Starting a Business in Pennsylvania

A BEGINNER'S GUIDE

pennsylvania
DEPARTMENT OF REVENUE

REV-588 PO (11-12)

www.paopenforbusiness.com

This guide is published by the PA Department of Revenue to provide information to new business owners. It is not intended as a substitute for services of tax and legal professionals.

Table of Contents

Subject ***Page***

Checklist for Business Start-Up 1
Center for Entrepreneurial Assistance 2
Sole Proprietorships 2
Partnerships 3
Limited Liability Companies 5
Corporations 6
S Corporations 8
Identification Numbers 10
Registering for PA Tax Accounts 12
Registrations Required with Other Agencies 13
Fictitious Name 14
Common Sense About Your Business 15
Business Expenses 16
Depreciation 17
Record Keeping 19
Supporting Documents 21
Bookkeeping Systems 24
How Long to Keep Records 29
Tax Enforcement 29
Taxable Sales 31
Tax Year 34
Personal Income Tax 36
Employer Withholding 38
Taxpayer Assistance 39
Pennsylvania Tax Credits 40
Revenue District Offices 41

A Beginner's Guide for Starting a Business in Pennsylvania

This guide is filled with information about how to fulfill your tax responsibilities and tips to help you avoid common mistakes. This guide is not intended as a substitute for services of tax and legal professionals.

Visit the PA Open for Business website at **www.paopenforbusiness.com** for business information, forms and to register your business online.

Checklist for Business Start-Up

Following is a list of important things to consider when starting your own business.

Planning Activities

- Apply for a federal Employer Identification Number.
- Secure financing, if needed.
- Establish a bank account for your business.
- Establish record-keeping procedures for financial management, marketing, personnel, maintenance, etc.
- Secure insurance for your business.

General Start-Up Activities

- Determine the business you want to start and determine:
  - your qualifications for the business and
  - the feasibility of making that business profitable.
- Conduct research on your industry, target market and competition.
- Select a location and analyze it for traffic, parking and customer and delivery access.
- Investigate start-up procedures specific to your industry.
- Develop a business plan that includes strategies for management, marketing, production and financial contingencies.
- Develop a list of all potential monthly expenses.

- Determine potential sources of financing.
- Develop a list of equipment and purchases required to start your business. Identify the costs of each.
- Research potential suppliers and investigate credit terms.
- Develop descriptions of duties within your business and determine the person responsible for each. Identify future educational needs.

Center for Entrepreneurial Assistance

If you have questions about state regulations not answered in this booklet, call the Center for Entrepreneurial Assistance, toll-free, at 1-800-280-3801. The center's staff offers user-friendly services for Pennsylvania entrepreneurs.

How to Form Your Legal Business Structure

Once you decide to establish a business, your first consideration will be the type of business organization to use. Legal and tax considerations, as well as personal needs and the needs of the particular business, will help determine your structure. There are four principal kinds of business structures: sole proprietorships, partnerships (general or limited), limited liability companies and corporations.

There are advantages and disadvantages to each form of business. As an entrepreneur, you should examine all of the characteristics and consult appropriate legal professionals when considering the formation of your business.

• Sole Proprietorships

Most small businesses operate as sole proprietorships. This is the simplest form of organization and allows the single owner to have sole control and responsibility. Some advantages of the sole proprietorship include less paperwork, few legal restrictions, owner retention of profits and ease in discontinuing the business. Disadvantages include unlimited personal liability for all debts and liabilities of the business, limited ability to raise capital and termination of the business upon the sole proprietor's death.

A small business owner might select the sole proprietorship to begin. Later, if the business succeeds and the owner feels the need, he or she may decide to expand and form a partnership or corporation.

How Sole Proprietors Report Pennsylvania Income

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 personal income tax return and pays taxes at the state income tax rate of 3.07 percent.

If your business will be a sole proprietorship and you want to use a fictitious name, call the PA Department of State, Corporation Bureau, at 717-787-1057 for an application and to check availability of a fictitious name. See Page 14 for more information on fictitious names or visit **www.paopenforbusiness.com**.

- **Partnerships**

Partnerships are similar to sole proprietorships except that two or more people are involved. Some advantages of partnerships include easy establishment and the ability to draw upon financial and managerial strengths of all the partners. Disadvantages include general partners' unlimited personal liability for the firm's debts and liabilities, termination of the business with the death of a partner and the fact that any partner can commit the firm to obligations.

General Partnerships

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.

A 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.

While no filing is required to form a general partnership, there may be a requirement to file for a fictitious name. See Page 14 for more information.

Limited Partnerships

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. A Pennsylvania limited partnership is formed by filing a Certificate of Limited Partnership with the Corporation Bureau of the PA Department of State.

Limited Liability Partnerships

Limited liability partnerships (LLPs) are existing general or limited partnerships that file elections with the Corporation Bureau 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. Limited liability partnerships are required to file Certificates of Annual Registration and remit annual registration fees.

How Partnerships Report Pennsylvania Income

Partnerships, general and limited, are required to file PA-20S/PA-65 Information Returns and provide each PA resident partner with PA Schedule RK-1 and each nonresident partner with PA Schedule NRK-1, if the partnership is taxed as a partnership for federal income tax purposes.

When preparing PA tax documents, it is best to start with the completed Partnership Information Return (federal Form 1065), and then proceed to the Pennsylvania schedules, forms and returns.

Partnerships that elect to be classified as corporations for federal income tax purposes are subject to corporate net income tax and capital stock/foreign franchise tax, both reported on the Corporate Tax Report (RCT-101).

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. Each partnership must list each corporate partner on the PA-65 Corp,

Directory of Corporate Partners. Additional information is available in the PA-65 Corp instructions on the department's website, **www.revenue.state.pa.us**.

- **Limited Liability Companies**

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.

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

How Limited Liability Companies Report Pennsylvania Income

The 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 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)).

LLCs classified as partnerships for federal income tax purposes are required to file PA-20S/PA-65 Information Returns and provide each PA resident partner with PA Schedule RK-1 and each nonresident partner with PA Schedule NRK-1.

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

Regardless of how they are classified for federal income tax purposes, LLCs are subject to capital stock/foreign franchise tax. Additional information on the taxation of LLCs is available in the Corporation Tax Instruction Booklet (REV-1200) and on the department's website.

LLC members are subject to personal income tax if they elect to file as a partnership or PA S corporation with the Internal Revenue Service.

- **Corporations**

A corporation is the most complex form of business organization to create, primarily because of 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 in the charter.

There are two types of corporations in Pennsylvania; C corporations and S corporations. The income and losses of each are determined using different rules. While C corporations follow federal income tax rules for determining income with some adjustments, S corporations must use PA personal income tax rules for determining income, as well as book income for determining capital stock/foreign franchise tax.

Advantages of a corporation structure include the limitation of liability to the amounts owners have contributed to shares of stock and the fact that a corporation's continuity is unaffected by the death of or transfer of shares by any owner. Disadvantages include extensive record keeping, close regulation and double taxation, since profits are taxed at the corporate level, and dividends paid to owners are taxed the individual level.

In forming a corporation, prospective shareholders transfer money and/or property for the corporation's capital stock.

To form a corporation in Pennsylvania, articles of incorporation and a docketing statement must be filed with the Corporation Bureau of the PA Department of State. Foreign (out-of-state) corporations must submit applications for Certificates of Authority and docketing statements, to conduct business in Pennsylvania.

Contact: Corporation Bureau
PA Department of State
206 North Office Building
Harrisburg, PA 17120
717-787-1057

Or, visit the PA Open for Business website at **www.paopenforbusiness.com**.

How Corporations Are Taxed in Pennsylvania

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.

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 Pennsylvania. The weighted factors not apply to calculating capital stock/foreign franchise tax liabilities, rather all factors are equally weighted.

Act 48 of 2009 increased the sales factor of the apportionment formula to 90 percent for tax years beginning after Dec. 31, 2009. Property and payroll factors are each weighted at 5 percent for such years.

For years beginning after Dec. 31, 2012, income is apportioned to Pennsylvania based solely on the sales factor.

Pennsylvania's net operating carry-forward loss provision permits C corporations to offset losses against PA corporate net income. For tax periods beginning after Dec. 31, 2009, C corporations are permitted to offset the greater of $3 million or 20 percent of PA corporate net income, prior to the application of net operating loss. Additional information on net operating loss carry-forwards is available in the Corporation Tax Instruction Booklet (REV-1200) and on the department's website.

All corporations must file Corporate Tax Reports (RCT-101) and include copies of appropriate federal forms (1120, 1120S or 1120-REIT) and supporting schedules.

Domestic corporations are also subject to capital stock tax, while foreign corporations are subject to foreign franchise tax. Both taxes are calculated using a statutory fixed formula, explained in detail in the PA Corporation Tax Booklet. Currently, there is no minimum capital stock/foreign franchise tax in Pennsylvania.

For current rates, visit the Department of Revenue's website at **www.revenue.state.pa.us** or call the Taxpayer Service and Information Center at 717-787-1064.

Pennsylvania S Corporations

For tax periods beginning after Dec. 31, 2005, entities considered federal S corporations are automatically considered PA S corporations (IRC-1361-1379). S corporation status permits shareholders to pay state taxes on income at the individual level 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 percent. S corporations do not pay corporate net income tax.

A federal S corporation may elect not to be taxed as a PA S corporation by filing the Election Not To Be Taxed As A Pennsylvania S Corporation (REV-976), on or before the due date or extended due date of the PA Corporate 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 Corporations S Status Revocations

First, it is important to remember 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.

Elections which first went in effect in 2007 may be revoked for 2012. 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 (EIN), the seven-digit PA corporate tax account number **[or the 10-digit Revenue ID]** 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 sub-

sidiaries, the letter must include the names and Revenue ID number of all qualified subchapter S subsidiaries doing business in Pennsylvania.

Mail the letter to:

PA DEPARTMENT OF REVENUE
BUREAU OF CORPORATE TAXES
PROCESSSING DIVISION
PO BOX 280705
HARRISBURG, PA 17128-0705

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.

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 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.

Even though a qualified subchapter S subsidiary is a disregarded entity for federal income tax purposes, it must file RCT-101 each year and calculate capital stock/foreign franchise tax on a separate-company basis. A separate-company income statement and balance sheet or pro forma federal Form 1120S must be attached to RCT-101.

How the Income of S Corporations is Taxed in Pennsylvania

A PA S corporation is not subject to corporate net income tax; rather, the income is passed through to the shareholders to claim on personal income tax returns. Shareholders of a PA S corporation include their shares of income, loss or credit on 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 personal taxable income differs from corporate taxable income. For example, there are no provisions to allow a net operating loss carry-forward in the calculation of personal taxable income.

PA S corporations are required to file PA-20S/PA-65, S Corporation/Partnership Information Returns, provide each PA resident shareholder PA Schedule RK-1 and provide each non-resident shareholder PA Schedule NRK-1.

PA S corporations are also responsible for filing corporate tax reports. Shareholders are taxed individually, and an S corporation will be subject to corporate net income tax only to the extent of its built-in-gains.

PA S corporations are also subject to capital stock/foreign franchise tax, reported on the Corporate Tax Report (RC-101).

The valuation of stock is calculated using a formula and rate detailed in the Corporation Tax Booklet (CT-1).

Beginning the Registration Process

Identification Numbers

You must provide a taxpayer identification number so the department can identify and process your returns. There are three kinds of taxpayer identification numbers – Social Security numbers, individual taxpayer identification numbers and employer identification numbers. For information on obtaining an individual taxpayer identification number or employer identification number, see below and the next page.

Your taxpayer identification number must be shown on all returns and other documents sent to the department. You must also furnish your identifying number to others who file returns or documents detailing information such as the following:

- Interest, dividends, royalties, etc. paid to you;
- Amounts of $600 or more paid to you or your business in a year;
- Any amount paid to you as a dependent care provider; and
- Alimony paid to you.

If you do not furnish your identification number as required, you could be subject to a penalty for delaying administration of tax law.

Individual Taxpayer Identification Number (ITIN)

An individual taxpayer identification number is a tax processing number issued by the IRS. The IRS issues ITINs to individuals required to have U.S. taxpayer identification numbers, but who are not eligible to obtain Social Security numbers.

To obtain an ITIN, apply with the IRS using Form W-7, Application for IRS Individual Taxpayer Identification Number. For more information on obtaining an ITIN, visit **www.irs.gov**.

Employer Identification Number (EIN)

Employer identification numbers are used to identify the tax accounts of employers, sole proprietors, corporations, partnerships, estates, trusts and other entities.

You should obtain an EIN if any of the following applies:

- You have employees;
- You have a Keogh plan;
- You operate your business as a corporation or partnership; or
- You file an employment tax return to report employer withholding taxes, unemployment compensation contributions, etc.

Getting an EIN

Employer identification numbers are issued by the Internal Revenue Service (IRS), and you may request an EIN through the mail or online by completing the Application for an Employer Identification Number, federal Form SS-4.

For more information or to obtain Form SS-4, visit **www.irs.gov**, visit the IRS Office nearest you or call 1-800-TAX-FORM.

You should obtain your EIN before a return is due.

Registering for PA Tax Accounts

Corporations, LLCs and business trusts formed under the laws of the Commonwealth of Pennsylvania or formed under the laws of another jurisdiction and registered with the Pennsylvania Department of State are not required to register with the Department of Revenue for corporation taxes. The Department of Revenue will establish corporation tax accounts for these entities based on Department of State registration.

If you employ one or more persons, you need to register to withhold PA personal income tax on all compensation paid to Pennsylvania resident employees, and on compensation paid to nonresident employees (other than residents of New Jersey, Maryland, Virginia, West Virginia, Ohio and Indiana from whose wages you withhold the reciprocal state's tax) for work performed in Pennsylvania.

Employers can file and pay business taxes online using e-TIDES, by phone using TeleFile or through third-party software.

Employers are also required to register for unemployment compensation insurance tax, imposed on employers and employees to help support them 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, and you can register for it online at **www.paopenforbusiness.com** or by submitting a PA Enterprise Registration Form (PA-100).

If you sell taxable items or perform taxable services, you are required to secure a sales tax license. Taxable items are subject to a 6 percent sales tax. In addition, retailers in Allegheny County are required to collect an additional 1 percent local sales tax and retailers in Philadelphia are required to collect an additional 2 percent local sales tax. All three sales taxes are reported on the same tax return and under the same sales tax license number.

To determine if your business is required to collect and remit sales tax, review the Retailer's Information Guide (REV-717); call the nearest Revenue district office, listed in the government

pages of local telephone directories; or call the Taxpayer Service and Information Center at 717-787-1064.

Please visit **www.paopenforbusiness.com** or review the PA-100 form for more information to help you determine the types of taxes for which you may be liable.

Through e-TIDES, the Department of Revenue's Internet filing system at **www.etides.state.pa.us**, you can electronically file returns and submit payments for a variety of business taxes.

Registering for a new account

The PA Enterprise Registration Form (PA-100) enables taxpayers to establish multiple accounts, including accounts for sales/use tax, employer withholding tax and unemployment compensation.

Register online at **www.paopenforbusiness.com** or obtain a PA-100 form from a local Revenue district office or by calling Revenue's Forms Ordering Service, toll-free, at 1-800-362-2050.

Tax payments of $10,000 or more must be remitted electronically through electronic funds transfer or by credit/debit card, or they may be paid with certified or cashiers checks.

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

Registrations required with other agencies

If you plan to employ one or more people, you will need to obtain various federal, state and local forms. Below are some helpful resources.

- For information on federal income tax and Social Security withholdings, visit **www.irs.gov** or contact the Internal Revenue Service at 1-800-TAX-1040.
- For Workers' Compensation information, visit the PA Department of Labor & Industry website at **www.dli.state.pa.us** or call, toll-free, 1-800-482-2383.
- Unemployment compensation forms may be obtained online at **www.paopenforbusiness.com** or by calling 1-866-403-6163.

- Contact your local municipality (city, borough or township) regarding zoning requirements; local taxes and business requirements; and local licenses and permits.
- Keystone Opportunity Zones in Pennsylvania offer special tax relief for businesses that locate within these areas. To learn more about these tax-free districts, visit the Department of Community and Economic Development's website at **www.newpa.com** (Search: KOZ) or call 717-787-3405.

How to Register Your Business Name

Fictitious Name

A fictitious name is any assumed name, style or designation other than the proper name of the entity using the name. Generally, any sole proprietorship, partnership, corporation or other association that conducts a business under a fictitious business name must register the name with the PA Department of State. However, certain entities need not make a fictitious name filing. Contact the PA Department of State's Corporation Bureau for details, or visit **www.paopenforbusiness.com**.

Following are examples to help you determine whether you need to file for a fictitious name:

(1) A person's last name, standing alone or coupled with words describing the business, is not a fictitious business name and does not need to be registered. For example, "Jones Radio Repair" is not a fictitious name because it includes the last name of the owner. However, "Bill's Radio Repair" is a fictitious business name because the owner's last name is not listed, and it needs to be registered.

(2) Words suggesting additional owners – such as "Company," "& Company," "& Sons" and "& Associates" – qualify a business name as a fictitious name. For partnerships, the last name of all partners must be listed or the name is considered fictitious. For example, if "Moore, Johnson & Smith" includes all three partners' names, it is not a fictitious business name. However, if all partners' names are

not included, the fictitious name must be registered with the PA Department of State.

After registering a fictitious name, you will be required to advertise the new name in a newspaper of general circulation in the county in which your business will be located. You can identify the publication by contacting the county courthouse or county bar association. The PA Department of State's Corporation Bureau can also assist you.

Until a fictitious name is registered, the unregistered entity may not use the courts of Pennsylvania to enforce a contract entered into using the fictitious name. Failure to register a fictitious name does not void a contract, rather it prevents enforcement until registration. The court has the option of imposing a $500 penalty in instances where an entity seeks to enforce the contract and subsequently registers the fictitious name in an untimely manner.

Contact: Corporation Bureau
PA Department of State
206 North Office Building
Harrisburg, PA 17120
717-787-1057

Common Sense about your Business

For a small business, it may be relatively easy to determine where your business stands by coming up with a daily "break even" figure. Every business has fixed expenses that must be paid just to open your doors for business. Such overhead includes rent, insurance, salaries, equipment, vehicle payments, etc. If you can determine the cost of doing business each day, you can subtract that amount from daily sales to determine your business' profit or loss.

To find your "break even" point, add your fixed expenses for the month and divide by the number of days you are open for business.

Example:

Suppose you run a shoe repair shop and your monthly overhead includes the following:

- Shop rental of $500;
- Equipment payments of $100;
- $1,300 in compensation to your one employee; and
- Prorated insurance bill of $50.

Your fixed monthly expenses total $1,950. If you are open Monday through Friday, or 20 days a month, your daily overhead is $97.50. Therefore, your shoe repair shop must generate $97.50 each day you are open to break even.

To get an even more accurate picture of profit or loss, you may want to consider variable costs like supplies, as well, which may change as your business volume changes.

Furthering the above example, let's say you determine it costs 25 cents in supplies to fix each pair of shoes. If you fixed 28 pairs of shoes in a day, you may want to consider the $7 supplies cost in your calculations for the day.

Business Expenses

Ordinary and necessary business expenses may be deducted on your PA personal income tax return. 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 considered necessary.

Following are examples of deductible business expenses:

- Amortization of business start-up costs
- Depreciation
- Costs using your home for business
- Car expenses

Many other expenses exist that may be deductible for personal income tax purposes. See PA Schedule C for more information.

Business Start-Up Costs

Business start-up costs are expenses you incur before you begin business operations. They may include advertising, travel, sur-

veys and training. These costs are capital expenses, which are expenses you deduct over a number of years. However, if you never begin business operations, you cannot deduct start-up costs.

You usually recover costs for a particular asset (such as machinery or office equipment) through depreciation, discussed next. Other start-up costs can be recovered through amortization, when you deduct them in equal amounts over a period of 180 months or more. If you choose not to amortize start-up costs, you generally cannot recover them until you sell or otherwise go out of business.

Depreciation

If property you acquire for business use has a useful life exceeding one year, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Examples of depreciable property include the following:

- Office furniture
- Buildings
- Machinery and equipment

You may deduct a limited amount of the cost of certain depreciable property in the year you purchase it for use in your business.

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

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

You will need to track the depreciation expense claimed each taxable year until the item is fully depreciated. The amount you

deduct each year as a depreciation expense is recorded as accumulated depreciation.

Business Use of Your Home

You may be able to deduct some home expenses if you use your home for business. However, the business use of your home must meet strict requirements before any home expenses may be deducted.

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

- Your home is used as the principal place of any trade or business in which you engage;
- Your home is used as a place to meet or deal with patients, clients or customers in the normal course of your trade or business; or
- Your home is used in connection with your trade or business, if you are using a separate structure not attached to your residence.

Certain utilities, which are not subject to sales and use tax when purchased exclusively for residential use, become subject to sales and use tax when used for commercial purposes. If you are including electricity, natural gas, fuel oil, or kerosene in your calculation of the business use of your home, you should report use tax due on the prorated expense amount.

Car Expenses

If you use your car in your business, you may generally deduct either actual automobile expenses or mileage at the standard rate.

Actual expenses

If you choose to deduct actual expenses, you may deduct the cost of the following:

- Depreciation
- Garage rent
- Gas
- Insurance
- Lease fees
- Licenses
- Oil
- Parking fees
- Rental fees
- Repairs
- Tires
- Tolls

If you use your car for business and personal purposes, you must divide expenses between business and personal use by determining what percent of total car use the car was used for business as opposed to personal use.

Example: You are the sole proprietor of a flower shop. You drive your van 20,000 miles during the year – 16,000 miles for delivering flowers to customers and 4,000 miles for personal use. You may claim 80 percent (16,000 divided by 20,000) of the costs of operating your van as a business expense.

Mileage

If you choose to deduct auto expenses using the mileage method rather than deducting actual expenses, you must use the standard mileage rate announced by the IRS to claim deductible costs of operating your car, van, pickup or panel truck for business purposes. You may claim mileage only for a car you own. To calculate your deduction, multiply miles driven for business purposes by the standard mileage rate(s) for the period(s) of time during which the miles were driven.

If you choose to deduct mileage, you may not deduct actual expenses except for business-related parking fees and tolls.

To claim mileage, you must use this deduction method in the first year you place the car in service. In later years, you may choose to use deduct mileage or actual expenses.

Record Keeping

The following explains why you must keep records, what kinds of records you must keep, how long you must keep records and how to keep them.

Why Keep Records?

Good records will help you do the following:

Monitor the progress of your business. Records can show whether your business is improving, which items are selling and what changes may need to be made. Good records can increase the likelihood of business success.

Prepare accurate financial statements. 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.

Identify source of 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.

Track deductible expenses. You may forget deductible business expenses when you prepare your tax return unless you record them when they occur.

Prepare your tax returns. Records must support the income, expenses and credits you report on your tax returns. Generally, these are the same records you use to monitor your business and prepare your financial statements.

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

Kinds of Records You Should Keep

Except in a few cases, the law does not require any special kind of record keeping system. You may choose any system suited to your business that clearly details income.

The type of business you operate determines the records you must keep for federal tax purposes. You should organize records using an accounting method that clearly shows your income by tax year. For further information on accounting methods, see Page 32. If you are in more than one business, you should keep complete and separate records for each business.

Your records must show gross income, deductions and credits.

For most small businesses, a business checkbook, explained on Page 25, is the primary record-keeping tool.

General Tips for Record Keeping

- Maintain daily business records.
- Identify the source of all receipts.
- Record expenses when they occur.
- Keep complete records on all assets.
- Retain supporting documents.

Supporting Documents

Purchases, sales, payroll and other business transactions will generate supporting documents such as invoices and receipts. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips and canceled checks. These documents detail information you must record in your books.

It is important to retain these documents in an orderly fashion and in a safe place because they support your record keeping and information on your tax return.

Generally, it is a good idea to keep supporting documents in file folders for designated categories. For example, if you write a check to B&B Supplies and record the expense as "office supplies," then the receipt should be placed in a folder marked "office supplies."

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. Examples of documents that show gross receipts include the following:

- Cash register tapes
- Bank deposit slips
- Receipt books
- Invoices
- Credit card sales slips
- 1099-MISC 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. Examples of documents for purchases include the following:

- Canceled checks
- Cash register tapes
- Credit card sales slips
- Invoices

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

- 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.

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

For 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.

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, including

- Purchase price
- Date of purchase
- Cost of any improvements
- Deductions taken for depreciation
- Deductions taken for casualty losses, such as fires or storms
- How you used the asset
- When and how you disposed of the asset
- Selling price
- Expenses of sale

Examples of supporting documents for assets include the following:

- Purchase and sales invoices
- Real estate closing statements
- Canceled checks

What if I don't have a canceled check?

If you do not have a canceled check, you may be able to prove payment with account statements prepared by financial institutions or third parties. Following is a list of account statements that are acceptable when legible.

- An account statement showing a cleared check is acceptable when it shows the check number, amount, payee's name and date the payment was posted to the account by the financial institution.
- An account statement showing an electronic funds transfer is acceptable when it shows the amount transferred, payee's name and date the transfer was posted to the account by the financial institution.

- An account statement showing a credit card charge is acceptable when it shows the amount charged, payee's name and the transaction date.

Proof of payment alone does not entitle you to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices, which clearly show the payment was for the purchase of a specific item or service.

Bookkeeping Systems

You must decide whether to use a single-entry or a double-entry bookkeeping system. The single-entry system is the simplest to maintain, but it may not be suitable for everyone. The double-entry system has built-in "checks and balances" to ensure accuracy and control.

Single-entry. A single-entry system is based on the income statement and records the flow of income and expenses through daily summaries of cash receipts and monthly summaries of cash receipts and disbursements.

Double-entry. A double-entry bookkeeping system uses journals and ledgers. Transactions are first entered in a journal and then posted to ledger accounts. These accounts show income, expenses, assets, liabilities (debts of a business) and net worth (excess of assets over liabilities). Income and expense accounts are closed at the end of each tax year. Asset, liability and net worth accounts are kept open permanently.

In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another. An example of a journal entry showing a payment of rent in January is shown as:

Rent Expense	$500 (Debit)
Cash	$500 (Credit)

Under this system, total debits must equal total credits after you post journal entries to ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

Computerized System

Computer software packages are available to assist in record keeping. Often, these software packages are easy to use and require little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce legible records to determine and support accurate tax liability.

You must also maintain records and documentation that detail the role of the computerized system in your accounting procedures. This documentation must identify the following:

- Applications performed
- Procedures used in each application
- Controls used to ensure accurate and reliable processing
- Controls used to prevent unauthorized addition, alteration or deletion of records

Recording Business Transactions

A good record keeping system includes a summary of business transactions. Business transactions are ordinarily summarized in journals and ledgers, which can be purchased from local stationery and office supply stores.

A journal is a book in which you record each business transaction detailed by supporting documents. You may have to keep separate journals for common frequent transactions.

For example, a cash receipts journal lists all money received. In a retail establishment where many transactions occur, you may want to total receipts daily. If you are a contractor and received just a few payments a month, you may choose to total receipts monthly.

Totals from your cash receipts journal should then be posted to your ledger. A ledger is organized into different accounts and summarizes transactions listed in your journal.

If this is your first attempt at bookkeeping, review a PA tax return to become familiar with categories of expenses detailed. This will help you keep separate records for different categories of expenses and different accounts.

A record keeping system for a small business might include the following:

- Business checkbook
- Daily summary of cash receipts
- Monthly summary of cash receipts
- Check disbursements journal
- Depreciation worksheet
- Employee compensation record

Business checkbook. 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.

The business checkbook is your source for recording business expenses and income. You should record all expenses from and deposit all daily receipts into your business checking account, indicating the source of deposits. Regularly check your account for errors by reconciling the account. See the next page for reconciliation information.

Consider using a checkbook that allows adequate space to identify the source of deposits, such as business income, personal funds and loans. You should also note on each deposit slip the source of the deposit, and keep copies of all slips.

You should make all business payments by check, so expenses will be recorded in your cash disbursements journal as part of your normal bookkeeping system. A canceled check also serves as a proof-of-payment document. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to "cash." If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your files. If you cannot get a receipt for a cash payment, explain the payment in your records.

Open a Bank Account for Taxes

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 federal, state or local taxing agencies. Each payday, you should total the taxes withheld from compensation or collected from sales, then deposit those amounts into a separate tax account or accounts. By doing this, you will always have the money to pay your taxes in a timely manner.

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

Reconciling the checking account. When you receive your bank statement, make sure the statement, your checkbook and supporting records agree. Note, however, the statement balance may not match your checkbook balance or bookkeeping records if the statement includes bank charges you did not account for or does reflect deposits or payments made after the statement.

By reconciling your checking account, you will:

- Verify the amount of money in the account;
- Ensure your records reflect all bank charges and correct account balances; and
- Correct any errors in your bank statement, checkbook and records.

You should reconcile your checking account(s) each month.

Before reconciling your monthly bank statement, review your own records. Begin with your checkbook balance at the end of the previous month, add the total amount deposited during the month and subtract the total cash disbursements.

The result should match the end-of-month checkbook balance. If not, you may have made an error in recording a check or deposit. You can find the error by:

1. Adding all check stubs and comparing that total against the total in the "Amount of Check" column in your check disbursements journal. If the totals do not match, review each payment amount to determine if an error was made

in your check stub record or in the check disbursements journal.

2. Adding the deposit amounts in your checkbook and comparing that total against the monthly total in your cash receipt book, if you have one. If the totals do not match, review each deposit amount.

If your checkbook and journal entries still do not reconcile, recalculate the running balance in your checkbook to make sure additions and subtractions are correct.

When your checkbook balance matches your journal entries, you may begin reconciling your checkbook with the bank statement. Many banks print a reconciliation worksheet on the back of the statement to assist you.

To reconcile your account:

1. Compare the deposits on the bank statement with the deposits in your checkbook. Note any differences.
2. Compare each canceled check, reviewing each check number and dollar amount on the statement and in your checkbook. After accounting for all checks returned by the bank, those not marked as cleared in your checkbook are outstanding.
3. Prepare a bank reconciliation.
4. Update your checkbook and journals for items not recorded (such as service charges) or recorded incorrectly.

At this point, the adjusted bank statement balance should match your adjusted checkbook balance.

If possible, a separation of duties is also recommended for businesses that entrust employees with the daily receipt and recording of income. Individuals responsible for opening mail and making bank deposits should be separate from those recording the amounts on books and records and also from those performing the monthly checking account reconciliations. At the very least, owners should regularly review the work of those performing these duties and be wary whenever an employee who performs these duties refuses to take a vacation or permit any-

one else to perform their duties. Following these simple steps will help prevent employee theft or fraud from occurring.

How Long To Keep Records

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

A period 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.

For PA personal income tax purposes, retain copies of all returns and supporting schedules for at least four years after filing. Retain them longer if you claim depreciation deductions or losses. Returns and supporting schedules are required to identify adjusted basis in a partnership or LLC interest, or in shares of a Pennsylvania 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.

Keep copies of your filed tax returns. They serve as a resource when preparing future tax returns, and they help in calculations on amended returns. Tax returns also provide information regarding the adjustments to basis of a business. Personal income tax returns also often provide the basis for retirement plan contributions. Copies of tax returns should be kept indefinitely.

Pennsylvania Tax Enforcement

Once registered for a tax, you are required to file returns on time. If you owe no tax, you still must file a return. If you fail to file, you may be subject to penalties.

The PA Department of Revenue is authorized to charge penalty and interest on tax payments not made in full or on time. The amount of penalty varies by tax type.

If a tax payment is not made in full on or before the due date, interest will be charged daily from the date the tax is due to the date of payment. The interest rate is announced annually by the PA Department of Revenue and will apply for a calendar year regardless of any change in federal interest rates. Interest is calculated by multiplying the tax due by the number of days delinquent, then dividing by the number of days in the year. See Interest Rate and Calculation Method for All Taxes Due (REV-1611) for more information on the interest rate.

Taxpayers who cannot pay delinquent taxes in full may arrange deferred payment plans with the department. Once a deferred payment plan is entered into, a taxpayer is required to make payments according to the agreement. To arrange for a deferred payment plan, call or visit the Revenue district office nearest you, listed on Page 39.

The Department of Revenue has the authority to file public liens against personal property of taxpayers who do not file or pay state taxes timely. Liens filed by the department are permanent and remain unsatisfied until tax debts are paid in full.

Additionally, the department's tax collection efforts may result in a lien execution against companies delinquent on sales and/or employer withholding taxes. A lien execution causes a business to be padlocked and assets seized, so that assets may be sold at a sheriff's sale to help pay the tax debt to the commonwealth.

Responsible Party

If a tax is not withheld, collected or applied properly, the responsible party can be held personally liable for payment of the tax. A responsible party is an employee or representative of the employer with a duty to collect or pay tax, or prepare tax docu-

ments. An officer, director or partner of the employer and the person who receives tax money may be held personally liable for payment.

Any person required to collect, account for and pay income tax who willfully fails to do so may be liable to pay a penalty equal to the tax evaded.

Criminal Prosecution. Any person who willfully fails or refuses to collect and remit tax, fails to file a return, files a fraudulent or false return or presents uncollectible funds for payment may be subject to criminal prosecution.

Taxable Sales

The state sales tax is 6 percent, and it has remained unchanged since 1968. An additional 1 percent local sales tax applies to taxable purchases in Allegheny County and an additional 2 percent local sales tax applies to taxable purchases in Philadelphia.

Sales and use tax is imposed on the retail sale, consumption, rental or use of tangible personal property in Pennsylvania. The tax is also imposed on certain services relating to such property and on specific business services. Items exempt from the tax include food (not ready-to-eat), most clothing, textbooks, drugs, sales for resale and residential heating fuels such as oil, electricity, gas, coal and firewood. Taxable purchases are exempt from sales tax when paid for with food stamps.

Sales and use tax exemptions are allowed for purchases or use by the U.S. government; the Commonwealth of Pennsylvania and its political subdivisions; ambassadors, ministers and consular officers of foreign governments; volunteer firemen's organizations; and certain charitable, religious and nonprofit educational institutions. There are also exemptions for certain business activities related to manufacturing, processing, farming, dairying, agriculture, horticulture, floriculture, aquaculture and public utilities.

The hotel occupancy tax, imposed at the same rate as sales tax, applies to room rental charges at a hotel, motel, motor lodge, inn, bed and breakfast, summer camp or similar establishment for periods of less than 30 days by the same person.

Sales, use and hotel occupancy tax must be collected by anyone engaged in making taxable sales of tangible personal property or services; leasing; renting or using tangible personal property; or renting hotel rooms in Pennsylvania.

Use Tax and Businesses

Businesses that purchase items subject to sales tax for which the seller does not charge and collect sales tax on the invoice or receipt, are responsible for remitting use tax directly to the PA Department of Revenue.

Use tax is due when sales tax was underpaid or not paid on purchases made over the Internet, through toll-free numbers (800, 888, 866 and 877), from mail order catalogs and from out-of-state locations. Use tax also applies to purchases of taxable items and services used in Pennsylvania when sales tax was not paid. The use tax rate is the same as the sales tax rate: 6 percent state, with an additional 1 percent local tax for items purchased or used in Allegheny County. Two percent local tax applies to items purchased or used in Philadelphia.

Use tax liabilities can be reported on a PA-1 Use Tax Return, which 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. NOTE: businesses that do not regularly incur use tax liabilities should use this payment and reporting method, making sure not to mark the YES registration block on the PA-1.

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 Enterprise Registration Form, PA-100.

Businesses currently registered for the collection of sales tax are required to report and remit use tax liabilities when filing sales and use tax returns.

Sales Tax Licenses

All businesses selling products and services subject to sales tax are required to complete a PA-100, Pennsylvania Enterprise Registration Form, to obtain a sales tax license, which should be prominently displayed 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.

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

- Monthly returns with pre-payment obligations – Effective Oct. 1, 2012, each sales/use tax licensee whose actual tax liability for the third calendar quarter of the preceding year is between $25,000 and $100,000 is provided with an alternative payment option to the requirement of paying 50 percent of the tax liability for the same month of the preceding calendar year. The licensee may remit an amount that is equal to or greater than 50 percent of the actual tax liability required to be reported for the same month in the current year.

  Businesses remitting more than $100,000 for the third calendar quarter of the preceding year must remit 50 percent of the actual tax liability due for the same month of the preceding 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 month.

- Monthly returns – Taxpayers must file monthly reports when the total tax liability for the third calendar quarter is $600 or more. Payments and reports are due by the 20th day of the following month.

- Quarterly returns – When the total tax liability is between $75 and $600 in the third calendar quarter, the taxpayer 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.

- Semiannual returns – When the total tax collected is less than $75 in the third quarter and less than $300 in a year,

a taxpayer must file twice a year. 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.

Sales, use and hotel occupancy tax returns and payments may be filed electronically online using e-TIDES, by phone using TeleFile or through third-party software. Visit **www.revenue.state.pa.us** for access to e-Services.

Any business that does not have a permanent physical location in Pennsylvania, but makes taxable sales in Pennsylvania on an irregular basis, is required to register for a transient vendor's license. Transient vendor licenses are renewable on a yearly basis so long as the taxpayer timely files and remits all sales tax.

All other out-of-state vendors making taxable sales in Pennsylvania are issued sales tax licenses, valid for five years and renewable so long as the taxpayer timely files and remits all state taxes. Sales and transient vendor licenses must be prominently displayed at all events.

More information on sales, use and hotel occupancy tax is available in the Retailers' Information Guide (REV-717), accessible online at **www.revenue.state.pa.us** or from Revenue's 24-hour Forms Ordering Message Service, toll-free, at 1-800-362-2050.

Tax Year

You must calculate taxable income and file an income tax return based on an annual accounting period. A tax year is usually 12 consecutive months, and there are two kinds of tax years: calendar and fiscal.

A calendar year is 12 consecutive months beginning Jan. 1 and ending Dec. 31.

A fiscal year is 12 consecutive months ending on the last day of any month other than December, or a 52/53-week year.

If you operate a business as a sole proprietor, the tax year for your business must be the same as your individual tax year. However, special rules apply for PA S corporations and partnerships, which may establish their own fiscal years to report taxes. Most companies prefer to close a fiscal year when business activ-

ities are naturally at a low point. For example, most retailers close fiscal years Jan. 31 or later, after the holiday shopping season is over. Pennsylvania recognizes the same tax year businesses use for federal income tax purposes.

Accounting Methods

An accounting method is a set of rules used to determine when and how to report income and expenses in your books and on income tax returns.

The two basic accounting methods are the cash method and the accrual method. Under the cash method, you report income in the year in which it was received, and you usually deduct expenses in the tax year you pay them. Under the accrual method, you generally report income when you earn it, even though you may receive payment in a later year. You deduct expenses in the tax year you incur them, whether or not you pay them in the same year. The accrual method must be used for sales tax purposes.

If you need inventories to show income correctly, you should generally use an accrual method of accounting for purchases and sales. Inventories include goods held for sale in the normal course of business. They also include raw materials and supplies that will physically become a part of merchandise intended for sale.

You must use the same accounting method from year to year to calculate taxable income, if that method clearly shows your income. In general, any accounting method that consistently uses accounting principles suitable for your trade or business and treats all items of gross income and expense the same from year to year clearly shows income.

More than one business. If you own more than one business, you may use different accounting methods for each business, so long as the methods used each clearly shows income. Keep a complete and separate set of books and records for each business.

Changing your method of accounting. The department may require a taxpayer to use an accounting method reflective of the type of income if the taxpayer did not use one regularly, or if

he/she used a method not reflective of the income reported. A change in accounting method not only includes a change in the overall system of accounting, but also a change in the treatment of any material item. For examples of changes that require permission and information on how to get permission for the change, see Internal Revenue Service Publication 538.

Personal Income Tax

The PA personal income tax is levied against the taxable income of resident and nonresident individuals, estates and trusts. The rate is 3.07 percent.

As a business owner, you may be required to make personal income tax periodic estimated payments on your anticipated income. If you employ people, you are required to withhold PA income taxes from their wages and make payments to the department.

Pennsylvania taxes eight classes of income: (1) compensation; (2) interest; (3) dividends; (4) net profits from the operation of a business, profession or farm; (5) net gains or income less net losses from dispositions of property; (6) net gains or income from rents, royalties, patents and copyrights; (7) net gains or income derived through estates or trusts; and (8) gambling and lottery winnings, except PA Lottery winnings. A loss in one class of income may not be used to offset income in another class, nor may gains or losses be carried backward or forward from year to year.

Credit against the tax is allowed for gross or net income taxes paid to other states or foreign countries by PA residents. See PA Schedules G-S, G-L and G-R for more information.

A full or partial Tax Forgiveness credit against the tax is provided for eligible low-income taxpayers. An additional adjustment may be made to eligibility income for each dependent. See PA Schedule SP for more information.

Pennsylvania does not allow standard deductions, deductions for personal exemptions or itemized deductions for personal expenses. However, certain income exclusions are available to eligible taxpayers.

- An exclusion from taxable income is permitted for allowable reimbursed business expenses.
- Taxpayers may deduct allowable unreimbursed employee business expenses.
- Taxpayers may exclude the gain on the sale of a principal residence (sold after Jan. 1, 1998) if they satisfy ownership and use requirements.
- Taxpayers may deduct contributions to Internal Revenue Code Section 529 Tuition Account Programs up to $13,000 per beneficiary, per taxpayer.
- Taxpayers may deduct contributions to medical savings accounts and/or health savings accounts when such contributions are claimed on federal returns.

Pennsylvania collects personal income tax through employer withholding, detailed below, and the following methods:

- Estimated and final payments from individuals:

  Individuals, sole proprietors, estates and trusts must file annual returns on or before April 15 for the previous year's income. Taxpayers with income expected to be over $8,000 annually and not subject to withholding by a PA employer must file and remit estimated payments by the 15th day of April, June, September and January. There are special estimated tax provisions for farm income when gross proceeds from farming constitute more than two-thirds of total income.

  Additional information is available in the brochure, Estimated Tax Payments for PA Personal Income Tax (REV-577), and Forms REV-413(I), Instructions for Estimating PA Personal Income Tax for Individuals Only, and REV-414(I), Individuals Worksheet.

- Withholding from nonresident partners or shareholders by partnerships and PA S corporations.

  Partnerships and PA S corporations with nonresident partners or shareholders must remit tax on income allocable to the nonresident member and from sources within Pennsylvania. The nonresident partner or shareholder

may take a credit on his/her annual return for the tax remitted by the partnership or PA S corporation.

Employer Withholding

Employers withhold and remit employees' taxes on wage and salary income according to the following schedule:

- Quarterly – If total withholding is under $300 per quarter, the taxes are due the last day of April, July, October and January.
- Monthly – If total withholding is $300 to $999 per quarter, the taxes are due the 15th day of the following month.
- Semimonthly – If total withholding is $1,000 to $4,999 per quarter, the taxes are due within three banking days of the close of the semimonthly period.
- Semiweekly – 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.

Employers with tax accounts are issued state account identification numbers in addition to federal employer identification numbers, and both should be referenced on all correspondence.

Employers are required to file reconciliation returns for each quarter. These returns must be received on or before the last day of April, July, October and January for the quarters ending on the last day of March, June, September and December.

Employers are also required to file a wage and tax statement (W-2) for each employee and W-2 transmittals. These documents must be submitted by Jan. 31 following the year of compensation or within 30 days after termination of business, if the business terminated during the calendar year.

Employers can file and pay employer withholding tax returns and submit W-2 information electronically online using e-TIDES, by phone using TeleFile or through third-party software. Access e-TIDES through the Revenue e-Services center at **www.revenue.state.pa.us**.

More information is available in the Employers Handbook for Withholding Taxes (REV-415), available online at **www.revenue.state.pa.us** or by calling Revenue's 24-hour Forms Ordering Message Service, toll-free, at 1-800-362-2050.

Taxpayer Assistance

Visit the PA Department of Revenue's e-Services Center at **www.revenue.state.pa.us** for information on electronic filing services. Taxpayers can file returns and reports, make payments, register businesses and file appeals electronically for PA personal income tax and business taxes.

The Revenue Department's Online Customer Service Center at **www.revenue.state.pa.us** provides answers to commonly asked tax questions.

To stay informed on state tax news, sign up to receive *The Pennsylvania Tax Update,* a free, bimonthly e-newsletter featuring information on tax laws, policies, practices, procedures and forms. To receive the *Tax Update* automatically, register at **www.revenue.state.pa.us** for Revenue e-Alerts.

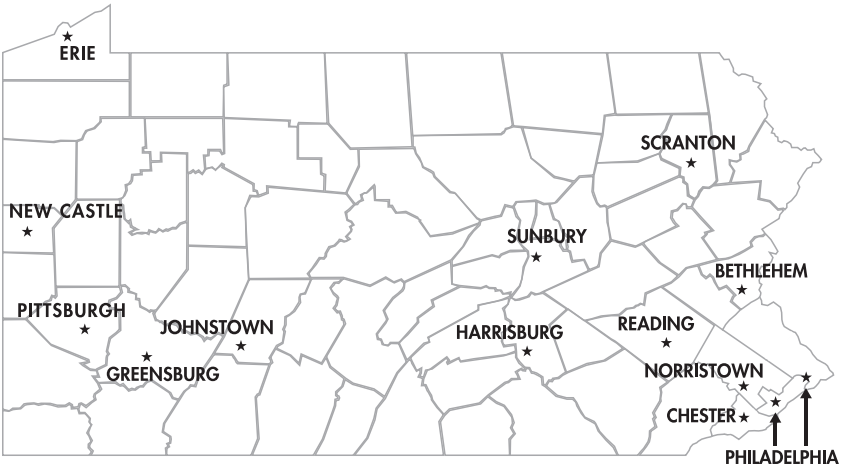
For personal assistance, visit the Revenue district office nearest you (listed on Page 39), or call the Taxpayer Service and Information Center during normal business hours. For business tax assistance, call 717-787-1064; for personal income tax assistance, call 717-787-8201.

Pennsylvania Tax Credits

Depending on the type of business, employers may be eligible for tax credits offered by the state. Visit **www.revenue.state.pa.us** and select the "Incentives, Credits and Programs" link for more information.

PA DEPARTMENT OF REVENUE DISTRICT OFFICES

NOTE: Please call ahead to verify a district office's address and services, or visit the department's website at **www.revenue.state.pa.us** for information. Taxpayer assistance hours are 8:30 a.m. to 5 p.m.



BETHLEHEM
44 E BROAD ST
BETHLEHEM PA 18018-5998
610-861-2000

CHESTER
6TH FL STE 602
419 AVENUE OF THE STATES
CHESTER PA 19013-4451
610-619-8018

ERIE
448 W 11TH ST
ERIE PA 16501-1501
814-871-4491

GREENSBURG
SECOND FL
15 W THIRD ST
GREENSBURG PA 15601-3003
724-832-5283

HARRISBURG
LOBBY
STRAWBERRY SQ
HARRISBURG PA 17128-0101
717-783-1405

JOHNSTOWN
425 MAIN ST
JOHNSTOWN PA 15901-1808
814-533-2495

NEW CASTLE
103 S MERCER ST
NEW CASTLE PA 16101-3849
724-656-3203

NORRISTOWN
SECOND FL
STONEY CREEK OFFICE CTR
151 W MARSHALL ST
NORRISTOWN PA 19401-4739
610-270-1780

PHILADELPHIA
STE 204A
110 N 8TH ST
PHILADELPHIA PA 19107-2412
215-560-2056

PHILADELPHIA
ACDMY PLZ SHPG CTR
3240 RED LION RD
PHILADELPHIA PA 19114-1109
215-821-1860

PITTSBURGH
CHMBR COMMRCE BLDG
RM 420
411 7TH AVE
PITTSBURGH PA 15219-1905
412-565-7540

READING
STE 239
625 CHERRY ST
READING PA 19602-1186
610-378-4401

SCRANTON
RM 200
SAMTERS BLDG
101 PENN AVE
SCRANTON PA 18503-1970
570-963-4585

SUNBURY
535 CHESTNUT ST
SUNBURY PA 17801-2834
570-988-5520

FOR MORE INFORMATION:

Online Customer Service Center
www.revenue.state.pa.us

Taxpayer Service & Information Center

Personal Income Tax: **717-787-8201**

Business Taxes: **717-787-1064**

e-Business Services: **717-783-6277**

1-888-PATAXES (1-888-728-2937)
Touch-tone service is required for this toll-free call. Call to order forms or check the status of a personal income tax account, corporation tax account or property tax/rent rebate.

Forms Ordering Service
1-800-362-2050

Service for Taxpayers with Special Hearing and/or Speaking Needs (TTY)
1-800-447-3020

Call or visit your local
Department of Revenue district office.

pennsylvania
DEPARTMENT OF REVENUE