

# KEYSTONE INNOVATION ZONE (KIZ) TAX CREDIT PROGRAM

Program Guidelines | July 2018



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## Section I – General

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### A. Introduction

The Keystone Innovation Zone Tax Credit Program is a key component of the Keystone Innovation Zone (KIZ) Program. The KIZ Program, established in 2003, creates designated geographic zones to foster innovation and create entrepreneurial opportunities by aligning the combined resources of educational institutions and the private sector.

With a total pool of up to \$15 million in tax credits available to KIZ companies annually, the KIZ Tax Credit Program significantly contributes to the ability of young KIZ companies to transition through the stages of growth. KIZ Tax Credits can be used to offset certain state tax liabilities.

This innovative program also contains a tradability component crucial to young companies that have little or no tax liability. The application form to apply to the Department of Community & Economic Development (DCED) for approval to sell the KIZ Tax Credits can be found on DCED's website at [dced.pa.gov/kiz](http://dced.pa.gov/kiz) (see Section F for more information).

### B. Eligibility

To be eligible to participate in the KIZ Tax Credit Program, the applicant must meet the following criteria:

1. Must be an entity subject to Personal Income Tax (Article III) or Corporate Net Income Tax (Article IV)
2. Must be a for-profit business entity located within the geographic boundaries of a particular KIZ
3. Must be in operation less than 8 years
4. Must be operating within one of the KIZ target industry sectors
5. Must be in state tax compliance with the laws and regulations of the Commonwealth as determined by the Department of Revenue
6. Meet any other requirements specified by the Department of Community & Economic Development

### C. Award Calculation

A KIZ company may claim a tax credit equal to 50% of the increase in its gross revenues in the immediately preceding taxable year attributable to KIZ eligible activities in the zone, over the KIZ company's gross revenues in the second preceding taxable year attributable to its activities in the KIZ. A tax credit for a KIZ company shall not exceed \$100,000 annually.

1. For example, ABC Co. operates entirely in a KIZ and its entire operations are within a targeted industry segment. In year 1, ABC Co.'s gross revenue resulting from activities within the KIZ amounts to \$40,000. In year 2, ABC Co.'s business grows, and its gross revenues from activities within the KIZ amount to \$60,000. In year 3, ABC Co. may apply for a KIZ tax credit of \$10,000 (50% of the \$20,000 increase in gross revenue from year 1 to year 2).

If in year 3, ABC Co.'s gross revenues grow to \$500,000 from activities within the KIZ, the company would be eligible to apply for a maximum KIZ tax credit of \$100,000 in year 4. Its gross revenue increase from year 2 (\$60,000) to year 3 (\$500,000) is \$440,000; however, 50% of the increase in gross revenues (\$220,000) exceeds the \$100,000 maximum allowable tax credit.

For the purposes of the KIZ Tax Credit Program, the term “gross revenues” is defined as revenues derived from the sale of goods and services from activities in a KIZ targeted industry, and from operations transacted within the KIZ. Additional revenue sources may include:

1. Grants received by the KIZ company from any source whatsoever (including but not limited to KIZ, SBIR/STTR, NIH and DOD funds)
2. Licensing fees derived from the applicant’s intellectual property
3. Cash awards received by an applicant through a business competition, incubator/accelerator program, etc. and included on the applicant’s tax filings.

All other revenues generated from non-KIZ related activities (i.e., rent collected, sales of tax credits, loans, funds from investors, etc.) shall not be included as KIZ gross revenues.

DCED adheres to the commonwealth’s Keystone Principles for Growth, Investment and Resource Conservation when awarding KIZ Tax Credits. The total of all KIZ Tax Credits awarded in any given year shall not exceed \$15 million. If the total amount of tax credits approved for any single year is less than \$15 million, the unused portion does not carry over to future years. If the total amount of tax credits approved for any one year exceeds \$15 million, the tax credit for each approved applicant shall be determined as follows:

1. Divide each application approved for tax credits for the year by the total of all approved tax credits that year and multiply the quotient by \$15 million to determine the amount of tax credits allocated to each applicant.

#### **D. KIZ Company’s Gross Revenues Attribution Formulas**

If an applicant has additional business locations in Pennsylvania which are outside the KIZ, the applicant’s gross revenues, attributable to target industry activities and within the KIZ, shall be calculated by using the following formula.

For the comparable and base year tax periods used in arriving at the KIZ Tax Credit for a KIZ company (applicant), the gross revenue of the applicant shall be apportioned to the KIZ by multiplying the applicant’s Pennsylvania gross revenues, as reported on the company’s Pennsylvania business tax return, by a fraction, the numerator of which is the property factor plus the payroll factor and the denominator of which is two, in accordance with the following:

1. The property factor is a fraction, the numerator of which is the average value of the applicant’s real and tangible personal property owned or rented and used in the KIZ during the tax period and the denominator of which is the average value of all the applicant’s real and tangible personal property owned or rented and used in this commonwealth during the tax period. To determine the property factor refer to 61 Pa. Code Sec.153.28.
2. The payroll factor is a fraction, the numerator of which is the total amount paid in the KIZ during the tax period by the applicant for compensation and the denominator of which is the total compensation paid in this commonwealth during the tax period.
  - a. Compensation is paid in the KIZ if:
    - i. the person’s service is performed entirely within the KIZ; or
    - ii. the person’s service is performed both within and without the KIZ, but the service performed without the KIZ is incidental to the person's service within the KIZ; or

- iii. the net profits of the KIZ company are paid to the KIZ company's owner and are included as part of the owner's federal personal tax returns; or
  - iv. the KIZ company's officers receive compensation indicated on the company's federal tax returns; or
  - v. the KIZ company's partners receive guaranteed payments or dividends indicated on the KIZ company's federal tax returns; or
  - vi. the cost of labor identified on the KIZ company's federal/state tax returns (provided the workers are directly employed by the company).
- b. Compensation does not include any individual not employed directly by the KIZ company including (but not limited to): contracted employees, consultants, independent sales people, etc., who are not eligible to be included as part of the payroll.
  - c. Compensation also does not include any individual who works remotely from a location outside the KIZ, except as permitted by section 2(a)(ii).
  - d. If the KIZ company did not have payroll within the KIZ during the base or comparable tax year the KIZ Tax Credit may be reduced. Also, if the KIZ company did not have property AND did not have payroll within the KIZ in either the base or comparable tax years then the company is ineligible to receive the KIZ Tax Credit.

## E. Applying for an Award

A for-profit business entity that qualifies as a KIZ company must file an application through DCED's Electronic Single Application (ESA — [www.esa.dced.state.pa.us](http://www.esa.dced.state.pa.us)) on or before September 15 of each year. The required documents must be attached electronically to the application on the Addenda tab. The application must be complete and contain the following items:

1. Completed Excel spreadsheet provided in the ESA
2. Completed KIZ Coordinator's Certificate (*Appendix A*)
3. The first page with the signed signature pages of the applicant's Federal tax return(s) for the base and comparable tax years submitted by the applicant to the federal IRS (or the verification forms of electronically filed tax returns)
4. All documents identified on the completed Excel spreadsheet (i.e., RCT 101, RCT 106, financial statements, etc.)
5. Department of Revenue Tax Compliance Form (*Appendix B*)

**Any application missing the completed Excel Spreadsheet, completed KIZ Coordinator's Certificate, and/or the applicant's Federal tax returns will be deemed incomplete and denied.**

If an applicant has business locations outside of Pennsylvania, they must submit their PA tax returns as verification of revenue earned inside of Pennsylvania.

The tax forms and any other supporting documents must clearly highlight where the revenues and payroll and property factors are found and be properly entered into the Excel spreadsheet provided in the ESA.

Applicants must verify on the ESA that they have been or are actively working with the KIZ Coordinator and/or the KIZ partners. The KIZ coordinator's certificate must be uploaded to the ESA to apply for the KIZ Tax Credit. Additionally, the applicant must have submitted its online semi-annual KIZ reports in accordance with the KIZ guidelines.

All applications must be submitted by September 15th, contain all required documentation and be completed correctly to be deemed eligible for review and potential award of KIZ tax credits. No time extensions will be granted. In situations where there has been federal and/or state tax filing extensions granted to the KIZ Tax Credit applicant, please note these extensions will not be taken into consideration in the review of the KIZ Tax Credit application. All federal filed tax returns must be submitted with this application.

Each application will be reviewed as submitted. If applications are deficient or missing required information/documentation, the application will be determined to be ineligible.

By executing the ESA, the applicant seeking the credits is authorizing DCED to request access to, and review of, the company's and its affiliates' state tax returns and waives confidentiality under Pennsylvania law and authorize release of this information. The ESA authorizes the Pennsylvania Department of Revenue to release the tax returns and tax return information by any means possible, including but not limited to by phone discussions, mail, facsimile, e-mail or other electronic means.

DCED will engage with the Pennsylvania Department of Revenue for assistance in determining property and payroll within the KIZ.

DCED will also authorize the Pennsylvania Department of Revenue to perform a State Tax Compliance Clearance. Should an applicant for tax credit be found to be out of compliance, notices will be sent to the applicant with instructions on how to rectify any compliance issues. The applicant must resolve non-compliance issues in order to be eligible for the tax credit.

DCED will determine if all of the required conditions have been met and, if so, a tax credit certificate based on the award calculations outlined in Section C will be awarded no later than December 15 of each year.

## **F. Submitting an Application**

Prospective applicants must submit their application through DCED's ESA. All required documents must be attached to the ESA when the application is submitted.

Only a full-time employee of the company, the certified public accountant of the company, or the company's KIZ Coordinator may file an application on BEHALF of the KIZ company.

By submitting an application for credit, the Department reserves the right to provide information from the application to the Department of Revenue for review and consultation.

### **Nondiscrimination**

No assistance shall be awarded to a Qualified Taxpayer under this program unless the Qualified Taxpayer certifies that the Qualified Taxpayer shall not discriminate against any employee or against any person seeking employment by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the Pennsylvania Human Relations Act, which prohibits discrimination on the basis of race, color, religious creed, ancestry, age, sex, national origin, handicap or disability, or in violation of any applicable federal laws.

### **Conflict of Interest Provision**

An officer, director, or employee of an applicant who is a party to or has a private interest in a project shall disclose the nature and extent of the interest to the governing body of the applicant and may not vote on action of the applicant concerning the project, nor participate in the deliberations of the applicant concerning the project.

## **Project Records**

The applicant must maintain full and accurate records with respect to the project and must ensure adequate control over related parties in the project. The program office requires access to such records, as well as the ability to inspect all work, invoices, materials, and other relevant records at reasonable times and places. Upon request of the program office, the applicant must furnish all data, reports, contracts, documents, and other information relevant to the project.

Questions on using the ESA should be directed to DCED's Customer Service Center at (800) 379-7448. For specific questions on this program, contact DCED's Technology Investment Office at [saraspisho@pa.gov](mailto:saraspisho@pa.gov).

If approved, approval letters will be mailed via the US Postal Service to the address provided on the ESA application.

## **G. Sale or Use of Tax Credits**

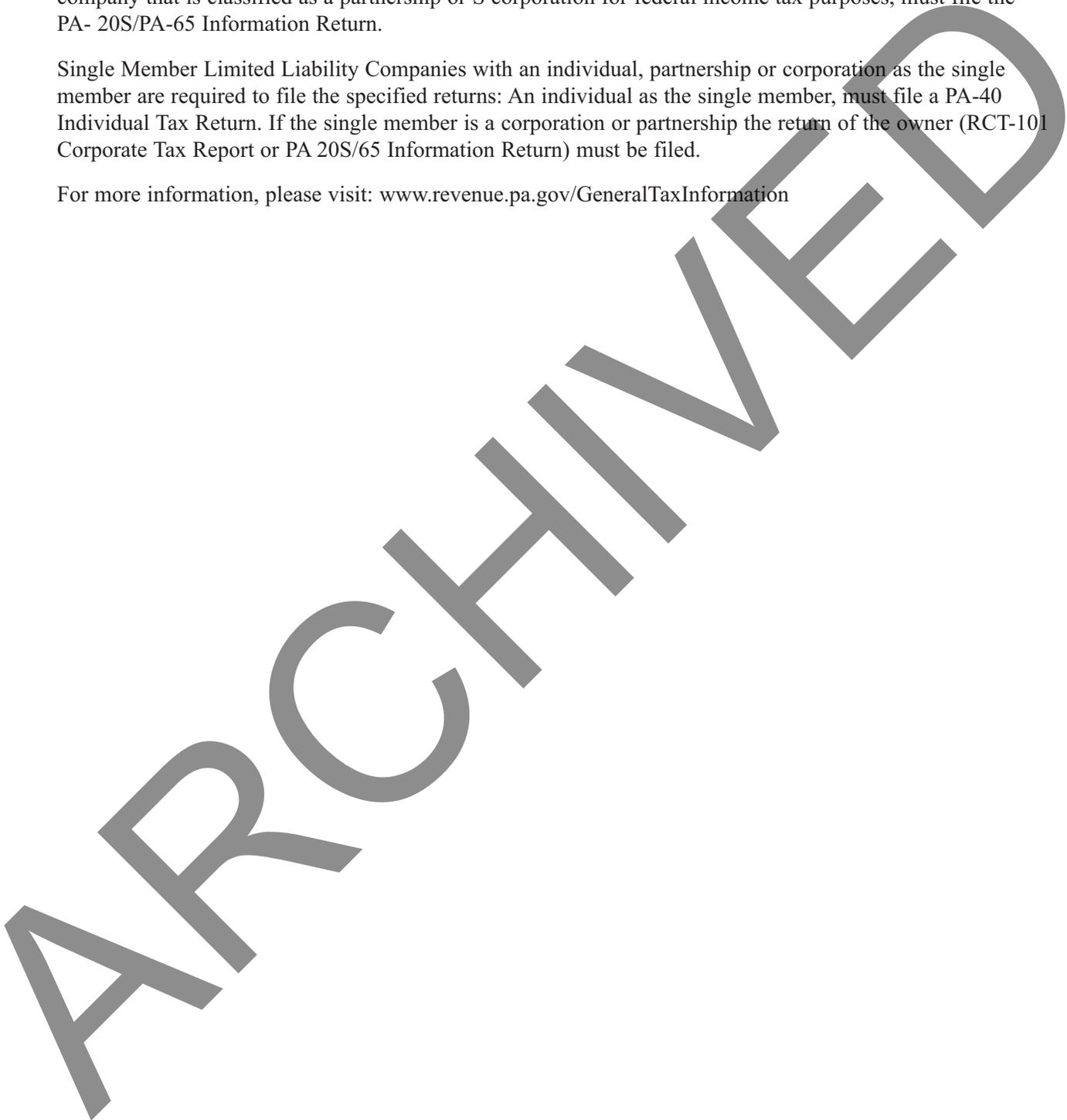
A tax credit approved in accordance with these guidelines must first be applied against the KIZ company's own tax liability under Articles III (Personal Income Tax) or IV (Corporate Net Income Tax), of the Pennsylvania Tax Reform Code of 1971, for the taxable year during which the tax credit is approved. The unpaid tax liability must be satisfied before any portion of the credit can be carried forward to satisfy the tax liabilities for future years or be sold or passed through. Prior year credits will be applied on a "first in first out" basis until all tax liabilities are satisfied. Restricted credits will be applied before any cash payments.

1. To claim the tax credit, the KIZ company must return the tax credit claim form to the Department of Revenue.
2. The tax credit provided by this article may be carried over and applied to succeeding taxable years for not more than four taxable years following the first taxable year for which the KIZ company was entitled to claim the credit.
3. A KIZ company may not carry back or obtain a refund of all or any portion of an unused tax credit granted to the KIZ company under this program.
4. To pass through this credit to the shareholders, members or partners, please return the tax credit claim form to the Department of Revenue. Do not include the claim form with any tax report.
5. A KIZ company, upon application to and approval by DCED may sell or assign, in whole or in part, unused credits to an identified buyer. The application form to apply to DCED for approval to sell the KIZ Tax Credits is located on DCED's website at [www.dced.pa.gov/KIZ](http://www.dced.pa.gov/KIZ).
6. Before an application to sell or assign tax credits will be approved, the Department of Revenue must find that the applicant has filed all required state tax reports and returns for all applicable tax years and paid any balance of state tax due as determined at settlement, assessment, or determination by the Department of Revenue.
7. If a business selling tax credits is selling credits to more than one buyer, a separate application should be submitted to DCED for approval to assign credits for each separate buyer of tax credits.
8. Tax credits may only be sold or assigned once. Once a sale or assignment is approved, it is final, and the seller's or assignor's right to claim the credit is terminated. Buyers may not resell or reassign tax credits.
9. The assignee or purchaser of all or a portion of a tax credit shall immediately claim the credit in the taxable year in which the purchase or assignment is made. The purchaser or assignee may not carry forward, carry back or obtain a refund of or sell or assign the tax credit.

Effective immediately, entities that are no longer subject to filing the RCT-101 Corporate Tax Report as per the phase out of the Capital Stock & Foreign Franchise Tax are required to file the PA- 20S/PA-65, S Corporation/Partnership Information return prior to selling a restricted credit. Every domestic or foreign PA S corporation (72 P.S. § 7330.1), partnership (72 P.S § 7335(c)), or entity formed as a limited liability company that is classified as a partnership or S corporation for federal income tax purposes, must file the PA- 20S/PA-65 Information Return.

Single Member Limited Liability Companies with an individual, partnership or corporation as the single member are required to file the specified returns: An individual as the single member, must file a PA-40 Individual Tax Return. If the single member is a corporation or partnership the return of the owner (RCT-101 Corporate Tax Report or PA 20S/65 Information Return) must be filed.

For more information, please visit: [www.revenue.pa.gov/GeneralTaxInformation](http://www.revenue.pa.gov/GeneralTaxInformation)



## Section II – Definitions

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**Agent/Facilitator** – A person, business, or organization acting to facilitate the sale of KIZ Tax Credits.

**Assignee/Buyer** – Taxpayer that is purchasing the KIZ Tax Credit from the KIZ company originally awarded the tax credits to be sold, transferred, or assigned.

**Assignor/Seller** – KIZ company to which the KIZ Tax Credits were originally issued or approved, and which may be applying to sell, transfer, or assign those credits.

**Attributable to target industry activities in the KIZ** – Business operations within a targeted industry, which are physically conducted within the geographical boundaries of the KIZ.

**Base Tax Year** – The tax year prior to the comparable tax year.

**Certificate** – Letter signed by the Secretary of DCED alerting the KIZ company of its KIZ Tax Credit application approval and award amount.

**Comparable Tax Year** – The tax year prior to the current calendar year.

**Company Operation Begin Date** – Corporations incorporated in PA are considered operating on the date of their incorporation. Companies incorporated outside PA, but working in PA, are determined to be operating beginning the date of the fiscal period in which the Certificate of Authority was issued by the Department of State or the date PA activity began, whichever date is earlier. All corporations are required to file annual tax returns with Pennsylvania's Department of Revenue even though no business activity was conducted during the taxable year.

**Contracted Employee** – An individual working for more than one company through a management fee (or similar) structure, or an employee of a third-party entity who performs work at the KIZ company.

**DCED** – Pennsylvania Department of Community and Economic Development

**ESA** – DCED's Electronic Single Application.

**Gross Revenues** – For the purposes of the KIZ Tax Credit Program, gross revenues are defined as revenue derived from the sale of goods and services from activities in a targeted industry and from operations transacted within the KIZ. Gross revenues may also include grants received by the KIZ Company from any source whatsoever (i.e., KIZ, SBIR/STTR, NIH, DOD, etc.). All other forms of income shall not be included in gross revenues. (this includes revenues generated from the sales of tax credits).

**Industry Sector/Targeted Industry** – An industry specifically identified for entrepreneurial development (e.g. advanced materials/diversified manufacturing, business services (information technology), life sciences, high technology) in the KIZ's application for designation to the Ben Franklin Technology Development Authority.

**KIZ Company** – A for-profit business entity which is all of the following:

1. located within the defined geography of a particular KIZ,
2. has been in operation for less than 8 years,
3. falls within one of the targeted industry segments (or sectors) identified by the KIZ partnership.

**KIZ Eligible Days** – The total number of days that the KIZ company was physically in the zone and operating in a targeted sector.



# KIZ COORDINATOR'S CERTIFICATION

## APPENDIX A

As designated coordinator for the \_\_\_\_\_ *(Identify the KIZ)* Keystone Innovation Zone, I certify that \_\_\_\_\_ *(Identify the KIZ Company Applicant)* operates within the geographic boundary of the KIZ. This KIZ Company operates within our designated target industry segment (sector) of \_\_\_\_\_ *(Identify the designated target industry, including NAICS code)*, and this KIZ Company has been in operation for less than eight (8) years. The KIZ Company has or is presently working with the following KIZ partners:

\_\_\_\_\_

The \_\_\_\_\_ *(Identify the KIZ)* KIZ was designated by the Ben Franklin Technology Development Authority (BFTDA) on \_\_\_\_\_ *(mm/dd/yy)* \* \_\_\_\_\_ *(Identify the KIZ Company Applicant)* located in the \_\_\_\_\_ *(Identify the KIZ)* KIZ on \_\_\_\_\_ *(mm/dd/yy)* \_\_\_\_\_ *(Identify the KIZ Company Applicant)* has provided me with documentation demonstrating that it was incorporated on \_\_\_\_\_ *(mm/dd/yy)* and has registered with the Pennsylvania Department of State to conduct business in the commonwealth.

In accordance with the duties of a KIZ Coordinator, I certify that I visited the above referenced KIZ Company on \_\_\_\_\_ *(mm/dd/yy)*.

\*Note: If the KIZ Company applicant is located within a geographic region that was approved to be included after the original designation, enter the effective date of the modification \_\_\_\_\_ *(mm/dd/yy)*.

Signature of KIZ Coordinator	Date
Printed Name	Phone



# KEYSTONE INNOVATION ZONE TAX CREDIT TAX COMPLIANCE FORM

APPENDIX B

## SECTION I: GENERAL INFORMATION

Enter the applicant's name, as registered under the Federal Employer Identification Number or Social Security Number.

1. CURRENT BUSINESS OR APPLICANT'S NAME:

2. ADDRESS

3. CITY:

4. STATE:

5. ZIP:

6. FEDERAL TAXPAYER ID (FEIN) OR SSN:

7. INDICATE TAX NUMBER IN QUESTION 6:

8. PA REVENUE #:

 FEIN     SSN

## SECTION II: SHAREHOLDER / PARTNER / MEMBER INFORMATION

Name of Entity or Individual	Tax Number	FEIN or SSN	Ownership %	Phone	Email
		<input type="checkbox"/> FEIN <input type="checkbox"/> SSN			
		<input type="checkbox"/> FEIN <input type="checkbox"/> SSN			
		<input type="checkbox"/> FEIN <input type="checkbox"/> SSN			
		<input type="checkbox"/> FEIN <input type="checkbox"/> SSN			
		<input type="checkbox"/> FEIN <input type="checkbox"/> SSN			

**Note:** Ownership must add up to 100%. The entity will be deemed non-compliant if any shareholder, partner or member with a 20% or greater ownership interest fails the clearance for tax compliance.

Name of Entity or Individual	Street Address	City	State	Zip

Due to taxpayer confidentiality, notification of non-compliance for a shareholder, member or partner must be communicated to the non-compliant party.

## SECTION III: AUTHORIZATION

I declare under penalty of perjury that I am the owner, officer or member of the business for which tax clearance is requested and that the information entered is true.

1. NAME:

2. ADDRESS

3. CITY:

4. STATE:

5. ZIP:

6. PHONE NUMBER:

7. EMAIL ADDRESS: