Office of International Business Development

Pennsylvania Business Taxes

Frequently Asked Questions

1. How do Pennsylvania business taxes compare to those in neighboring states?
According to rankings by the independent Tax Foundation for 2014, the overall tax climate — including state and local taxes — for business is much better in Pennsylvania (24th among all states) than in the neighboring states of New Jersey (49th), New York (50th), Ohio (39th), and North Carolina (44th). Pennsylvania has adopted legislation, including laws increasing available business tax deductions and credits and eliminating the capital stock tax, that will further reduce the tax burden on Pennsylvania businesses in the future.

2. Does Pennsylvania tax business income?
Most Pennsylvania corporations are subject to a corporate net income tax. Generally, limited liability companies and partnerships are exempt from the tax. The corporate net income tax applies at a 9.99% rate, but apportionment factors available to Pennsylvania corporations based on payroll, property and sales percentages within and outside Pennsylvania can reduce effective income tax rates below those of many other states. Also, the availability of net operating loss carry-forwards and various credits, including for job creation, educational improvement, neighborhood assistance, research and development, resource enhancement and protection and enterprise and Keystone Opportunity Zone investment, can further reduce corporate net income taxes. Unlike many states that require related businesses to report income on a consolidated return, Pennsylvania's corporate net income tax is calculated on a separate company basis, which often results in a lower effective rate of tax. Also different from many other states, Pennsylvania allows deductions for interest and royalty expenses paid to related entities and does not require sales destined for other states to be included in receipts, thereby further reducing the effective rate of tax.

3. What sales taxes apply in Pennsylvania?
Sales tax at the rate of 6% is imposed on the sale at retail within Pennsylvania of tangible personal property and a limited number of specifically enumerated services. Purchases of materials consumed or used directly in manufacturing are exempt from Pennsylvania sales tax. Food, clothing, drugs, textbooks, resale items and residential heating fuels, as well as most services, are also exempt. A local sales tax of 1 - 2% applies in certain Pennsylvania jurisdictions, including Philadelphia and Allegheny Counties.

4. What property taxes apply in Pennsylvania?
Unlike many states, Pennsylvania and its counties do not impose any tax on personal property such as business equipment and inventory. Real property taxes are imposed by counties, municipalities and school districts based upon the assessed value of the property as determined by the local assessor.

5. Must businesses pay taxes on behalf of their employees?
Pennsylvania employers are generally required to withhold taxes from employees’ pay and remit those taxes to the appropriate governmental agencies. Employment tax burdens that are imposed directly upon the employer include Federal Social Security, Medicare, and Unemployment taxes. There are also Pennsylvania tax burdens imposed upon the employer for Pennsylvania Unemployment tax, which is imposed at a rate that varies with each company’s historical workforce unemployment experience.

6. Does Pennsylvania tax personal income?
Pennsylvania imposes a tax on personal income at a 3.07% rate, one of the lowest of any state having a personal income tax. Local governments in Pennsylvania may also impose taxes on personal earned income, at varying rates.

7. Can taxes be reduced through different forms of business entities?
Many tax obligations apply regardless of the form in which business is conducted. However, Pennsylvania's corporate net income tax applies only to corporations and other entities treated as corporations for federal tax purposes. Most limited liability companies, as well as limited and general partnerships, are exempt from the tax.

8. What tax benefits are available to businesses in Keystone Opportunity Zones?
Keystone Opportunity Zones afford businesses the opportunity to substantially reduce their tax burden through various exemptions, deductions, abatements and credits. Additional information about qualifying for Keystone Opportunity Zone treatment is available from the Pennsylvania Department of Community and Economic Development.

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9. Do I have to pay taxes in Pennsylvania, even if I do not make any profit the first year or the first few years in which I do business in the state?

As a general rule, firms are not required to pay income taxes (and are not assessed any by the state) in years in which they do not generate any profits. Pennsylvania does, however, have a Capital Stock Tax that is assessed against the ownership interests of both Corporations and LLCs. The amount of Capital Stock Tax that is charged is determined by examining the value of the enterprise based on a fixed formula, which primarily examines an enterprise's net income and net worth. As a result, the amount of the Capital Stock Tax that is ultimately assessed against your firm could be very low, if there is no profit. In recent years, Pennsylvania has been steadily lowering the rate of the Capital Stock Tax, which is expected to be entirely phased out by the year 2016.

10. Pennsylvania's corporate net income tax rate is higher than in many other states. Does this mean my company will be better off locating somewhere else?

No, because the current Administration is working hard to reduce the CNI. The corporate net income tax (CNI) is only assessed against corporations — not an LLC, for example. Secondly, and perhaps more importantly, this tax is only one consideration in determining where to do business. Other factors include the availability of suitable facilities, qualified workers, efficient logistics and transportation services, and location relative to major markets. Pennsylvania surpasses the competition in all of these categories. Other considerations include the level of support that the government and other entities will provide for new businesses, and the desirable living opportunities that Pennsylvania offers. It is important to remember that firms are generally required to pay CNI tax in each state in which they conduct business, according to the proportion of the business activities that they perform in each state. In addition, firms located in Pennsylvania can often reduce (or offset) the amount of CNI tax that they would otherwise be required to pay in Pennsylvania based on the amount of CNI taxes they pay to other states. This means that if a corporation from another state does business in Pennsylvania, it will be required to pay Pennsylvania corporate net income tax based on the amount of business it does in Pennsylvania. Conversely, Pennsylvania corporations that do business in other states should get a credit against their Pennsylvania CNI tax for any corporate net income that they are assessed in those other states. Firms may avoid having to pay the CNI tax entirely by doing business as an LLC.

Additionally, Pennsylvania recently moved to a 100 percent single sales factor to apportion income to the commonwealth for corporate net income tax purposes.1

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1 Pennsylvania Department of Community & Economic Development