

# QUALIFIED MANUFACTURING INNOVATION AND REINVESTMENT DEDUCTION

Program Guidelines | September 2018



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## Section I – General

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### A. Statement of Purpose

The Qualified Manufacturing Innovation and Reinvestment Deduction was established to encourage increased investment and job creation through manufacturing in Pennsylvania. The program will be jointly administered by the Department of Community and Economic Development (the “Department”) and the Department of Revenue.

### B. Eligibility

#### 1. Applicants

Eligible applicants for the program must be:

- a. An entity that is engaged in manufacturing
- b. Registered to do business in Pennsylvania and subject to Corporate Net Income Tax
- c. An Employer directly responsible for the collection, withholding and remittance of Individual Taxes to the Department of Revenue on behalf of the workforce.
- d. Able to obtain and maintain state tax compliance clearance status with the laws and regulations of the Commonwealth of Pennsylvania, to the satisfaction of the Department of Revenue.
- e. Able to demonstrate a new capital investment in excess of \$100 million for the creation of new or refurbished manufacturing capacity associated with a new location or expansion project at a commonwealth site (the “project site”).
- f. Able to provide current and projected employment figures in Pennsylvania and at the project site.

#### 2. Projects

Eligible projects will include the creation of new manufacturing capacity or improvements to existing manufacturing capacity at an identified project site. Limited to the mechanical, physical, biological, or chemical transformation of materials, substances, or components into new products that are the creations of new items of tangible personal property for sale.

## Section II – The Application Process

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In advance of the project start date, a business must apply to the Department through the Electronic Single Application for Assistance (ESA).

1. The Electronic Single Application can be accessed at [www.esa.dced.state.pa.us](http://www.esa.dced.state.pa.us)
2. Electronic Single Application questions can be directed to the Department's Customer Service Center at 1-800-379-7448 or 717-787-3405.

### A. Information for the Electronic Single Application for Assistance

Applicants must provide the following information either in their ESA application or as required addenda:

1. A narrative outlining the size and scope of the eligible project. This must include the total estimated project cost and estimated commencement and completion dates of investment.
2. The project site(s) mailing address and the name of the county and municipality in which project site(s) is located.
3. The desired start date of the project that determines eligibility for a tax deduction under this program. The start date must be the first day of the calendar quarter in which the applicant submits an online Electronic Single Application for Assistance unless the applicant requests, and the Department agrees to, a later start date.
4. The total current and projected employment in Pennsylvania and at the project site as of the designated start date.
  - a. Employment numbers as of the start date and completion date will include only those that are full-time, direct, permanent, and paying at or above the average annual wage for the county in which the jobs reside.
5. The annual taxable payroll in Pennsylvania and at the project site as of the designated start date. Businesses must submit their most recent Annual Withholding Reconciliation Statement (REV-1667 R) as filed with the Department of Revenue to verify payroll.

### B. Application Approval

Upon approval, the Department will issue to the applicant a project commencement letter containing the following information:

1. The project start date
2. A description of the project
3. The number of jobs as of the project start date
4. The annual taxable payroll as of the project start date
5. The number of new jobs to be created at the project site upon completion of the project.

The applicant must return a signed copy of the project commencement letter to the Department within 60 days of the date of the letter.

By executing the project commencement letter, the company seeking the credits is authorizing the Pennsylvania Department of Community and Economic Development 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 project commencement letter 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.

### **C. Monitoring and Reporting**

At the request of the Department, the business shall submit interim monitoring reports on the status of the approved project. The Department may engage with the Pennsylvania Department of Revenue as required for state tax clearance monitoring and validation of job creation criteria as specified in the commitment letter.

### **D. Project Completion**

Within three years of the project start date or project completion date (whichever comes sooner), applicants will be required to submit the Project Completion Report to the Department for final review.

These documents will be used to verify the following:

1. The current number of jobs at the project site and in Pennsylvania
2. The sources of the capital investment at the project site
3. The uses of the capital investment at the project site
4. The current annual taxable payroll at the project site and in Pennsylvania

If the project has not been completed after three years, applicants must provide documentation verifying and attesting to the sources and uses of all capital investment funds. This will be done on the Sources and Uses section of the Project Completion Report along with all verifying documentation. If the applicant does not demonstrate the required capital investment within three years of the designated start date they are ineligible for the tax deduction.

Eligible sources of capital investment include:

1. Company Equity
2. Investor Equity
3. Debt Financing – Public or Private

Ineligible sources of capital investment:

1. Public grant funding from any level of government (local, state, or federal)
2. Tax Credits

Examples of required documentation include:

1. Financial Statements
2. Bank Account Summaries
3. Commitment Letters

Any ineligible sources of capital investment will be removed from the final calculation. If an applicant does not reach the required capital investment threshold they are ineligible for the tax deduction.

Additionally, applicants must certify the uses of the capital investment for the project.

The capital investment must be used for the following purposes:

1. Land or Building Acquisition
2. Building Construction or Renovations
3. Leasehold Improvements
4. Infrastructure
5. Site Development
6. Environmental Cleanup
7. Purchase and Installation of Machinery and Equipment
8. Purchase and Installation of Computer Equipment / Software
9. Purchase and Installation of Furniture

Ineligible capital investment uses:

1. Fees paid to consultants, lobbyists, or other parties to negotiate public financial incentives or otherwise lobby public officials
2. Costs unrelated to the applicant's manufacturing expansion at the identified project site(s)
3. Costs incurred prior to the approved project start date.

Businesses will be required to provide documentation verifying the uses of all capital investment funds. Examples of required documentation are as follows:

1. For land and/or building acquisition, the business must provide copies of all project-related, fully-executed real estate settlement statements
2. For building construction, renovations, leasehold improvements, infrastructure, site development and/or environmental cleanup, the business must provide all copies of project-related contracts for services and paid invoicing for the same
3. For purchase and/or installation of machinery, equipment, computer hardware and/or computer software and furniture, the business must provide all copies of project-related, paid invoices for purchase. These invoices must clearly show the project site as the site for delivery and/or installation.

The above documents may not be dated prior to the approved project start date.

Any funds used for ineligible activities will be deducted from the final investment calculation. If a business does not reach the required capital investment threshold they are ineligible for the tax deduction.

Once the project is completed, the full Project Completion Report will be required. A tax deduction will not be calculated or awarded until the project has been completed.

All projects must be completed within five years of their designated start date as listed on the project commencement letter issued by the Department.

Upon receipt and review of the applicant's Project Completion Report, the Department will request a state tax compliance clearance from the Department of Revenue.

- Applicants are required to be in compliance with the laws and regulations of the Commonwealth of Pennsylvania, to the satisfaction of the Department of Revenue.
- Should an applicant 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 within the required time period in order to be eligible to receive an award letter.

Once compliance has been attained, the Department will make an eligibility determination within ninety days of the Project Completion Report and Affidavit submission.

If all eligibility criteria have been met, the Department will issue an award letter certifying the completion of the criteria as set forth in the project commencement letter and verified in the Project Completion Forms to provide the maximum allowable deduction against the applicant's corporate net income tax liability.

## **Section III – Qualified Manufacturing Innovation and Reinvestment Deduction Amount and Limitations**

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The deduction will be equal to five percent of the private capital investment utilized in the creation of new or refurbished manufacturing capacity per tax year for a period of five (5) years.

A business may utilize the amount of the deduction in each year of the succeeding five (5) tax years immediately following the issuance of the Department's award letter.

A business cannot use the deduction to reduce its tax liability by more than fifty percent of their Corporate Net Income tax liability.

The deduction is non-transferrable. Any unused portion in a tax year shall expire at the end of the corresponding tax year.

The approved deduction is applicable against taxable income, not income before apportionment. To claim the deduction, a taxpayer must use the other deduction line on the RCT-101.

To claim a tax deduction, the taxpayer must complete the REV-860A QMIRD Worksheet contained in the PA Corporate Net Income Tax REV-1200 CT-1 Instructions.

### **Step 1 Column 1 (CNIT calculation before deducting QMIRD)**

Follow instructions in the REV-1200 CT-1 Instructions to calculate the entities Corporate Net Income Tax "before" the deduction for the Qualified Manufacturing Innovation and Reinvestment Deduction.

*Note: Other allowable deductions included in Schedule OD on the form REV-860 must be included in this calculation.*

## Step 2 Column 2 (CNIT calculation after deducting QMIRD prior to adjusting to 50% of tax liability, if applicable)

Follow instructions in the REV-1200 CT-1 Instructions to calculate the entities Corporate Net Income Tax "including" the deduction for the Qualified Manufacturing Innovation and Reinvestment Deduction.

- Calculate the reduction in tax liability between Column 1 and Column 2 and record the amount in Column 2 line 14.
- If Column 2 line 14 is less than 50% of the calculated tax liability in Column 1, STOP. Carry all values from Column 2 to the RCT-101 page 2

## Step 3 Column 3 (CNIT calculation with adjusted QMIRD deduction)

- If Column 2 line 14 exceeds 50% of the calculated tax liability in Column 1, determine the QMIRD deduction allowable (in Column 3, line 2D) that results in a calculated tax due that does not exceed 50% of the calculated tax due in Column 1, line 13.
- Carry all values from Column 3 to the RCT-101 page 2, PA Corporate Net Income Tax Report.

## EXAMPLE: Corporate Net Income Tax Qualified Manufacturing Innovation and Reinvestment Deduction

XYZ Corporation commits to a project to create \$300,000,000 of new manufacturing capacity with a project that will begin January 1, 2019. The project is completed in June of 2021 and the Department determines that XYZ has met all of the eligibility criteria. Further, the Department calculates that the maximum credit that may be taken by XYZ to be \$15,000,000 (\$300,000,000 multiplied by 5%) per year for each tax year between 2022 and 2026.

The Qualified Manufacturing Innovation and Reinvestment Deduction (QMIRD) may not reduce a taxpayer's liability by more than 50% in any given tax year. Because of this, XYZ must calculate their Corporate Net Income Tax (CNIT) liability both before and after the application of the deduction. **Note:** *An adjusted QMIRD may be required if the calculated deduction results in a reduction in the tax liability that exceeds 50% of the tax liability due without taking the QMIRD deduction.*

The QMIRD amount should be included in form REV-860 Schedule OD. The total of all deductions should carry to Line 2D in the CNIT calculation.

<b>CORPORATE NET INCOME TAX CALCULATION - TAX YEAR 2022</b>			
	<b>Column 1 BEFORE</b>	<b>Column 2 AFTER</b>	<b>Column 3 ADJUSTED</b>
1. Income or loss from federal return on a separate-company basis	30,000,000	30,000,000	30,000,000
<b>2. DEDUCTIONS</b>			
A. Corporate dividends received	5,000,000	5,000,000	5,000,000
B. Interest on US securities	0	0	0
C. Current year additional PA deprec. Plus adjust. For sale	0	0	0
D. Other (Attach schedule)	0	15,000,000	12,500,000
<b>TOTAL DEDUCTIONS</b>	<b>5,000,000</b>	<b>20,000,000</b>	<b>17,500,000</b>
<b>3. ADDITIONS</b>			
A. Taxes imposed on or measured by net income	0	0	0
B. Tax preference items	0	0	0
C. Employment incentive payment credit adjustment	0	0	0
D. Current year bonus depreciation	0	0	0
E. Other (Attach schedule)	0	0	0
<b>TOTAL ADDITIONS</b>	<b>0</b>	<b>0</b>	<b>0</b>
4. Income or loss with Pennsylvania adjustments	25,000,000	10,000,000	12,500,000
5. Total nonbusiness income or loss	0	0	0
6. Income or loss to be apportioned	25,000,000	10,000,000	12,500,000
7. Apportionment proportion	0.200000	0.200000	0.200000
8. Income or loss apportioned to PA	5,000,000	2,000,000	2,500,000
9. Nonbusiness income or loss allocated to PA	0	0	0
10. Taxable income or loss after apportionment	5,000,000	2,000,000	2,500,000
11. Total net operating loss deduction	2,000,000	800,000	1,000,000
12. PA taxable income or loss	3,000,000	1,200,000	1,500,000
<b>13. CORPORATE NET INCOME TAX</b>	<b>299,700</b>	<b>119,880</b>	<b>149,850</b>
14. Difference from BEFORE	-	-179,820	-149,850
<p>Based on the BEFORE calculation, the QMIRD can lower XYZ's CNIT liability by a maximum of \$149,850 (50% of \$299,700). XYZ's Corporate Net Income Tax Liability is reduced by \$179,820 due to the QMIRD. Because this is more than \$149,850, XYZ may not take the full value of the deduction. Instead, XYZ must determine the amount of QMIRD they may claim that will result in a liability that is 50% lower than their CNIT liability before QMIRD. In this case, XYZ may claim \$12,500,000 as that results in a CNIT liability of \$149,850. The remaining \$2,500,000 for tax year 2022 expires.</p>			

## Section IV – Application Timeline

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1. Submit online Electronic Single Application for Assistance
2. Receive project commencement letter from the Department to begin qualified project
3. Demonstrate and attest to the sources and uses of the required capital investment within three years of a designated start date.
4. Complete qualified project within five years of a designated start date.
5. Submit Project Completion Report to the Department once the qualified project has been completed.
6. Receive award notification from the Department if all eligibility criteria have been satisfied
7. Claim tax deduction

## Section V – Program Requirements

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### A. 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.

### B. 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.

### C. 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.

## **Section VI – Program Inquiries / Contact Information**

Program inquiries should be directed to:

Department of Community & Economic Development  
Office of Technology & Innovation  
Qualified Manufacturing Innovation and Reinvestment Program  
Commonwealth Keystone Building  
400 North Street, 4th Floor  
Harrisburg, Pennsylvania 17120-0225

Phone: 717-787-4147

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## QUALIFIED MANUFACTURING INNOVATION AND REINVESTMENT DEDUCTION PROJECT COMPLETION REPORT

APPENDIX A

### SECTION I: GENERAL INFORMATION

1. NAME OF BUSINESS:		
2. MAILING ADDRESS:		
3. CITY:	4. STATE:	5. ZIP:
6. PROJECT SITE ADDRESS:		
7. CITY:	8. STATE:	9. ZIP:
10. CONTACT NAME:		
11. PHONE NUMBER:	12. FAX NUMBER:	
13. EMAIL:		
14. FEDERAL TAXPAYER ID (EIN):	15. PA REVENUE #:	

### SECTION II: PROJECT INFORMATION

1. PROJECT START DATE:	2. PROJECT COMPLETION DATE:
3. TOTAL INVESTMENT MADE AT THE PROJECT SITE:	4. PRIVATE INVESTMENT MADE AT THE PROJECT SITE:
5. DESCRIPTION OF COMPLETED PROJECT (ATTACH ADDITIONAL SHEETS IF NECESSARY):	

### SECTION III: JOBS

1. CURRENT NUMBER OF JOBS AT THE PROJECT SITE:	2. CURRENT ANNUAL TAXABLE PAYROLL AT PROJECT SITE:
3. CURRENT NUMBER OF JOBS IN PA:	4. CURRENT ANNUAL TAXABLE PAYROLL IN PA:
5. NUMBER OF JOBS CREATED DURING CONSTRUCTION OF THE PROJECT:	
6. DESCRIPTION OF JOBS CREATED AT PROJECT SITE (ATTACH ADDITIONAL SHEETS IF NECESSARY):	

<b>SECTION IV: SOURCES AND USES</b>				
<b>USES OF FUNDS</b>	<b>SOURCES OF FUNDS</b>			
	<b>COMPANY EQUITY</b>	<b>INVESTOR EQUITY</b>	<b>DEBT FINANCING</b>	<b>TOTALS</b>
Land Acquisition				
Building Acquisition				
Building Construction				
Building Renovations				
Leasehold Improvements				
<b>Land and Building Subtotal</b>				
Infrastructure				
Site Development				
Environmental Cleanup				
<b>Infrastructure Subtotal</b>				
Machinery and Equipment				
Computer Equipment/Software				
Furniture				
<b>Equipment Subtotal</b>				
<b>TOTAL PROJECT COST</b>				
<b>TOTAL CAPITAL INVESTMENT</b>				

Please attach all documents verifying the sources and uses of the capital investment as outlined on page 4 of the guidelines.



# QUALIFIED MANUFACTURING INNOVATION AND REINVESTMENT DEDUCTION AFFIDAVIT

## APPENDIX B

The undersigned, being duly sworn, deposes and says:

1. I am the \_\_\_\_\_ of \_\_\_\_\_ (the "Company")  
(Title) (Company Name)
2. The Company has hired the number of employees indicated on Appendix A, which is incorporated herein by reference and made a part hereof, and the undersigned certifies that the information contained in Appendix A is true, correct and complete as of the date hereof.
3. The Company has increased its annual taxable payroll as indicated on Appendix A, which is incorporated herein by reference and made a part hereof, and the undersigned certifies that the information contained in Appendix A is true, correct and complete as of the date hereof.
4. The Company has invested the amount of capital indicated on Appendix B for the uses indicated on Appendix B, which is incorporated herein by reference and made a part of hereof, and the undersigned certifies that the information contained in Appendix B is true, correct and complete as of the date hereof.
5. This Affidavit has been given by the undersigned, individually and on behalf of the Company, to the Department for the purpose of inducing the Department to award a Qualified Manufacturing Innovation and Reinvestment Deduction to the Company, and the undersigned expressly recognizes and acknowledges that this Affidavit is being relied on by the commonwealth in connection with such award.
6. Under penalties of perjury, I declare that the information contained in this Affidavit, Appendix A, Appendix B and any accompanying documentation is, to the best of my knowledge, true, correct and complete as of the date hereof.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of Signatory

SWORN TO AND SUBSCRIBED BEFORE ME THIS \_\_\_\_\_ DAY of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:



# QUALIFIED MANUFACTURING INNOVATION AND REINVESTMENT DEDUCTION TAX COMPLIANCE FORM

APPENDIX C

## 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: <input type="checkbox"/> FEIN <input type="checkbox"/> SSN		8. PA REVENUE #:

## 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 checked="" 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:		