The individual owner of a single member LLC that receives net profit income reports its income and expenses using PA Schedule C (Profit or Loss from Business or Profession). The individual owner of a single-member LLC that owns and operates a rental property reports its income and expenses using PA Schedule E (Rents and Royalty Income (Loss).

An entity owner of a single member LLC reports its income and expenses on the appropriate Pennsylvania tax return (PA-20s/PA-65 Information Return or RCT-101).

Multi-Members/How to Report: Multi-member LLCs classified as partnerships or S corporations for federal income tax purposes are required to file the PA-20S/PA-65, PA S Corporation/ Partnership Information Return, and provide each PA resident partner with a PA Schedule RK-1 and each nonresident partner with a PA Schedule NRK-1.

Multi-member LLCs that elect to be classified as C corporations for federal income tax purposes are subject to corporate net income tax, reported on the Corporate Net Income Tax Report (RCT-101).

continued on next page

Business Structure cont.

Corporation

A corporation is the most complex form of business organization primarily due to the paperwork required to establish a corporation. Business activities are restricted to those listed in the corporate charter. However, most corporations define business activities in very broad terms within the charter.

There are two types of corporations in Pennsylvania: S corporations and C corporations. The letters S and C represent subchapters in the Internal Revenue Code and relate to the different types of taxation. S corporations must use PA personal income tax rules for determining income. C corporations follow federal income tax rules for determining income with some adjustments.

Pennsylvania S Corporation

An S corporation is a closely held corporation which has elected, with the consent of all shareholders, a taxation status which permits shareholders to pay taxes on the individual level and at the individual tax rates, similar to a partnership with "pass-through taxation" rather than at the corporate level. Shareholders of PA S corporations include their shares of income, loss or credit on PA personal income tax returns and pay tax at the personal income tax rate of 3.07%. S corporation status is limited to corporations that have a limited number of shareholders. Unless the shareholders of a PA S corporation are members of the same family, the maximum number of shareholders an S corporation may have is 100.

For tax periods beginning after Dec. 31, 2005, entities considered to be federal S corporations are automatically considered to be PA S corporations (IRC 1361-1379). A federal S corporation may elect not to be taxed as a PA S corporation by filing the REV-976, Election not to be Taxed as a PA S corporation, on or before the due date or extended due date of the PA Corporate Net Income Tax Report for the first year in which the election is to take effect. Once this election is made, it cannot be revoked for five years.

Pennsylvania S Corporation S Status Revocations

As stated above, the election to not be taxed as a PA S corporation may not be revoked for five years from the date it went into effect. A revocation received within this five year period will be effective for the first tax period for which the taxpayer is eligible to revoke the election.

To revoke the election, the corporation must send a letter signed by the shareholders holding more than one-half of the shares of stock of the corporation on the day on which the revocation is made. This letter must contain the name of the corporation, the federal employer identification number (FEIN), and the 10-digit Revenue ID/BP number and the effective date of the revocation. If no effective date is provided, the revocation will be effective for the first tax period for which the revocation was timely submitted. In the case of a corporation with qualified subchapter S subsidiaries, the letter must include the names and Revenue ID numbers of all qualified subchapter S subsidiaries doing business in PA.

Mail the letter to:
PA DEPARTMENT OF REVENUE
PO BOX 280901
HARRISBURG PA 17128-0901

Fax the letter to:
717-787-3708

Or, email the letter to:
RA-BTFTREGISFAX@PA.GOV

The deadline for revocation of an election not to be taxed as a PA S corporation is the 15th day of the third month of the year in which the revocation is to be in effect. A revocation submitted after the due date will be in effect for the next tax period.

Qualified Subchapter S subsidiaries

Since 1997, Pennsylvania has recognized qualified subchapter S subsidiaries when corporations are recognized as such by the federal government. For income tax purposes, all income is considered as earned by the parent corporation and passed through from the parent corporation to the shareholders. If the only Pennsylvania activity of the parent corporation is the investment in the qualified subchapter S subsidiary, the parent corporation does not need to register to do business in Pennsylvania to make this election.

How to Report: A PA S corporation is not subject to corporate net income tax; rather, the income is passed through to the shareholders to claim on their personal income tax returns.

The income passed through to a shareholder from a PA S corporation is calculated based on personal income tax law and not corporation tax law. The determination of income for personal income tax purposes differs from the income determined for corporate net income purposes. For example, there are no provisions to allow a net operating loss carry-forward in the calculation of income for personal income tax purposes.

PA S corporations are required to file a PA-20S/PA-65, S Corporation/Partnership Information Return, provide each PA resident shareholder with a PA Schedule RK-1 and provide each nonresident shareholder with a PA Schedule NRK-1. These schedules show the shareholder's portion of the income or loss by PA class of income and determine which other items are required to be reported. Copies of all PA Schedules RK-1s and NRK-1s should be included with the PA-20S/PA-65.

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NOTE: If an S corporation has taxable built-in gains, it will be subject to corporate net income tax. In such a case, the S corporation must file an RCT-101, to report and pay corporate net income tax on the built-in gains.

C Corporation

All corporations are C corporations unless they opt to take advantage of a provision in both federal and state tax laws to be treated as S corporations.

A corporation pays taxes on profits and shareholders pay taxes when profits are received as dividends. However, shareholders cannot deduct any losses posted by a corporation.

For years beginning after December 31, 2012, income is apportioned to Pennsylvania based solely on the sales factor. Corporations required to apportion income must use 100% of sales when calculating PA income tax liabilities or PA net operating losses.

Pennsylvania's net operating loss (NOL) carry-forward provisions permit C corporations to offset current-year income with net operating losses carried forward from a prior year. This is subject to a 20 year carry-forward limitation, as well as, a limitation to the total amount of taxable income that can be offset. Please reference the chart below for NOL Cap.

Net Operating Losses Cap

Taxable Year	Net Operating Loss Cap
2017	30% of PA taxable income
2018	35% of PA taxable income
2019+	40% of PA taxable income

How to Report: All corporations must file an RCT-101, PA Corporate Tax Report and include copies of appropriate federal forms (1120 or 1120-REIT) and supporting schedules.

Withholding Requirements

Corporate Net Income Tax Withholding: Partnerships with one or more partners that are C corporations subject to corporate net income tax are required to make withholding payments on behalf of nonfiling corporate partners. Calculate the withholding for each non-filing corporate partner on the PA Schedule CP, Corporate Partner CNI Withholding. You then list each non-filing corporate partner on the PA-65 Corp, Directory of Corporate Partners, and send in the withholding with this form.

Personal Income Tax Withholding for Nonresidents: Partnerships and PA S corporations with one or more nonresident partner(s) and shareholder(s) (owners) that are individuals, estates and trusts are required to make withholding payments on behalf of nonresident owners.

Estimated and extension payments made are reported on PA Schedule NW, Nonresident Withholding Payments for PA S corporations and Partnerships. If additional nonresident withholding is due, you should send the payment with the PA-20S/PA-65, PA S Corporation/Partnership Information Return, the PA-40 NRC, Nonresident Consolidated Income Tax Return, or both, depending upon your situation. See instructions for both forms for details.

Expenses & Deductions

You may deduct ordinary and necessary business expenses from your business income. An ordinary expense is one that is common and accepted in your field of business, trade or profession. A necessary expense is one that is helpful and appropriate for your business, trade or profession. An expense does not have to be indispensable to be necessary.

Following are examples of deductible business expenses:

- Amortization of business start-up costs
- Depreciation
- Cost of goods sold
- Vehicle expenses
- Cost of using your home for business

Many other expenses may be deductible for income tax purposes. Visit **www.revenue.pa.gov** for more information.

Business Start-Up Costs

Business start-up costs are expenses your business incurs before beginning business operations. They may include advertising, travel, surveys and training. You must capitalize these initial costs as an asset of the business. Capitalized expenses are combined expenses and you gradually deduct the total over a number of months or years. The gradual expense of these costs is amortization expense. However, you may not deduct start-up costs if business operations never begin.

For PA personal income tax purposes, you may directly expense (deduct) up to $5,000 of business start-up costs in the first year in which the business begins operations. You must amortize all start-up costs greater than $5,000 over 180 months. If total start-up costs exceed $50,000, you must reduce the amount of the direct expense by a dollar-for-dollar reduction of the direct expense amount for each dollar over $50,000.

Sole Proprietorships/ How to Report: report business start-up costs using PA Schedule C (Profit or Loss from Business or Profession). Record only the direct expense amount of start-up costs on Line 36 and report the amortization of any start-up costs on Line 7.

Partnerships and PA S corporations/ How to Report: Report business start-up costs on the federal Form 1065 or Form 1120-S. Report only the directly expensed amount on Form 1065, Line 20 or Form 1120-S, Line 19.

Report the amortization of any start-up costs on Form 1065, Line 16a or Form 1120-S, Line 14. If you are amortizing start-up costs, you will also need to complete federal Form 4562, Depreciation and Amortization.

C corporations: Report business start-up costs on the federal Form 1120. Report only the directly expensed amount on Form 1065, Line 26 and report any amortized costs on Line 20. If you are amortizing start-up costs, you will also need to complete federal Form 4562, Depreciation and Amortization.

NOTE: Usually costs for a particular asset (such as machinery or office equipment) are recovered through depreciation. Other start-up costs can be recovered through amortization, when the costs are deducted in equal amounts over a period of 180 months or more. Business start-up costs that are not amortized generally cannot be recovered until assets are sold or the business is discontinued.

Depreciation

If property acquired for your business has a useful life exceeding one year, you generally cannot deduct the entire cost as a business expense in the year you acquire the property. Instead, you must spread the deduction out over more than one tax year. This method of deducting the cost of business property is depreciation. The key difference between amortization and depreciation is that you use amortization for intangible assets, while you use depreciation for tangible assets.

Examples of depreciable property include the following:

- Office furniture
- Buildings and leasehold improvements
- Machinery and equipment

You may deduct a limited amount of the cost of certain depreciable property in the year you place the property in service (and each year thereafter throughout its useful life) as depreciation expense. You usually maintain and keep track of depreciable assets and the yearly depreciation expense via a depreciation schedule.

To set up a simple depreciation schedule, record the date of purchase, the amount paid for an item and its useful life, then decide upon a depreciation method. Straight-line depreciation is the simplest method, where you deduct the cost of each item equally over time.

For example, you can deduct the cost of an $1,800 computer with a useful life of five years at $30 a month ($1,800 divided by 60 months).

You must track the depreciation expense claimed each taxable year until you fully depreciate the item. You record the amount deducted each year as a depreciation expense as accumulated depreciation.

For PA personal income tax purposes, the depreciation method and useful life may follow the federal rules for determining the depreciation expense as long as the basis of the asset is the same for federal and Pennsylvania purposes and the method and useful life for the asset for federal purposes follows the Internal Revenue code of 1986. If the basis of any asset differs from the federal basis, you must use straight-line depreciation for PA personal income tax purposes.

Businesses may also elect to expense up to $25,000 of the cost of certain assets as an IRC Section 179 expense. There is a dollar-for-dollar reduction of the PA Section 179 expense for each dollar of investment in new assets that exceeds $200,000.

NOTE: For PA personal income tax purposes, the limit for IRC Section 179 is different than the federal limit. Also, PA income tax rules do not allow you to immediately expense a percentage of your assets (called "bonus depreciation") like federal does.

Sole Proprietorships/ How to Report: Use PA Schedule C (Profit or Loss from Business or Profession), Line 13a to report depreciation expense on your assets. Use Line 13b to report any Section 179 expense you elect to take.

Partnerships and PA S corporations/ How to Report: You report depreciation expense on either the federal Form 1065, Line 16a or Form 1120-S, Line 14. You will also need to complete federal Form 4562, Depreciation and Amortization. Remembering that PA personal income tax rules do not allow IRC 179 expenses over $25,000 or bonus depreciation, you may need to make an adjustment to your federal income. You make this adjustment on the PA Schedule M for the PA-20S/PA-65. See the Instructions for Schedule M for where to include your adjustment(s).

C corporations/ How to Report: You report depreciation expense on the federal Form 1120, Line 20. You will also need to complete federal Form 4562, Depreciation and Amortization. Pennsylvania corporate net income tax rules also do not allow federal bonus depreciation. You would adjust your federal income using Schedule C-8, Adjustment for Bonus Depreciation, or Schedule C-9, Adjustment for Deduction for Property which is Fully Depreciated, Sold or Otherwise Disposed.

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Expenses & Deductions cont.

Costs of Goods Sold

Generally, when you engage in a trade or business in which production, purchase or sales of merchandise is an income-producing factor, you must value inventory at the beginning and end of each tax year to determine your cost of goods sold. In determining inventory value, use the cost, lower of cost or market value or other method allowable under generally accepted accounting principles and practices. If you change your method of valuing inventory, restate the value at the beginning of the year based on the changed method, and include an explanation.

Some of your expenses may be included in figuring the cost of goods sold. You deduct the cost of goods sold from your gross receipts to determine the amount of gross profit for the year. If you include an expense in the cost of goods sold, you cannot deduct it again as a business expense.

The following are types of expenses used to calculate the cost of goods sold:

- The cost of products or raw materials, including freight
- Storage
- Direct labor costs (including contributions to pensions or annuity plans) for workers who produce the products
- Factory overhead

Under the uniform capitalization rules, you must capitalize direct costs and part of the indirect costs for certain production or resale activities. Indirect costs include rent, interest, taxes, storage, purchasing, processing, repackaging, handling, and administrative costs.

Sole Proprietorships/ How to Report: Report costs of goods sold using PA Schedule C (Profit or Loss from Business or Profession), on Line 2 and on Schedule C-1.

Partnerships and PA S corporations/ How to Report: cost of goods sold is calculated on federal Form 1125-A and carried to page 1 of the Federal tax return. For partnerships, it goes to Form 1065, Line 2 and for PA S corporations, it goes to Form 1120-S, Line 2.

C corporations/ How to Report: Calculate cost of goods sold on Federal Form 1125-A and carry it to page 1 of the federal Form 1120, Line 2.

Vehicle Expenses

If you use a vehicle for both business and personal reasons, generally the business portion is deductible. Keeping good records is key. You must determine what percent of the vehicle you use for business purposes and what percent you use for personal purposes. To do this, track the entire use of the vehicle by keeping a usage log in order to allocate the usage between the two.

Example: A sole proprietor of a flower shop drives his van 20,000 miles during the year: 16,000 miles for delivering flowers to customers and 4,000 miles for personal use. The sole proprietor may claim 80% (16,000 divided by 20,000) of the costs of operating the van as a business expense.

A business may use either the actual or the standard mileage rate method for determining vehicle expenses. The method a business uses depends on a few different factors such as the amount of time and attention to detail the business wishes to extend to keeping records for the expenses, whether the vehicle is leased or owned, if the vehicle being used is a small or large vehicle, or if the vehicle is an older, newer or inexpensive model.

A business that uses the standard mileage rate method simply needs to keep track of the business and personal mileage use of the vehicle. A business that uses the actual method must keep track of all the vehicle’s expenses as noted below and the business and personal use mileage. Typically, a business that chooses the standard mileage rate method can switch back and forth between methods but only if the business used the standard mileage rate in the first year of business use. However, if the business used the standard mileage rate in the first year for a leased vehicle, it must use that for the entire usage period for that vehicle. A business that uses the actual method in the first year must use the actual method for the life of the vehicle.

With a smaller or inexpensive vehicle, it is sometimes better to use the mileage rate method than the actual expense method. A business may also benefit from using the mileage rate method versus the actual expense method with older vehicles. A business with larger, more expensive or newer vehicles may benefit by using the actual expense method over the standard mileage rate method.

To determine which method is best for a vehicle, track both expenses for the first year of business use for the vehicle and decide which is best. The decision on what method to choose is critical in the first year of business use as that method can lock a business into the same method for the life of the vehicle.

Actual Expense Method
If the business chooses the actual expense method to calculate its vehicle expenses, the following expenses would be allowable up to the amount of the business use percentage for the vehicle:

- Depreciation
- Lease fees
- Rental fees
- Towing charges
- License fees
- Auto club dues
- Gas and oil
- Car repair tools
- Tires
- Insurance
- Car washes
- Registration fees
- Repairs and maintenance
- Business trip parking fees

You should keep dated receipts for each transaction. The department will consider credit card statements and/or other similar documentation in some situations. You must keep the business purpose and description of the vehicle for all vehicle expenses.

Standard Mileage Method
If you choose to deduct vehicle expenses using the standard mileage method rather than deducting actual expenses, you must use the standard mileage rate announced by the IRS to claim deductible costs of operating the car, van, or truck for business purposes.

NOTE: If you choose the standard mileage method to calculate vehicle expenses, you may not deduct actual expenses except for business-related parking fees and tolls.

In order to track total mileage, the business should maintain a detailed travel log to verify the mileage claimed. The detailed mileage log must contain the following information:

- Date traveled
- Beginning destination
- Ending destination
- Total miles per trip
- Purpose of trip
- Business relationship

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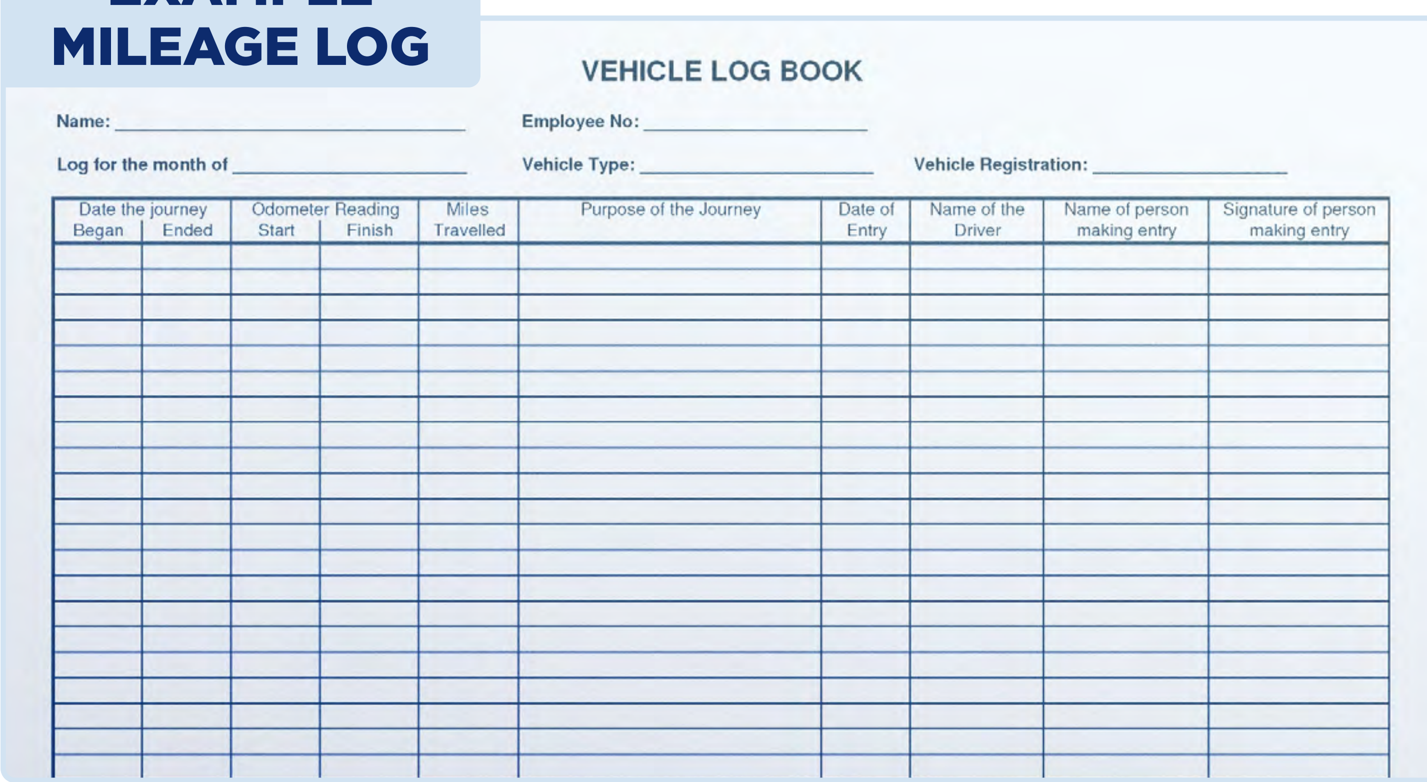
EXAMPLE MILEAGE LOG


VEHICLE LOG BOOK

Name: ______________________ Employee No: ______________

Log for the month of ______________ Vehicle Type: ______________ Vehicle Registration: ______________

Date the journey		Odometer Reading		Miles Travelled	Purpose of the Journey	Date of Entry	Name of the Driver	Name of person making entry	Signature of person making entry
Began	Ended	Start	Finish						

Expenses & Deductions cont.

Business miles are the number of miles actually driven for business, such as visiting a customer or meeting a client. Remember that any miles driven to the bank, office supply store, or computer store to meet with an accountant or to meet with a lawyer on business matters also counts as part of the business use mileage.

Some travel is not business-related:

- Driving from home to work and back is commuting. It is not deductible on either your business or individual income tax return.
- If you make a stop at a store on the way home from a business trip, the remaining miles from the store to home are personal mileage, so they can't be included.

You cannot use the standard mileage rate if:

- You used five or more vehicles at the same time (as in fleet operations).
- You used the actual expense method for calculating vehicle expenses in the first year you used the vehicle for business, including situations where a Section 179 deduction was claimed.
- You claimed the special depreciation allowance on the vehicle.

The five or more vehicles restriction applies to vehicles used at the same time. For example, a business owns three vans and two cars. The three vans can be on the road together at the same time, but only one person ever drives the cars, so only one will ever be in use at any time. This scenario won't break the four car maximum.

Vehicle Owned by Employee

An employee (or a shareholder employee) who uses a personal vehicle for business can submit a request for reimbursement to the corporation, based on documented business miles. The corporation can then reimburse the employee based on the standard mileage rate for business. In this case, the corporation gets a deduction for vehicle expenses paid, and the reimbursement is not reportable as taxable income to the employee. If the company paid the auto loan, insurance, gas, repairs, etc. to the owners, these payments are not valid business expenses. They will be either an auto allowance or distribution to shareholder-employees.

Vehicle Owned by the Corporation

Corporations cannot use the standard mileage rate method. They must determine the deduction for any vehicles owned based on actual operating expenses. The corporation can deduct auto loan, interest, insurance, repair, gas, etc. However, the business-use percentage of the vehicle limits the deductions. The corporation can treat vehicles used by employees as being used 100% for business purposes and may deduct 100% of the auto expenses. If an employer provides an employee with unrestricted use of a vehicle, the value attributable to the employee's personal use of the vehicle is required to be included in the employee's gross income. The employer must withhold the appropriate taxes from the employees' wages. This is typically the case when an employee gets the use of a company car as an employee benefit. The corporation's deduction for the personal-use percentage is a compensation expense.

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NOTE: The corporation determines the employee's income for personal use of a corporate vehicle by using the market value of the vehicle, not on the actual expenses or standard mileage rate, such as the cost to rent a vehicle.

Buy or lease?

You can also use the standard mileage rate for a leased vehicle. If you use the standard mileage rate in the first year for a leased vehicle, you cannot switch to the actual expense method in a later year or vice versa.

If you use the standard mileage rate for a leased vehicle, the lease payment amount is not deductible.

You do not depreciate leased vehicles. Instead, you deduct the business portion of the lease payment.

Sole Proprietorships/ How to Report: Complete PA Schedule C (Profit or Loss from Business or Profession), and include the amount of vehicle expenses on Line 10.

Partnerships and PA S corporations/ How to Report: Any car and truck expenses are included as "Other Deductions" on the federal Form 1065, Line 20 or Form 1120-S, Line 19.

C corporations/ How to Report: Vehicle expenses are included with "Other Deductions" on the federal Form 1120, Line 26.

Business Use of Your Home

If you use your home for business purposes, you may deduct some home expenses. However, the business use of your home must meet strict requirements before you can deduct any home expenses.

You may claim limited deductions for business use when you use part of your home exclusively and regularly as follows:

- The principal place where you conduct any trade or business.
- A place to meet or deal with patients, clients or customers in the normal course of your trade or business.
- In connection with your trade or business, if you are using a separate structure not attached to your residence.

Examples of business use of your home expenses generally include the following:

- Mortgage interest
- Rent
- Utilities expense
- Insurance expense
- Repairs and maintenance expense
- Real estate taxes

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REMINDER: Pennsylvania does not recognize the federal safe harbor method for determining the allowable deduction for business use of a residence. All home office expenses must be determined by using actual costs incurred.

In order to claim any expenses related to business use of your home, you must calculate the percentage of the property you are using for commercial activities. To calculate the business use percentage, divide the square footage of the property used for a work area by the total square footage of the entire property or dwelling. Multiply the result by the total expenses to arrive at the home office expense deduction.

How to Report: Taxpayers should file PA Schedule C (Profit or Loss from Business or Profession) to report their expenses related to business use of their home.

Use Tax on Home Office Utilities

Keep in mind, although you can claim utilities as an expense, they may be subject to sales and use tax when used for commercial purposes. This means if the utility provider is not already taxing the estimated commercial usage for electricity, steam, natural gas, kerosene, fuel oil or bottled gas, the taxpayer is required to remit use tax.

How to Report: Taxpayers should be reporting their use tax on home office utilities or other commercial use of utilities on the PA-1, Use Tax Return. You can do this online at www.etides.state.pa.us/usetax.

In order to calculate how much use tax is due on utilities, you must calculate the business use percentage of the residence you are using for commercial activities and multiply the total utility bill by that percent.

Example: Dave is a salesman and his employer requires him to maintain a home office. He has 2,000 square feet in his house - of which 300 square feet he uses exclusively as his office. He uses 15% of his house as his office. He pays $2,400 for electricity. He owes use tax on $360 (15% of $2,400).

The department will mail notices to the taxpayers who have not registered for sales tax and have not remitted use tax on utilities during the previous filing period using Line 25 of the PA-40, Personal Income Tax Return. These notices will include key points of reference, such as Business Partner (BP) numbers and notice numbers to enable taxpayers to report and pay online.

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IMPORTANT: A taxpayer with an active sales tax number should use its regular sales tax filing for use tax on utilities. Taxpayers are not required to separately register for a sales tax license in order to report use tax on utilities.

All payment due dates will remain consistent with PA-40 due dates to maintain timeliness. The department will not impose penalty if this approach is used.

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STRATEGIES for SUCCESS

PA Tax Strategies

Understanding Pennsylvania taxes can be challenging and staying compliant can be even harder if you are not properly prepared. The Department of Revenue has identified key areas to help businesses be successful and avoid common errors.

Take Advantage of Electronic Services

The department offers a full range of online features that allow you to fulfill your tax needs at any time, from anywhere. We encourage taxpayers to use these services to become more efficient and accurate when dealing with their tax obligations. Below are just a few things that we have to offer:

Electronic Filing: We offer two options for filing your returns and payments electronically. E-TIDES and TeleFile are both fast and easy. Upon filing your returns, you will receive proof of submission regardless of which system you use. This can help you to avoid additional penalties and interest. The department also ensures that our electronic filing systems are safe and secure to help protect your information.

Electronic Payments: Tax obligations, including estimated payments, may be paid electronically by credit card, debit card or by electronic funds transfer. You no longer have to be concerned about a payment getting lost in the mail.

Account Maintenance: You can change an address, view filing history, add and remove third party access for preparers or bookkeepers, and much more.

e-SOA: You can receive an electronic Statement of Account for your business taxes within 24 hours of requesting the document. Each e-SOA includes the three most recently filed tax periods, non-filed tax periods, tax periods with open liabilities, payments or credits grouped by tax type. Additional sections show tax periods under appeal, unused restricted credits and W-2 annual reconciliation, if applicable.

e-Correspondence: When you enroll to receive your business tax correspondence electronically, it streamlines the process and allows you to access your information faster and more efficiently. You can view, download, and print your business tax correspondence at your own convenience, saving you valuable time.

Online Customer Service Center: You can go online to search thousands of frequently asked questions. If you still cannot find the answer you are looking for, just create an account and submit your question. We will respond via email within 72 hours.

Keep Good Records

Keeping good records is the most important task of a successful business. Good recordkeeping allows you to function seamlessly and ensures your information is complete and accurate.

Helpful Practices

Maintain daily business records: Records can help you to monitor the progress of your business which allows you to see whether your business is improving or if you need to make any changes.

Identify the source of all receipts: You will receive money or property from many sources. Your records identify the sources of your receipts, and you need this information to separate business from nonbusiness receipts, and taxable from nontaxable income.

Record expenses when they occur: You may forget deductible business expenses when you prepare your tax return. Recording them when they occur helps you to track your deductible expenses and ensure you are receiving the credit you deserve.

Keep complete records on all assets: Good records enable you to prepare accurate financial statements, including income (profit and loss) statements and balance sheets. Such statements help you in dealing with your bank or creditors. An income statement shows the income and expenses of the business for a given period of time. A balance sheet shows the assets, liabilities and your equity in the business on a given date.

Retain supporting documents: Your business records must be available for inspection by the IRS and/or the Department of Revenue. If the IRS or department examine any of your tax returns, you may be asked to explain the items reported. Complete records will facilitate the examination.

Supporting Documents

It is important to retain supporting documents in an orderly fashion and in a safe place because they support your recordkeeping and information on your tax return. Generally, it is a good idea to keep these documents in file folders by designated categories.

Assets: Assets are property, such as machinery and furniture, which you own and use in your business. You must keep records to calculate annual depreciation and gain or loss when you sell the assets. Your asset records should show the following:

- When and how you acquired the asset
- Purchase price
- Date of purchase

- Cost of any improvements
- Deductions taken for depreciation
- Deductions taken for casualty losses
- How you used the asset
- When and how you disposed of the asset
- Selling price
- Expenses of sale

Examples of supporting documents for assets:
- Purchase and sales invoices
- Real estate closing statements
- Canceled checks

Expenses: Expenses are costs incurred to carry on your business, and supporting documents should detail the amounts paid for business expenses. Examples are:

- Canceled checks
- Cash register tapes
- Account statements
- Credit card sales slips
- Invoices
- Petty cash system for small cash purchases*

*A petty cash fund allows you to make payments without having to write checks for small amounts. Each time you make a payment from petty cash, you should prepare a disbursement slip and attach it to your receipt as proof of payment.

Gross receipts: Gross receipts are payments you receive for goods and services you provide in your business. You should retain supporting documents that show the amounts and sources of your gross receipts, such as:

- Cash register tapes
- Bank deposit slips
- Receipt books
- Invoices
- Credit card sales slips
- 1099-MISC Forms
- 1099-K Forms

Purchases: Purchases are items you buy and resell to customers. If you are a manufacturer or producer, purchases include the cost of all raw materials and parts purchased for manufacturing finished products.

Supporting documents should show the amount paid for such purchases. These records will help you determine the value of inventory at the end of the year:
- Canceled checks
- Cash register tapes
- Credit card sales slips
- Invoices

Travel, transportation, entertainment and gift expenses: These expenses require extra documentation before they may be deducted as business expenses.

Example: To deduct the cost of taking a client to lunch, you should record the name of the person and the purpose of the business lunch or the topics discussed over lunch. For more information on federal rules, consult Internal Revenue Service Publication 463, Travel, Entertainment Gift and Car Expenses. For Pennsylvania rules, see the instruction booklets accompanying your PA tax returns.

Employees: Any person employed for wages or salary by your company is considered an employee. It is important to keep records of payroll information pertaining to your employees' wages and withholding, as well as records of their personnel files. Examples of employee personnel records are:

- Names of Employees
- Addresses of Employees
- SSN of Employees
- Occupation
- Dates of Employment

If there are changes to names, addresses and/or the employee's occupation, you will want to keep both the old record and the updated one until that employee's departure from your company. Examples of payroll records include:

- Amounts and dates of all wage, annuity, pension payments and tax withheld
- Amounts of tips reported to you by your employee
- Records of allocated tips
- Dates and amounts of tax deposits
- Copies of returns filed and confirmation numbers
- Records of fringe benefits and expense reimbursements provided by your employees
- Issued W2's and 1099 Statements

continued on next page

PA Tax Strategies cont.

Retain Your Records

Records must be maintained for periods of time so the Internal Revenue Service and the Department of Revenue may administer tax laws effectively. Generally, this means you must keep records supporting information on a tax return until the statute of limitations for that return expires.

A statute of limitations is the amount of time the IRS or department has to assess additional tax and the amount of time you have to amend a return to claim a credit or refund. Periods of limitations vary by tax, and a period of limitations begins when a return is filed. Returns filed before they are due are considered filed on the due date. Generally, you should retain copies of all returns and supporting schedules for at least four years after filing. If you claim depreciation, deductions or losses, you may want to hold onto your documentation even longer. Returns and supporting schedules are required to identify adjusted basis in a partnership or LLC interest, or in shares of a PA S corporation. Basis documentation for any item reported or potentially reportable on current or future tax returns must be kept indefinitely or until the asset is sold, exchanged or disposed of by a taxpayer. For example, books and records used to calculate basis for retirement plans, stocks, bonds, mutual funds, business assets, business interests, principal residence, etc. must be kept indefinitely.

IMPORTANT: You may want to create a backup set of records and store them electronically. Even if the original records are paper, they can be scanned and converted to a digital format. Once the documents are in electronic form, they can be downloaded to a storage device or burned onto a CD.

CAUTION: Identity theft is a serious threat in today's world, and it is important to take every precaution to avoid it. You should always dispose of these records by shredding them and not by merely throwing them away in the trash.

Open Accounts for Taxes

One of the first things you should do when starting a business is open a business checking account. You should keep your business account separate from any personal checking account.

In addition to establishing a separate business bank account, you may find it helpful to open a bank account for sales tax you collect from customers or withholding taxes deducted from employees' compensation.

One of the biggest mistakes business owners make is mixing sales tax or employer withholding with other business income, or spending taxes due to the commonwealth. These taxes are considered trust fund taxes in which we are trusting you to collect on behalf of the commonwealth. Civil and criminal penalties could result from the misuse of these funds.

You may also find it helpful to deposit the employers' portion of Social Security and Medicare into a separate account.

IMPORTANT: Reconciling your accounts regularly can help to avoid headaches in the future. Simple steps, like requesting an electronic statement of account, can help business owners compare their monthly records to the department's records. This ensures that everything is posted correctly and we are all on the same page.

Update Your Address Regularly

It is important to keep the Department of Revenue updated with your current address. When you alert the department of an address change, you ensure you receive all important documents and letters pertaining to your business.

Many licenses or certificates are mailed in physical form and are required to be displayed. If you do not update your address, you delay the process of receiving these items.

Also, the department mails out letters for non-filed returns or tax liabilities. You will want to have your address current so that if one of these notices are sent out you can rectify the situation right away and minimize any penalties or interest.

Refunds are another item that get mailed out from the Department of Revenue. Again, if the department have an invalid address, receipt of your refund will be delayed.

Finally, the department uses addresses as one of the verification factors when individuals call in to discuss their accounts. If your address is never updated and you call in for assistance, we may not be able to help you if you cannot verify the proper address on file.

How to Update Your Address: To update your business address, complete form REV-1705 R, Tax Accovunt Information Change/ Correction Form.

If you are registered with e-TIDES, you can select "Enterprise Maintenance" and follow the prompts until it gives you the option to "View/Update Enterprise Information." Updating your address electronically will ensure that the new address is reflected within 24 business hours.

One of the most important things you can do for your business is to make sure your information is always up- to-date with the Department of Revenue. With updated information, you will not have to worry about problems when it comes to your taxes.

When you are completing the form for your new address, include pertinent information, such as the apartment, room, or suite number. If your business is moving out of the country, do not abbreviate the location of your new address. The country name will not display properly if it is abbreviated.

Obtain a Bulk Sales Clearance

If you are purchasing or otherwise acquiring more than 51% of another business' assets, including real estate or machinery and equipment, you may be held personally liable for the amount of the seller's unpaid taxes up to the sales price or fair market value of the assets you purchased or acquired, whichever is greater.

To protect yourself against a situation like this, you would need to obtain a Bulk Sales Clearance Certificate from the seller. This certificate is evidence that all tax returns/reports have been filed and all tax obligations have been satisfied up to and including the date of transfer. If the purchaser fails to obtain a Bulk Sales Clearance Certificate from the seller, the purchaser will become liable for all unpaid taxes the seller owes up to and including the date of transfer, regardless of whether or not the taxes have been settled, assessed or determined at that time.

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IMPORTANT: While the seller is supposed to advise the purchaser of this notification requirement, failure of the seller to give this notification does not relieve the purchaser of the obligation to timely notify the department of the planned bulk purchase, nor does it relieve the purchaser of any liability for the seller's unpaid sales and use taxes.

The purchaser or seller must notify the Department of Revenue of the pending bulk sale transaction at least 10 days before paying for or taking possession of any business assets, whichever occurs first. This notification is typically a written request on letterhead stating the purchaser, seller, and business information on the notice of sale or by completing the REV-181, Application for Tax Clearance Certificate.

If the sale has already taken place, the purchaser should retain a portion of the sales price in escrow that should only be released when a bulk sale clearance is provided. This protects the purchaser if there are any liabilities.

KNOW WHO TO CONTACT

Online Customer Service Center
www.revenue.pa.gov

Customer Experience Center
Personal Taxes: 717-787-8201
Business Taxes: 717-787-1064
e-Business Center: 717-783-6277

1-888-PATAXES (728-2937)
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