

FOR MORE INFORMATION:

PA DEPARTMENT OF REVENUE
www.revenue.state.pa.us

TAXPAYER SERVICE & INFORMATION CENTER

Personal Taxes: (717) 787-8201

Business Taxes: (717) 787-1064

Services for Taxpayers with Special Hearing
and/or Speaking Needs (TT only)

1-800-447-3020

PA DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

DCED Customer Service Center
(717) 787-3405

KOZ Web site
<http://koz.newpa.com>

KOZ Coordinators
<http://koz.newpa.com/contact.html>

To receive KOZ/KOEZ tax benefits, a KOZ/KOEZ application must be completed and submitted to the PA Department of Community and Economic Development by December 31 of each calendar year for which benefits are sought.

Applications can be found on the
KOZ/KOEZ Web site: <http://koz.newpa.com>.



PENNSYLVANIA

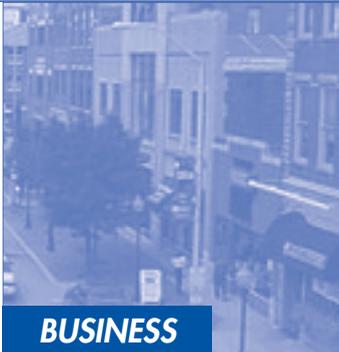
PA KOZ

KEYSTONE OPPORTUNITY ZONE



PROPERTY

Keystone Opportunity Zones (KOZ) and Keystone Opportunity Expansion Zones (KOEZ) are geographic areas designated by local communities and approved by the state as economic development zones that can provide specific state and local tax benefits.



BUSINESS



RESIDENCE

REV-672 PO (9-07)

ABOUT KEYSTONE OPPORTUNITY ZONES

The Keystone Opportunity Zone (KOZ) programs consist of 12 defined areas in 59 counties across Pennsylvania. KOZs range in size from under 10 acres to over 500. Business and property owners are given priority consideration for various community-building assistance programs.

STATE TAXES:

The possible state tax benefits of the Keystone Opportunity Zone (KOZ/KOEZ) program may reduce one or more of the following taxes:

- Corporate Net Income Tax
- Capital Stock and Foreign Franchise Tax
- Personal Income Tax
- Sales and Use Tax (purchases consumed and used by businesses in the KOZ)
- Bank and Trust Company Shares Tax
- Mutual Thrift Institutions Tax
- Insurance Premiums Tax

LOCAL TAXES:

The possible local tax benefits of the Keystone Opportunity Zone (KOZ/KOEZ) program may reduce one or more of the following taxes:

- Earned Income/Net Profits Tax
- Business Gross Receipts, Business Occupancy, Business Privilege and Mercantile Tax
- Local Real Property Tax
- Sales and Use Tax (county/city; purchases used and consumed by businesses in the Zone)
- Wage and Net Profits Tax

Zones expire in 2008, 2010, 2013 and 2018. Please check with a local zone coordinator for each property deadline.

To Qualify for KOZ:

- Complete and submit an annual application.
- Be in compliance with all state and local tax laws and building code provisions by February 5 of the following calendar year.
- Reapply each year.

PROPERTY OWNERS



Does a property owner have to meet the 184-day residency requirement to get property tax abatement on a property owned in a KOZ?

No, the residency requirement applies only to PA Personal Income Tax and the local Earned Income Tax.

When does the abatement of local real estate taxes occur?

Under the Keystone Opportunity Zone and Keystone Opportunity Expansion Zone, individuals and businesses can take advantage of the real property tax abatement immediately upon certification.

How does the KOZ affect existing state or local tax liens, encumbrances, judgments or other claims against the property within the zone?

The KOZ/KOEZ law has no effect. However, these past due liabilities must be paid in order to claim any tax benefits from being located within a KOZ/KOEZ. A property owner has until February 5 of the following calendar year to come into compliance.

Who is entitled to the KOZ real property tax benefits when the KOZ real property owner leases the property?

The KOZ/KOEZ real property owner is entitled to the KOZ/KOEZ local real property tax abatement. The tenant may be entitled to other KOZ/KOEZ tax benefits depending on whether the tenant is considered a KOZ/KOEZ resident individual or a KOZ/KOEZ qualified business.

If I own real estate located in a KOZ and decide to sell it, is the capital gain subject to state income tax and does it matter whether I live in a KOZ?

The KOZ/KOEZ laws provide an exemption from state income tax for net gains from the sale of real estate located in a KOZ/KOEZ for a resident and non-resident. It is limited to the percentage of time (measured in days) the property is in a KOZ/KOEZ and owned by that taxpayer, over the total time (measured in days) that the property is owned by that taxpayer.

However, if you are selling your principal residence and you have been there for at least two of the last five years preceding the date of the sale, you are most likely exempt from taxes on the gain under another state law. You can learn more from the PA Department of Revenue by ordering the brochure entitled Sale of Your Principal Residence (REV-625).



BUSINESS OWNERS

How does a company become a qualified business?

To become a qualified business, a business must: (1) own or lease real property in a KOZ/KOEZ from which it actively conducts a trade, profession, or business, and (2) obtain annual certification from the PA Department of Community and Economic Development.

What is exempt from state and local Sales and Use Tax?

Retail sales of services or tangible personal property, other than motor vehicles, to a qualified business for the exclusive use, consumption, and utilization of services or tangible personal property by the qualified business at its facility located within a Keystone Opportunity Zone (KOZ) or Keystone Opportunity Expansion Zone (KOEZ), are exempt from the Sales and Use Tax. The Department of Revenue will

provide an exemption number to be included on a PA Tax Exemption Certificate form (REV-1220) when purchasing items from a vendor.

Does the exemption apply to Sales and Use Tax on motor vehicles?

No. The sale or lease of motor vehicles licensed for over the road use, including special mobile equipment, are subject to Sales and Use Tax, even when used in an approved KOZ/KOEZ.

Must a KOZ business continue to collect state and local Sales Tax from its customers?

A business located in a KOZ/KOEZ must continue to charge and collect Sales Tax from its customers, unless the purchase is otherwise exempt.

How does a qualified business claim a Corporate Net Income Tax and/or Capital Stock and Franchise Tax Credit?

A qualified business may take a tax credit, subject to certain limitations, against the Corporate Net Income Tax and/or the Capital Stock and Franchise Tax for the tax liability attributable to business activity conducted within a KOZ/KOEZ. The credit shall be apportioned to the KOZ/KOEZ by use of the common three-factor formula: property, payroll and sales.

Are railroad, truck, bus, airline, pipeline, natural gas, or water transportation companies entitled to certain KOZ tax benefits?

These types of companies that are qualified businesses may claim Job Creation Tax Credits for full-time jobs created in a KOZ/KOEZ, provided that Pennsylvania full-time jobs increase from the prior year.

Are banks, trust companies and mutual thrift institutions entitled to certain KOZ tax benefits?

A bank, trust company, or mutual thrift institution that is a qualified business may take a credit, subject to certain limitations, against the Bank and Trust Company Shares Tax or the Mutual Thrift Institutions Tax for liabilities attributable to business activity conducted within a KOZ/KOEZ.

Are insurance companies entitled to certain KOZ tax benefits?

An insurance company that is a qualified business may take a Job Tax Credit, subject to certain limitations, against the Insurance Premiums Tax liability attributable to business activity conducted within a KOZ/KOEZ.

How do owners operating a qualified sole proprietorship, partnership or PA S Corporation within a KOZ receive KOZ tax benefits?

Income earned by a qualified business in a KOZ/KOEZ is not subject to PA Personal Income Tax, when passed through to the resident/nonresident shareholder, partner, member, etc. Income earned by a qualified sole proprietor is exempt from the individual owner's PA taxable income. If you have any other income that you earned or realized from outside a KOZ/KOEZ, you are liable for PA Personal Income Tax on that income.

Are qualified businesses located in a KOZ entitled to local real property tax abatement?

Yes. A qualified business may be entitled to 100 percent abatement of local real property taxes.



RESIDENT OWNERS

Is a resident of a KOZ subject to PA Personal Income Tax or local Earned Income Tax?

An individual domiciled in a KOZ/KOEZ and who lives there for a period of at least 184 consecutive days during the taxable year may be entitled to an exemption on most income from PA Personal Income Tax and local Earned Income Tax.

Since I live in a KOZ, why is my employer still withholding state and local income taxes from my pay?

Employers are still required to withhold state income tax and local Earned Income Tax from the paychecks of KOZ/KOEZ residents. Residents

claim the tax exemption after filing their KOZ/KOEZ PA Personal Income Tax Return after the close of the taxable year.

How do I claim the PA Personal Income Tax exemption as a resident of a KOZ?

Prior to the PA Personal Income Tax filing season, the Department of Revenue will send you a KOZ/KOEZ Personal Income Tax return, which must be completed and filed with the Department by the April tax season deadline. If the KOZ/KOEZ return indicates an overpayment of PA tax paid, the individual will receive a tax refund. Each resident must submit a separate return to claim a KOZ/KOEZ exemption. (Joint filing is not permitted.)

I am not a resident of a KOZ, but I own and operate a business within a KOZ. Must I pay PA Personal Income Tax on the income I earn from my sole proprietorship?

No. Income earned by a qualified business relating to business activity conducted within a KOZ/KOEZ is not subject to PA Personal Income Tax. This applies to sole proprietors. Partners, members of limited liability companies, and shareholders of PA S Corporations should consult the instructions for Schedule P-S KOZ for more information.

There is also a separate exemption in the PA Income Tax law for rents received from rental property located in a KOZ/KOEZ.

Do individual residents of a KOZ have to pay state and local Sales Tax on their purchases?

Yes. There is no exemption from state and local Sales Tax for individuals. You will pay Sales Tax on your purchases, as well as continue paying Sales Tax on your utility bills and all motor vehicles licensed for over the road use, even when used in an approved KOZ/KOEZ.