



# Pennsylvania Transferable Tax Credits

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# Pennsylvania Tax Credit History

## Current Programs:

- ▶ KIZ
- ▶ NAP
- ▶ REAP
- ▶ WOTC
- ▶ FPTC
- ▶ R&D
- ▶ NAP-EZP
- ▶ EITC
- ▶ HPTC
- ▶ VGPTC



# PA Tax Credits-Use, Pass, or Sell

- ▶ Tax Credits, not deduction
- ▶ Must Use dollar for dollar against PA liability at Corp level
- ▶ Pass-through on PA tax return-Fill out PA Claim Form
  - ▶ This can only be passed through to one level. If the company is owned by an LLC it cannot be then passed through to the owner of the LLC
  - ▶ Passed through based on ownership percentage
  - ▶ Once passed through there is no carry forward, so must use on current tax year liability due
  - ▶ Individuals must file Married Filing Separately unless spouse has no other income source to claim a credit
- ▶ Sell credit for cash
  - ▶ Buyer's identified, purchase at discount
  - ▶ Selling entity must be tax compliant
  - ▶ Process takes about 60-90 days

# Keystone Innovation Program

- ▶ Established to create designated geographic zones to foster innovation and create entrepreneurial opportunities.
- ▶ Credit equal to 50% of a qualifying company's increase in gross revenue from one year to the next, up to \$100,000 in credits
- ▶ \$15 Million in tax credits available per calendar year.
- ▶ Eligibility requirements:
  - ▶ Operating less than 8 years
  - ▶ Located within zone
  - ▶ Operating within targeted industry
  - ▶ Have IP, or innovative component.



# 28 Keystone Innovation Zones

- ▶ Each zone maintains their own maps/designation
- ▶ Local Coordinator organization assigned to each zone
  - ▶ For a list of zones and coordinators, refer to DCED:  
<https://dced.pa.gov/business-assistance/kiz-coordinator-locations/>
- ▶ Although some zones specialize in certain industries, they are universal across the state:
  - ▶ Advanced/Diversified Manufacturing
  - ▶ Business Services/IT
  - ▶ Life/Bio Sciences
  - ▶ High Technology

# Keystone Innovation Zone Application Process

- ▶ Apply online through DCED's Electronic Single Application for Assistance-must have 2 filed tax returns for time spent in zone and local coordinator letter.
  - ▶ Deadline for Applications December 1<sup>st</sup>
  - ▶ Additional documentation may be requested.
  - ▶ All companies and owners of 20% or greater must be tax compliant.
  - ▶ Awards Mailed or Emailed by May 1<sup>st</sup>
- ▶ Tax Credit Monetization- must file current due tax return first- extensions this year
  - ▶ Carry Forward is 5 total tax years
  - ▶ A report on use of credits will be due April 1, 2023

# Keystone Innovation Zone Tax Credit Timeline

- ▶ Base Year (Yr 1)- move into zone, begin KIZForce reporting
- ▶ Revenue Increase Year (Yr 2)- grow business, Complete KIZForce reporting
- ▶ Application Year (Yr 3)- via Single Application for Assistance
  - ▶ Deadline for Applications December 1<sup>h</sup>
  - ▶ Awards Mailed or Emailed May 1
- ▶ Tax Credit Monetization (Yr 4)- use and/or sell

# KIZ Example

- P Corp. a pre-revenue startup company moves into the KIZ zone on Dec 15<sup>th</sup> 2017.
- KIZ Director approves P Corp. as a KIZ company in 2017.
- P Corp. generates \$200,000 in revenue in 2018.
- P Corp generates \$300,000 in gross revenue in 2019.
- P Corp has \$150,000 in gross revenue in 2020
  
- \$100,000 tax credit in 2019 (Revenue: 2018 over 2017)
  - Sold in 2020 after 2019 tax returns are filed
- \$50,000 tax credit in 2020 (Revenues 2019 over 2018)
  - Sold in 2021 after 2020 tax returns are filed
    - P-Corp. continues to have payroll and property in the zone.
    - P-Corp. also completes semi annual KIZ Force reporting.



# Research and Development

- ▶ R&D happens when you are doing incremental improvements to your product or process as well as creating new technology.
- ▶ Must be at Risk- fixed price vs reimbursed costs
- ▶ Must be Based in Hard Sciences
- ▶ Must Have uncertainty and process of experimentation at start or during project
- ▶ Qualified Costs:
  - ▶ Wages
  - ▶ Direct Supplies
  - ▶ Contracted R&D- 65%



# R&D Checklist

- ▶ Summary- provide a short summary of what the company does and how it is R&D as per IRC Section 41
- ▶ Qualified Research Expenses (QRE's)
  - ▶ Wages- Provide a payroll summary breaking out each employee and the percentage or amount that is qualified time spent on R&D, with W2's
  - ▶ Supplies- Provide a detail summary of supplies and price for each, with receipts
  - ▶ Subcontractors- Provide the following (1099 if available)
    - ▶ Name of Company
    - ▶ EIN
    - ▶ Address
    - ▶ Phone
    - ▶ Description of what the company does
- ▶ Summary of QRE's- c-omplete your R&D self-certified study here: <https://www.researchexporganizer.com/>

# Federal R&D

- ▶ Federal application is due with tax return on form 6765
  - ▶ Federal program is now permanent
  - ▶ Small Businesses can use credits against Payroll taxes or owner's AMT
  - ▶ Credit is for qualifying expenses incurred within the United States
  - ▶ 2 credit calculations: Traditional & Simplified Method
    - ▶ Traditional: Fixed percentage based on years in business, as far back as 1983
    - ▶ Simplified: Compares total of 3 year's R&D expenses divided by 6 to current year's spending

# PA R&D Tax Credit

- ▶ PA application is due December 1
  - ▶ PA compares increased spending from year to year, or over an average of past 4 years
  - ▶ Application is online via ETIDES-more documentation required
  - ▶ Cap is \$55 million/year. \$11 million for small businesses
  - ▶ Companies receive a tax credit of 10% of the increase in R&D Spending. Small businesses receive a 20% tax credit
  - ▶ Credits based on increases of qualifying expenses incurred within Pennsylvania
  - ▶ Carry Forward is 15 years, used for CNI, PIT, or sold



# Neighborhood Assistance

- ▶ Projects include: affordable housing, job training, crime prevention, and other community services
- ▶ NAP Organization is a non-profit, completes single app for allocation of credits, addressing Place, Problem, Project, and Proposed Outcomes
- ▶ Businesses submit letters of support and commitment to help strengthen the application
- ▶ Once donation is made (between July 1 and June 30), Business submits form for 55-75% tax credit of donation value
- ▶ Non-profit has from July 1-September 30 of the contract period to expend all funds for the project.
- ▶ Credits may be used to offset liability or sold after they are held for 1 year
- ▶ Cap is \$36 million across all programs



# NAP Continued

- ▶ There are 5 components to the program:
  - ▶ Neighborhood Assistance Program Tax Credit- 55% tax credit provided for 1 year projects
  - ▶ Special Program Priorities- 75% tax credit provided for targeted problems designated by state for 1 year projects
    - ▶ Projects include disaster or economic recovery, weatherization or housing rehab, diversity initiatives, blight elimination, veteran initiatives and more.
  - ▶ Neighborhood Partnership Program- 75-80% tax credit provided for collaboration between business and a Community Strategic Plan for 5+ years
  - ▶ Charitable Food Program- 55% tax credit provided for regional food banks and programs to relieve hunger, food insecurity or shortages for 1 year projects
  - ▶ Enterprise Zone Program Tax Credits-25% tax credit provided for approved business for building renovations in designated area for For-Profit entities

# PA Historic Preservation Credits

- ▶ Modeled after the Federal Historic Program
- ▶ Provides credits for rehab of Historic Buildings in PA
- ▶ Credits equal 25% of project costs
- ▶ \$3 million available each year-current budget just increased this amount to \$5 million.
- ▶ 5 Rounds have been awarded to over 90 projects  
New Fiscal year will open this fall
- ▶ Credits may be sold, used, or carried forward for 7 tax years



# Enterprise Zones



## ▶ NAP-EZP Credits

- ▶ Awarded to businesses funding projects that address a problem in a designated distressed area of the state.
- ▶ EZ Projects are eligible for a tax credit equal to 25% of qualified expenditures for building renovations
- ▶ Companies can apply for up to \$500,000 per applicant per year. Credits have a 4 year carryover or opportunity to sell
- ▶ Eligible Activities include: Rehabilitation, Expansion, Building and land improvements, engineering, architecture, and acquisition
- ▶ Project must result in job creation or retention of full-time equivalent, family sustaining wage positions
- ▶ The project must be completed within the state's fiscal year of July-June. Extensions may be granted for some circumstances where project completion is delayed.

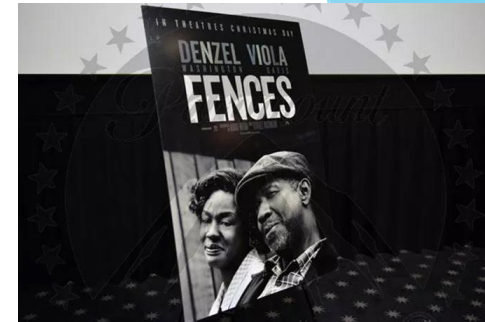


# PA Historic Preservation Credits

- ▶ Modeled after the Federal Historic Program
- ▶ Projects must follow the Secretary of the Interior's Standards for Historic Rehabilitation
- ▶ Buildings must be located and be a contributing building to a historic district, or listed individually on the Historic Registry
- ▶ Qualifying renovation costs include hard costs to the building and some soft costs of development.
  - ▶ Acquisition is not included
- ▶ Project must pass substantial rehab test- renovation costs must exceed purchase price



# Film and Video Game Production



- ▶ Administered through the Tourism office at DCED
- ▶ 25% tax credit for production spending within Pennsylvania
  - ▶ 65% of your total budget must be in PA to qualify
- ▶ Apply with budget before spending starts
- ▶ Audit and reports due after film or game produced
- ▶ \$70 million for Film available, \$1 million for VGPTC
- ▶ Credits must be used or sold within 3 tax years



# Resource Enhancement and Protection (REAP)

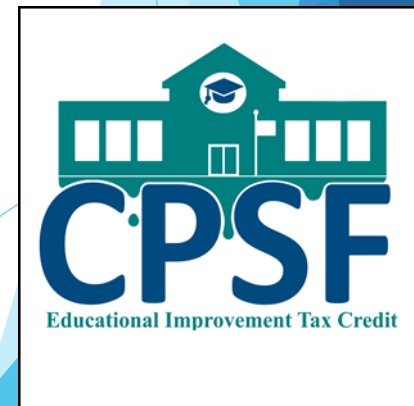
- ▶ Allows Farmers, Landowners, and businesses to earn tax credits for implementing BMP's to enhance production and protect natural resources
- ▶ Applications are First Come, First Served
- ▶ 50% or 75% of qualified costs up to \$150,000 per agricultural operation
- ▶ Farmers can have a business sponsor their project up front with no cap per operation
- ▶ Credits may be carried forward and used over 15 years or sold

# Educational Improvement

- ▶ Education Donors receive **75-90%** of donations to preschool, OSTC, Educational improvement organizations, and K-12 scholarships
- ▶ Can receive a tax credits up to \$1,700,000 per taxpayer each year when utilizing all programs. Pass through entities may transfer portion of the credits to the owners
- ▶ Individuals can now donate through SPE's
  - ▶ Minimum \$3,500 donation
  - ▶ Employees of non-profits can participate if they have stock/income from any other source
  - ▶ Some taxpayers may be able to take Federal deduction as well



[www.pennsylvaniaeitc.org](http://www.pennsylvaniaeitc.org)



# EITC Timeline

- ▶ Organizations- apply for eligibility in the fall for eligibility next year
- ▶ Donors- apply for allocation of credits May 15-July 1 (if participating in an SPE, that entity applies, not the individual)
- ▶ SPE's- qualified taxpayers can complete joinders for commitments now through November 2021
- ▶ For 2021 tax credits, must make donation by December 30, 2021. Donations made in January or later will be for 2022 taxes

# Work Opportunity

## ▶ WOTC

- ▶ Credit of up to \$9,600 for employers hiring qualified veterans and other targeted group categories
- ▶ Vow to Hire Heroes Act provides for this transferrable tax credit- credits can pass through to owners
- ▶ Forms are time-sensitive to receive benefits- must complete documents within first 28 days of hire
- ▶ Must maintain employment for 9 months to claim credit
- ▶ Credit is for Federal Corporate Tax or for tax-exempt organizations, used against Social Security Tax owed.
- ▶ Other employer credits available



# Other Programs

- ▶ Malt Beverage Tax Credit- next app in 2020 for 2019 equipment expenses.
- ▶ Manufacturing Tax Credit
- ▶ Housing Authority Grants
- ▶ Dairy Grants and REAP Tax Credits
- ▶ Concert Credit
- ▶ Waterfront Development
- ▶ COAL Refuse Energy and Reclamation Tax Credit
- ▶ Federal Opportunity Zones- Proposed IRS Guidelines available
  - ▶ Contact John for Info: [Johnhorell@kizresources.com](mailto:Johnhorell@kizresources.com)



# KIZ Resources, LLC

- ▶ Assist with applications for all tax credit programs
- ▶ Assurance for Buyers to securely and properly purchase tax credits
- ▶ Knowledge of tax code, guidelines, and state officials to make the process easy on our clients
- ▶ Success-based fee structure
  - ▶ Contact us for more information.

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