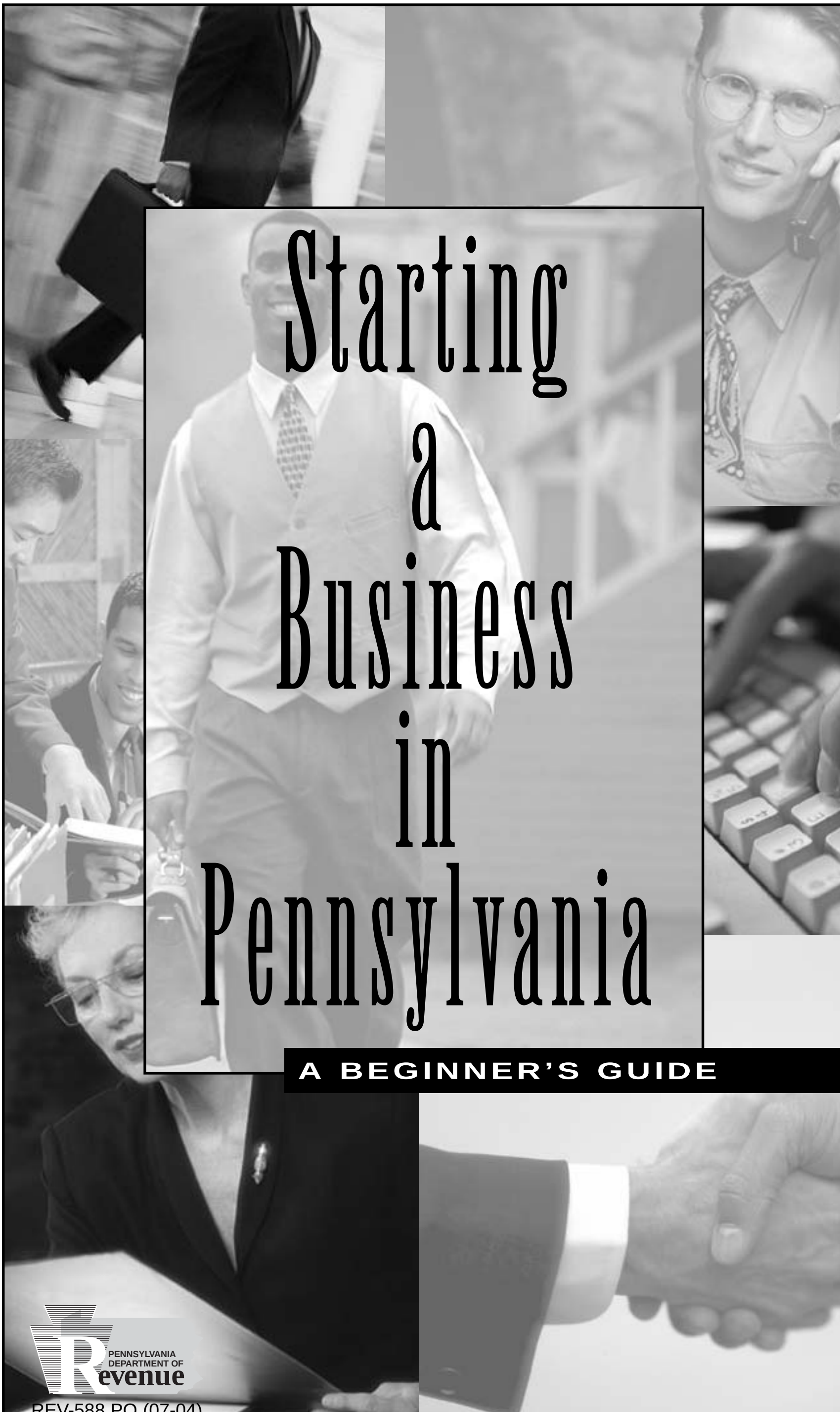

Starting a Business in Pennsylvania

A BEGINNER'S GUIDE

PENNSYLVANIA DEPARTMENT OF Revenue

REV-588 PO (07-04)

This guide is published by the PA Department of Revenue to provide information to new business owners. It is NOT intended to replace the professional services of tax and legal professionals.

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A Beginner's Guide for Starting a Business in Pennsylvania

This practical guide is filled with information about how to fulfill your tax responsibilities and tips to help you avoid common mistakes of people who are starting a business.

This guide is not intended to replace the services of tax and legal professionals.

Visit the PA Open for Business Web site at **www.paopen4business.state.pa.us** for business information, forms, and to register your business with the Commonwealth online.

Checklist for Business Start-Up

There is a lot to think about when you are starting your own business. The following checklist will help guide you on:

Planning Activities

- Apply for a Federal Employer Identification Number.
- Secure financing, if needed.
- Establish a bank account for your business.
- Establish record-keeping procedures for financial management, marketing, personnel, maintenance, etc.
- Secure insurance for your business.

General Start-Up Activities

- Determine the business you want to start and determine:
  a. Your qualifications for the business.
  b. The feasibility of making that business profitable.
- Conduct research on your industry, target market and competition.
- Select a location and analyze it for traffic, parking, and customer and delivery access.
- Investigate all start-up procedures specific to your industry.

- Write a business plan that includes your strategies for management, marketing, production and financial contingencies.
- Develop a list of all potential monthly expenses.
- Determine potential sources of financing for your type of business.
- Develop a list of all equipment and purchases required to start your business. Identify the costs of each.
- Research potential suppliers and investigate credit terms with each.
- Develop descriptions of all duties within your firm and determine the person responsible for each. Identify future educational needs.

Center for Entrepreneurial Assistance

If you have questions about state regulations, which are not answered in this booklet, call the Center for Entrepreneurial Assistance at 1-800-280-3801. The center's staff offers user-friendly services for Pennsylvania entrepreneurs.

How to Form Your Legal Business Structure

Once you decide to establish a business, your first consideration will be the type of business organization to use. Legal and tax considerations, as well as personal needs and the needs of the particular business, will help to determine your final choice. There are four principal kinds of business structures: sole proprietorships, partnerships (general or limited), limited liability companies, and corporations.

There are advantages and disadvantages to each of the legal forms of business. As an entrepreneur, you must examine all of the characteristics and consult a knowledgeable legal professional when considering the formation of your business.

- ***Sole Proprietorships***

Most small businesses operate as sole proprietorships. This is the simplest form of organization and allows the single owner to have sole control and responsibility. Some advantages of the sole proprietorship are: less paperwork; a minimum of legal restrictions; owner retention of all the profits; and ease in discontinuing the business. Disadvantages include: unlimited personal liability for all debts and liabilities of the business; limited ability to raise capital; and termination of the business upon the sole proprietor's death.

A small business owner might select the sole proprietorship to begin. Later, if the business succeeds and the owner feels the need, he or she may decide to expand and form a partnership or corporation.

How Sole Proprietors Report Pennsylvania Income

Sole Proprietors report income and expenses by using PA Schedule C (Profit or Loss from Business) for each business. The sole proprietor then reports the profit or loss on a PA Personal Income Tax return and pays taxes at the PA Personal Income Tax rate of 3.07 percent.

If your business will be a sole proprietorship and you want to use a fictitious name, call the PA Department of State, Corporation Bureau, (717) 787-1057, for an application and fictitious name availability information. See page 12 for more information on fictitious names or visit the PA Open for Business Web site at **www.paopen4business.state.pa.us**.

- ### *Partnerships*

Partnerships are similar to sole proprietorship except that two or more people are involved. Some advantages are: it is easy to establish; and it can draw upon the financial and managerial strength of all the partners. Some disadvantages are: unlimited personal liability for the firm's debts and liabilities; termination of the business with the death of a partner; and the fact that any one of the partners can commit the firm to obligations.

- ### *General Partnerships*

A general partnership is formed by an agreement entered into by each partner. This agreement may be informal, but it is advisable to have a written, legal agreement among all parties.

A partnership agreement should at least cover: (1) the contributions of each partner, (2) the distribution of profits or losses, (3) the terms for dissolution. Without a written agreement, the profits and losses are presumed to be distributed equally.

While no filing is required to form a general partnership, there may be a requirement to file for a fictitious name. Refer to the section in this guide on *How to Register Your Business Name* beginning on Page 12.

- ***Limited Partnerships***

A limited partnership is a partnership having one or more general partners and one or more limited partners. The limited partners have limited exposure to liability and are not involved in the day-to-day management of the limited partnership. A Pennsylvania limited partnership is formed by filing a Certificate of Limited Partnership with the Corporation Bureau, PA Department of State.

How Partnerships Report Pennsylvania Income

Partnerships (general or limited) are required to file the PA-20S/PA-65 Information Return, and provide each PA resident partner with a PA Schedule RK-1 and each non-PA resident partner with a PA Schedule NRK-1.

When preparing PA tax filing documents, it is best to start with the completed Partnership Information Return (Federal Form 1065), and then proceed to the Pennsylvania schedules, forms and returns. Partnerships that have elected to be classified as a corporation for federal income tax purposes are subject to the Corporate Net Income Tax and Capital Stock/Foreign Franchise Tax, which are reported on the Corporate Tax Report (RCT-101).

Limited Liability Companies

A Limited Liability Company (LLC) is a relatively new business structure allowed by state statute.

LLCs are popular because, similar to a corporation, owners have limited personal liability for the debts and actions of the LLC. Other features of LLCs are more like a partnership, providing management flexibility and the benefit of pass-through taxation.

Owners of an LLC are called members. Since most states do not restrict ownership, members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit "single member" LLCs, those having only one owner.

Tax on the income of a LLC is paid at the same level for Pennsylvania as for the IRS. In general, LLCs are subject to the Capital Stock or Foreign Franchise Tax and the Corporate Loans Tax. Additional information on the taxation of LLCs is available in the Corporation Tax Instruction Booklet (CT-1) or in the Corporation Tax Section of the Department's Web site.

A few types of businesses generally cannot be LLCs, such as banks, insurance companies and nonprofit organizations.

- ***Corporations***

A corporation is the most complex form of business organization. It is more costly and more difficult to create because of the paperwork required. Business activities are restricted to those listed in the corporate charter. However, most corporations define their activities in very broad terms on the charter.

Advantages of a corporation are that liability is limited to the amount owners have contributed to their shares of stock, and the corporation's continuity is unaffected by the death or transfer of shares by any of the owners. Some disadvantages include: extensive record keeping, close regulation and double taxation (taxes on profits at the corporate level and taxes on dividends paid to owners at the individual level).

In forming a corporation, prospective shareholders transfer money, property, or both, for the corporation's capital stock. A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income.

To form a corporation in Pennsylvania, Articles of Incorporation must be filed with the Corporation Bureau, PA Department of State, accompanied by a docketing statement. Foreign (out-of-state) corporations must submit an application for a Certificate of Authority, including a docketing statement, to conduct business in Pennsylvania.

Contact: Corporation Bureau
PA Department of State
206 North Office Building
Harrisburg, PA 17120
(717) 787-1057

Or, visit the PA Open for Business Web site at **www.paopen4business.state.pa.us**.

How Corporations Are Taxed in Pennsylvania

The corporation pays taxes on profits of a corporation and the shareholders pay tax when the profits are received as dividends. However, shareholders cannot deduct any losses posted by the corporation.

"C" corporations also can take advantage of the Commonwealth's Net Operating Loss (NOL) carry forward provision that permits "C" corporations to offset $2 million in previous losses against PA Corporate Net Income. Additional information on NOL carry forwards is available in the Corporation Tax Instruction Booklet (CT-1) or in the Corporation Tax section of the Department's Web site.

All corporations must file a Corporate Tax Report (RCT-101) and include a copy of the Federal Form 1120, 1120S, 1065, or 990 and supporting schedules.

Domestic corporations are also subject to the Capital Stock Tax, while foreign corporations are subject to the Foreign Franchise Tax. Both taxes are calculated using a statutory fixed formula. The formula is explained in detail in the PA Corporation Tax booklet (CT-1). Currently, there is no minimum Capital Stock/Foreign Franchise Tax in Pennsylvania.

For current rates, visit the Department of Revenue's Web site at www.revenue.state.pa.us or call the Taxpayer Service & Information Center at (717) 787-1064.

- ### *Pennsylvania S Corporations*

The owners of an eligible domestic corporation can transfer their income tax liability by electing to be treated as a PA S corporation. Shareholders of a PA S corporation include their share of income, loss or credit on their PA Personal Income Tax returns, and pay the Personal Income Tax at the rate of 3.07 percent. The S corporation does not pay the Corporate Net Income Tax.

Only corporations that have a valid Federal S corporation election may elect to be taxed as a PA S corporation (IRC 1361-1379). This permits shareholders to pay taxes on corporate net income as individuals, as in a partnership.

The first step to becoming a PA S corporation is to obtain federal S status. Becoming a federal S corporation does not automatically make a company a PA S corporation. **Corporations**

must file the appropriate forms separately for Pennsylvania. A Pennsylvania corporation cannot elect to be an S corporation unless it has also applied for federal S status.

In 1997, Pennsylvania began to recognize qualified Subchapter "S" Subsidiaries (Q-Subs). A corporation must first be a federal Q-Sub in order to be a Q-Sub for Pennsylvania tax purposes. The parent corporation must make a PA S corporation election for itself and all Q-Subs doing business in Pennsylvania. For income tax purposes, all income is considered as earned by the parent corporation and passed through from the parent corporation to the shareholders. If the only Pennsylvania activity of the parent corporation is the investment in the Q-Sub, it is not necessary for the parent corporation to register to do business in the Commonwealth of PA in order to make this election.

Even though Q-Subs are disregarded entities for federal income tax purposes, each Q-Sub must file an RCT-101 each year and calculate the Capital Stock/Foreign Franchise Tax on a separate company basis. A separate company income statement and balance sheet, or pro forma Federal Form 1120S, must be attached to the RCT-101.

To apply for PA S status, file Form REV-1640 with the PA Department of Revenue within 75 days of the beginning of your fiscal year. When you receive a copy of your federal notification of approval from the IRS, you must furnish a copy to the PA Department of Revenue.

Contact: PA Department of Revenue
Bureau of Corporation Taxes
Attn: S Corporation
Dept. 280704
Harrisburg, PA 17128-0704
(717) 783-6035

How S Corporations Are Taxed in Pennsylvania

Corporations that have approved Pennsylvania S status are responsible for filing a Corporate Net Income Tax return. Shareholders are taxed individually, similar to partnerships.

The income passed through to an individual shareholder from a PA-S Corporation is calculated using the Personal Income Tax statutes. There are many differences between the calculation of Personal Taxable Income and Corporate Taxable Income. Among these changes is there are no provisions to allow a Net Operating Loss carry forward in the calculation of Personal Taxable Income.

Pennsylvania also has a Capital Stock/Foreign Franchise Tax, which all corporations doing business in Pennsylvania are required to pay, including PA S corporations.

The valuation of the stock is calculated using a formula described in the Corporation Tax Booklet (CT-1) along with the current rate. This tax is being phased out and is scheduled to be eliminated in 2010.

Beginning the Registration Process

Identification Numbers

You must provide a taxpayer identification number so that the Department can process your returns. There are two kinds of taxpayer identification numbers - a Social Security Number (SSN) and an Employer Identification Number (EIN). For information on getting an EIN, see "Getting an EIN" on the next page.

The taxpayer identification number (SSN or EIN) must be shown on all returns and other documents sent to the Department. You must also furnish your identifying number to others who file returns or documents such as:

- Interest, dividends, royalties, etc. paid to you.
- Amounts paid to you or your business that total $600 or more for the year.
- Any amount paid to you as a dependent care provider.
- Alimony paid to you.

If you do not furnish your identification number as required, you could be subject to a penalty for delaying the administration of the tax law.

Employer Identification Number (EIN)

EIN's are used to identify the tax accounts of employers, sole proprietors, corporations, partnerships, estates, trusts and other entities.

If you do not already have an EIN, you need to get one if you:

1. Have employees;
2. Have a Keogh plan;
3. Operate your business as a corporation or partnership; or
4. File an employment tax return to report Employer Withholding Taxes, Unemployment Compensation contributions, etc.

Getting an EIN

EIN's are issued by the Internal Revenue Service (IRS). You can get an EIN either through the mail or over the Internet by completing the Application for an Employer Identification Number (Federal Form SS-4).

You can get Form SS-4 at the IRS Office nearest you or online at www.irs.gov. For information on the EIN, or to request Form SS-4, contact the IRS at 800-TAX-1040 for information; or 800-TAX-FORM for the EIN form.

If you apply online, you can get an EIN immediately. If you apply by mail, file Form SS-4 at least four to five weeks before you need an EIN. Even if you do not receive your EIN by the time a return is due, file the return. Write “Applied for” and the date you applied for the number in the space provided for the EIN.

How do I find out what Pennsylvania tax accounts I need?

Every business is different, so it is impossible to adequately cover all the taxes for which you must register. Generally, if you are incorporated and are doing business in Pennsylvania, you need to register with the Bureau of Corporation Taxes for the Capital Stock/Foreign Franchise Tax and Corporate Net Income Tax. If you are an S corporation, you still must register. (This is in addition to registering with the Corporation Bureau in the PA Department of State.)

If you employ one or more persons, you need to register for Employer Withholding Taxes. Employers are required to withhold PA Personal Income Tax from the compensation paid to Pennsylvania resident employees for work performed inside or outside of Pennsylvania and for nonresident employees (other than residents of New Jersey, Maryland, Virginia, West Virginia, Ohio, and Indiana) for work performed inside Pennsylvania.

Employers are also required to register for the Unemployment Compensation Insurance Tax, which is imposed on employers and employees to help support them for loss of wages should they become unemployed through no fault of their own. The rate is based on the employment history of the company. While this tax is actually administered through the PA Department of Labor and Industry, you can register for this tax online at **www.paopen4business.state.pa.us** or by using the PA Enterprise Registration Form (PA-100).

Employers can electronically file their required Unemployment Compensation quarterly reports (Form UC-2A) and pay their Unemployment Compensation contributions (Form UC-2) using the Internet business tax filing system, e-TIDES (Electronic Tax Information & Data Exchange System). With e-TIDES you can also file returns, payments and/or extension requests for a variety of business taxes and services electronically.

If you sell taxable items or perform taxable services, you are required to secure a Sales Tax license. Taxable items are subject to a 6 percent Sales Tax. In addition, retailers who are located within Allegheny and/or Philadelphia counties are also required to collect an additional 1 percent in local Sales Tax. Both of these taxes are reported on the same tax return and under the same Sales Tax license number.

To find out if your business is required to collect Sales Tax and secure a Sales & Use Tax license, call the nearest Department of Revenue district office or the Taxpayer Service and Information Center at (717) 787-1064. For more information, see the Department's Retailers' Information Guide (REV-717).

The PA Open for Business Web site and the PA-100 Form include a chart of taxes and services that will help you determine other types of taxes you may be liable for.

Registering for a new account with the Department

Pennsylvania has a PA Enterprise Registration Form (PA-100) which permits taxpayers to register for various tax accounts, including Sales & Use Tax licenses, Employer Withholding Taxes, and Unemployment Compensation Taxes.

Businesses are able to register and open tax accounts through the PA Open for Business Web site. The online version of the PA-100 Enterprise Registration Form will allow business owners to apply for Sales & Use Tax licenses, register to withhold employer taxes, open Unemployment Compensation accounts administered by the PA Department of Labor & Industry, and certify Workers' Compensation insurance. The online PA-100 is for the most common types of registration, and can be accessed through the PA Open for Business Web site at **www.paopen4business.state.pa.us** or by visiting the Revenue e-Services Center at www.revenue.state.pa.us.

Taxpayers only need to fill out the sections which apply to the type of tax accounts they seek to open.

You can get a PA-100 Form at one of the Department's district offices, or through our toll-free Forms Ordering Service at 1-888-PATAXES or 1-800-362-2050.

Registrations for Sales & Use Tax licenses and Employer Withholding Taxes are also available on the Department's Fax Response System, which can be accessed through 1-888-PATAXES, by selecting the fax option.

Any tax payments of $20,000 or more must be remitted using a method of Electronic Funds Transfer (EFT) selected by the taxpayer per 61 Pa. Code § 5.3. The EFT payment method options that the taxpayer may choose from are Electronic Funds Withdrawal, Automated Clearing House (ACH) Credit and Certified or Cashiers Checks. Any failure to remit tax payments of $20,000 or larger by EFT would result in the imposition of a penalty.

To register for the EFT program, the taxpayer is required to file an Authorization Agreement for Electronic Tax Payments. Visit the Revenue e-Services Center at **www.revenue.state.pa.us.**

Registrations required with other agencies

If you plan to employ one or more people, you will need to obtain federal, state and local forms:

- Federal Income Tax and Social Security Tax withholdings, contact the Internal Revenue Service, 800-TAX-1040 for information; or 800-TAX-FORM to order forms or publications.

- Workers' Compensation, contact a private insurance carrier, insure with the State Workmen's Insurance Fund (SWIF), (570) 963-4635, or for information on participating in a group self-insurance fund approved by the PA Department of Labor and Industry, (717) 783-4476.

- Unemployment Compensation forms may be obtained by calling 1-866-403-6163. Register online at **www.paopen4business.state.pa.us**.

- Contact the local municipality (city, borough, or township) concerning zoning requirements and any required local licenses and permits.

- Contact the federal, state, and local government (county, city, borough, township, or school district) agencies concerning their tax laws and business requirements.

- There are 12 Keystone Opportunity Zones (KOZ's) with expanded subzones within the Commonwealth that offer special tax relief for businesses that locate within these special tax-free districts. Businesses operating within a KOZ are exempt from both state and local taxes. To learn more about these tax-free districts, contact the Department of Community and Economic Development at (717) 720-7337or visit www.inventpa.com.

- To obtain a Corporate Account Number, you must register with the PA Department of State.

How to Register Your Business Name

Fictitious Name

Generally, any sole proprietorship, partnership, corporation, or other form of association that conducts a business identified by a fictitious business name must register the fictitious name with the PA Department of State. A fictitious name is any assumed name, style, or designation other than the proper name of the entity using the name. These types of entities include any association, general partnership, syndicate, joint venture, or similar combination of groups or persons. Certain entities need not make a fictitious name filing. Contact the PA Department of State's Corporation Bureau for details, or visit the PA Open for Business Web site at **www.paopen4business.state.pa.us**. The following are examples to help you determine whether you need to file for a fictitious name:

(1) The surname of a person, standing alone, or coupled with words that describe the business, is not a fictitious business name and does not need to be registered. For example, "Jones Radio Repair" would not be a fictitious name because it includes the last name of the owner. However, "Bill's Radio Repair" is considered to be a fictitious business name because the owner's last name is not listed.

(2) The inclusion of words which suggest additional owners, such as "Company", "& Company", "& Sons", and "& Associates", makes the name a fictitious name. For partnerships, the last name of all partners must be listed or the fictitious name rule applies. For example, if "Moore, Johnson, & Smith" includes all three partners' names, it is not considered to be a fictitious business name. If all of the partner's names are not included, then the name must be registered with the PA Department of State.

To register a fictitious business name, you must register with the Corporation Bureau in the PA Department of State. After registering a fictitious name, you will be required to advertise the new name in a newspaper of general circulation in the county in which your business will be located. You can identify the legal publication by contacting the county courthouse or county bar association in the county where the principal office is located. The PA Department of State's Corporation Bureau can also assist you.

Without filing a fictitious name, the unregistered entity may not use the courts of Pennsylvania to enforce a contract entered into using the fictitious name. The failure to register the fictitious name does not void the contract, but merely prevents such enforcement until registration. The court has the option of imposing a $500 penalty in these instances where the entity seeks to enforce the contract and subsequently registers the fictitious name in an untimely manner.

Contact: Corporation Bureau
PA Department of State
206 North Office Building
Harrisburg, PA 17120
(717) 787-1057

Common Sense about your Business

No matter how small or large your business is, it is always a good idea to know whether you are making a profit or losing money. Record keeping helps you to do that.

For a very small business, there is an easy way to get an idea of where your business stands by coming up with a daily "break even" figure. Every business has a fixed amount of expenses (overhead) which must be paid just to open your doors for business. Those items include rent, insurance, salaries, equipment, vehicle payments, etc. If you can determine a figure for the cost of doing business each day, you can subtract that from your sales each day and get an idea of how your business is doing.

To find your "break even" point, add up your fixed expenses for the month and divide them by the number of days you are usually open.

Example:

Suppose you run a shoe repair shop.
Your shop rental is $500 per month.
You have an equipment payment of $100 a month.
You have one employee whom you pay $1,300 a month, and your prorated insurance bill is $50. You are open Monday through Friday or 20 days a month.

Total fixed expense: $1,950. Or, divided by 20 days is $97.50 a day. That means that the shoe repair shop has to bring in $97.50 a day just to break even.

At the end of the day, when you count your sales, you have an idea of whether you made money, broke even, or lost money.

To get an even clearer picture, you may want to figure an amount to determine other variable costs, such as supplies, which change as your volume changes.

In the example of the shoe repair shop, you may determine that it costs 25 cents in supplies to fix each pair of shoes. If you fixed 28 pairs of shoes that day, you may want to figure in the $7 used for supplies in your calculations for the day.

Business Expenses

You can deduct business expenses on your PA Personal Income Tax return. To be deductible, a business expense must be both ordinary and necessary. An **ordinary** expense is one that is common and accepted in your field of business, trade, or profession. A **necessary** expense is one that is helpful and appropriate for your business, trade, or profession. An expense does not have to be indispensable to be considered necessary.

The following are brief explanations of some expenses that are of interest to people starting a business:

- Business start-up costs
- Depreciation
- Business use of your home
- Car expenses

There are many other expenses that you may be able to deduct. See your PA Schedule C for the other types of items which are deductible.

Business Start-Up Costs

Business start-up costs are the expenses you incur before you actually begin business operations. Your business start-up costs will depend on the type of business you are starting. They may include advertising, travel, surveys, and training. These costs are capital expenses, which are expenses you deduct over a number of years. However, if you never begin business operations, you cannot deduct start-up costs.

You usually recover costs for a particular asset (such as machinery or office equipment) through depreciation (discussed next). Other start-up costs can be recovered through amortization. This means you may deduct them in equal amounts over a period of 60 months or more. If you choose not to amortize these start-up costs, you generally cannot recover them until you sell or otherwise go out of business.

Depreciation

If property you acquire for use in your business has a useful life exceeding one year, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Examples of depreciable property are:

- Office furniture
- Building
- Machinery and equipment

You can choose to deduct a limited amount of the cost of certain depreciable property in the year you purchase it for use in your business.

To set up a simple depreciation schedule, record the date of purchase, the amount you actually paid for the item, its useful life, and decide upon a depreciation method. Straight-line depreciation is the easiest to understand. Using the straight-line method, the cost of each item is written off and deducted equally over time.

For example, you can deduct $50 a month for a computer with a useful life of three years – 36 months – that cost $1,800 ($1,800 divided by 36 equals $50 a month).

You will need to track the depreciation expense taken each taxable year until the item is fully depreciated. The amount you deduct each year as a depreciation expense is recorded as an accumulated depreciation.

Business Use of Your Home

You may be able to deduct the expenses for the part of your home you use for business. The business use of your home must meet strict requirements before any of these expenses can be taken as business deductions. You can take a limited deduction for its business use if you use part of your home exclusively and regularly:

1. As the principal place of any trade or business in which you engage;

2 As a place to meet or deal with patients, clients, or customers in the normal course of your trade or business; or

3. In connection with your trade or business if you are using a separate structure that is not attached to your residence.

Car Expenses

If you use your car in your business, you can deduct car expenses. You generally can deduct either your actual expenses or the standard mileage rate.

Actual expenses. If you deduct actual expenses, you can deduct the cost of the following:

- Depreciation
- Garage rent
- Gas
- Insurance
- Lease fees
- Licenses
- Oil
- Parking fees
- Rental fees
- Repairs
- Tires
- Tolls

If you use your car for both business and personal purposes, you must divide your expenses between business and personal use by determining the percentage used for business as opposed to personal use.

Example: You are the sole proprietor of a flower shop. You drive your van 20,000 miles during the year: 16,000 miles for delivering flowers to customers and 4,000 miles for personal use. You can claim only 80% (16,000 divided by 20,000) of the cost of operating your van as a business expense.

Standard mileage rate. Instead of figuring actual expenses, you may be able to use the standard mileage rate to figure the deductible costs of operating your car, van, pickup, or panel truck for business purposes. You can use the standard mileage rate only for a car that you own. The standard mileage rate is a specified amount of money you can deduct for each business mile you drive. The rate is announced annually by the IRS. To figure your deduction, multiply your business miles by the standard mileage rate for the year.

If you choose to take the standard mileage rate, you cannot deduct actual expenses except for business-related parking fees and tolls.

If you want to use the standard mileage rate for a car, you must choose to use it in the first year you place the car in service. In later years, you can choose to use the standard mileage rate or actual expenses.

Record Keeping

This part explains why you must keep records, what kinds of records you must keep, and how to keep them. It also explains how long you must keep your records for federal and state tax purposes.

Why Keep Records?

Everyone in business must keep records. Good records will help you do the following:

Monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes are needed. Good records can increase the likelihood of business success.

Prepare accurate financial statements. You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors.

An income statement shows the income and expenses of the business for a given period of time. A balance sheet shows the assets, liabilities, and your equity in the business on a given date.

Identify source of receipts. You will receive money or property from many sources. Your records can identify the source of your receipts. You need this information to separate business from nonbusiness receipts and taxable from nontaxable income.

Keep track of deductible expenses. You may forget expenses when you prepare your tax return unless you record them when they occur.

Prepare your tax returns. Records must support the income, expenses, and credits you report on your tax returns. Generally, these are the same records you use to monitor your business and prepare your financial statements.

Support items reported on tax returns. You must keep your business records available at all times for inspection by the IRS and/or the PA Department of Revenue. If the IRS and/or Department examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

Kinds of Records to Keep

Except in a few cases, the law does not require any special kind of record keeping system. You may choose any system suited to your business that clearly shows your income.

The type of business you operate affects the type of records you need to keep for federal tax purposes. You should set up your books using an accounting method that clearly shows your income for your tax year. See Accounting Method, Page 33. If you are in more than one business, you should keep a complete and separate set of books for each business.

Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checkbook (Page 23) is the main source for entries in the business books.

General Tips for Bookkeeping

- Maintain daily business records.
- Identify the source of receipts.
- Record expenses when they occur.
- Keep complete records on all assets.
- Retain supporting documents.

Supporting Documents

Purchases, sales, payroll, and other transactions you have in your business will generate supporting documents such as invoices and receipts. These documents contain the information you must record in your books.

It is important to retain these documents because they support the entries in your books and on your tax return. You should keep them in an orderly fashion and in a safe place.

Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. Generally, it is a good idea to keep your supporting documents in file folders in designated categories. For example, if you write a check to B&B Supplies and record the expense as "office supplies," then the receipt should be placed in a folder marked "office supplies."

Gross receipts. Gross receipts are the payments you receive for the goods and services you provide in your business. You should retain supporting documents which show the amounts and sources of your gross receipts. Examples of documents that show gross receipts include:

- Cash register tapes
- Bank deposit slips
- Receipt books
- Invoices
- Credit card charge slips
- Forms 1099-MISC

Purchases. Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials and/or parts purchased for manufacturing into finished products. Your supporting documents should show the amount paid for those purchases. These records will help you determine the value of your inventory at the end of the year. Examples of documents for purchases include:

- Canceled checks
- Cash register tape receipts
- Credit card sales slips
- Invoices

Expenses. Expenses are the costs you incur to carry on your business. Your supporting documents should show the amounts paid for those business expenses. Examples of documents for expenses include:

- Canceled checks
- Cash register tapes
- Account statements
- Credit card sales slips

- Invoices
- Petty cash system for small cash purchases

A petty cash fund allows you to make minimal payments without having to write checks for small amounts. Each time you make a payment from this fund, you should prepare a petty cash disbursement slip and attach it to your receipt as proof of payment.

Travel, transportation, entertainment and gift expenses. These expenses require some extra documentation to deduct them as a business expense.

For example, to deduct the cost of taking a client to lunch, you should record the name of the person, the purpose of the business lunch or the topics discussed at the lunch.

For more information on federal rules, consult Publication 463, Travel, Entertainment, and Gift Expenses; and Publication 917, Business Use of Car. For Pennsylvania rules, see the instruction booklets which accompany your Pennsylvania tax returns.

Assets. Assets are the property, such as machinery and furniture, that you own and use in your business. You must keep records to verify certain information about your business assets. You need records to figure the annual depreciation and the gain or loss when you sell the assets. Your records should show:

When and how you acquired the asset, along with:

- Purchase price
- Date of purchase
- Cost of any improvements
- Deductions taken for depreciation
- Deductions taken for casualty losses, such as fires or storms
- How you used the assets
- When and how you disposed of an asset
- Selling price
- Expenses of sale

Examples of supporting documents that may show this information include:

- Purchase and sales invoices

- Real estate closing statements
- Canceled checks

What if I don't have a canceled check?

If you do not have a canceled check, you may be able to prove payment with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. The following is a list of acceptable account statements, which must be highly legible.

1. An account statement showing a check clearing is accepted as proof if it shows the:
   - a. Check number
   - b. Amount
   - c. Payee's name
   - d. Date the check amount was posted to the account by the financial institution
2. An account statement showing an electronic funds transfer is accepted as proof if it shows the:
   - a. Amount transferred
   - b. Payee's name
   - c. Date the transfer was posted to the account by the financial institution
3. An account statement showing a credit card charge (an increase to the cardholder's loan balance) is accepted as proof if it shows the:
   - a. Amount charged
   - b. Payee's name
   - c. Date charged (transaction date)

Proof of payment of an amount alone does not establish that you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips, and invoices, which clearly show that the payment was for the purchase of an item or service.

Recording Business Transactions

A good record keeping system includes a summary of your business transactions. (Your business transactions are shown on supporting documents previously discussed.) Business transactions are ordinarily summarized in books called journals and ledgers, which can be purchased from a local stationery or office supply store.

A journal is a book where you record each business transaction shown on your supporting documents. You may have to keep separate journals for transactions that occur frequently.

For example, a Cash Receipts Journal lists all money received. The number of transactions you have will determine how often you want to total the entries in your journal. In a retail establishment where there are many transactions, you may want to total your receipts daily. If you are a contractor and received just a few payments a month, you may choose to total your receipts monthly.

The totals from your Cash Receipts Journal are posted to your ledger. That will give you a summary of your activities in the Cash Receipts Journal. It is organized into different accounts. A ledger summarizes the transactions listed in your journal, which are usually posted on a monthly basis.

If this is your first attempt at bookkeeping, review the tax return to see the categories of expenses that the return asks for, which will help guide you in items that need to be kept in separate accounts.

Whether you keep journals and ledgers and how you keep them depends on the type of business you are in. For example, a record keeping system for a small business might include the following:

- Business checkbook
- Daily summary of cash receipts
- Monthly summary of cash receipts
- Check disbursements journal
- Depreciation worksheet
- Employee compensation record

Business checkbook. One of the first things you should do when you start a business is open a business checking account. You should keep your business account separate from your personal checking account.

The business checkbook is your basic source of information for recording your business expenses. You should deposit all daily receipts in your business checking account. Indicate the source of deposits and the type of expense in the checkbook. You should check your account for errors by reconciling it. (See Reconciling the checking account on the next page.)

Consider using a checkbook which allows adequate space to identify the source of deposits, such as business income, personal funds, or loans. You should also note on the deposit slip the source of the deposit, and keep copies of all slips.

You should make all business expense payments by check, so the expense will be recorded in your Cash Disbursements Journal as part of your normal bookkeeping system. The canceled check also serves as a proof-of-payment document. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to "cash". If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your record file. If you cannot get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.

Open a Bank Account for Taxes

In addition to a separate business bank account, you may find it helpful to open a separate bank account to deposit Sales Tax that you collect from customers or Withholding Taxes deducted from your employees' checks. Sales Tax and Employer Withholding Taxes are trust fund taxes.

One of the biggest mistakes business owners make is spending trust fund taxes that are due to be remitted to federal, state, or local taxing agencies. Each payday, you should determine the amount of taxes you withheld from paychecks and deposit that amount, along with the employers' portion of Social Security and Medicare, into your separate tax account.

In the same way, you should regularly transfer Sales Tax money into your separate tax account. If you do this, you will always have the money to pay your taxes in a timely manner.

Reconciling the checking account. When you receive your bank statement, make sure the statement, checkbook, and records agree. The statement balance may not agree with the balance in your checkbook and bookkeeping records if the statement:

1. Includes bank charges that you did not enter in your books and were not subtracted from your checkbook balance; or
2. Does not include deposits made after the statement date or checks that did not clear your account before the statement date.

By reconciling your checking account, you will:

1. Verify how much money you have in the account;
2. Make sure that your checkbook and records reflect all bank charges and the correct balance in the checking account; and
3. Correct any errors in your bank statement, checkbook, and records.

You should reconcile your checking account(s) each month.

Before you start to reconcile your monthly bank statement, review your own figures. Begin with the balance shown in your checkbook at the end of the previous month. Add the total cash deposited during the month to this balance, and subtract the total cash disbursements.

After reviewing your figures, the result should agree with your checkbook balance at the end of the month. If the result does not agree, you may have made an error in recording a check or deposit. You can find the error by:

1. Adding the amounts on your check stubs and comparing that total with the total in the “Amount of Check” column in your Check Disbursements Journal. If the totals do not agree, review the individual amounts to see if an error was made in your check stub record or in the related entry in your Check Disbursements Journal.

2. Adding the deposit amounts in your checkbook. Compare that total with the monthly total in your cash receipt book, if you have one. If the totals do not agree, compare the individual amounts to find any errors.

If your checkbook and journal entries still disagree, recalculate the running balance in your checkbook to make sure additions and subtractions are correct.

When your checkbook balance agrees with the balance figured from the journal entries, you may begin reconciling your checkbook with the bank statement. Many banks print a reconciliation worksheet on the back of the statement.

To reconcile your account:

1. Compare the deposits listed on the bank statement with the deposits shown in your checkbook. Note any differences in the dollar amounts.

2. Compare each canceled check, including both check number and dollar amount, with the entry in your checkbook. Note any differences in the dollar amounts. Mark the check number in the checkbook as having cleared the bank. After accounting for all checks returned by the bank, those not marked as cleared in your checkbook are your "outstanding" checks.

3. Prepare a bank reconciliation.

4. Update your checkbook and journals for items shown on the reconciliation as not recorded (such as service charges) or recorded incorrectly.

At this point, the adjusted bank statement balance should equal your adjusted checkbook balance. If you still have differences, review and re-do the previous steps to find errors.

Bookkeeping System

You must decide whether to use a single-entry or a double-entry bookkeeping system. The single-entry system of bookkeeping is the simplest to maintain, but it may not be suitable for everyone. You may find the double-entry system better because it has built-in "checks and balances" to assure accuracy and control.

Single-entry. A single-entry system is based on the income statement (profit or loss statement). It can be a simple and practical system if you are starting a small business. The system records the flow of income and expenses through the use of a daily summary of cash receipts and monthly summaries of cash receipts and disbursements.

Double-entry. A double-entry bookkeeping system uses journals and ledgers. Transactions are first entered in a journal and then posted to ledger accounts. These accounts show income, expenses, assets (property a business owns), liabilities (debts of a business), and net worth (excess of assets over liabilities). Income and expense accounts are closed at the end of each tax year. Asset, liability, and net worth accounts are kept open on a permanent basis.

In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another. An example of a journal entry showing a payment of rent in January is shown as:

Rent Expense	$500 (DR)
Cash	$500 (CR)

Under this system, the total debits must equal the total credits after you post the journal entries to the ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

Computerized System

There are computer software packages which you can use for record keeping. They can be purchased in many retail stores. These packages are very useful and relatively easy to use and they require very little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce legible records from the system to provide the information needed to determine your correct tax liability.

You must also keep all machine-sensible records and a complete description of the computerized portion of your accounting system. This documentation must be sufficiently detailed to show the following:

1. Applications being performed
2. Procedures used in each application

3. Controls used to ensure accurate and reliable processing
4. Controls used to prevent the unauthorized addition, alteration or deletion of retained records.

How Long To Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code and the Pennsylvania Tax Code. Generally, this means you must keep records that support an item listed on a return as income or an expense until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the IRS or Department of Revenue can assess additional tax. The period of limitations varies according to the tax. The period of limitations does not begin until you have filed a return. Returns filed before the due date are treated as filed on the due date.

For PA Personal Income Tax purposes, you should retain copies of your returns and all supporting schedules for at least four years after filing. Retain them longer if you claim depreciation deductions or losses. You will need these to identify your adjusted basis in a partnership or LLC interest, or in the shares of a Pennsylvania S corporation.

Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you later file an amended return.

Pennsylvania Tax Enforcement

After you are registered for a tax, you are required to file the returns on time. If you owe no tax, you still must file the return. If you fail to file, you will receive a notice of your failure to file and may be subject to a penalty.

The PA Department of Revenue has the right to charge both penalty and interest on tax payments that are not made in full or on time. The amount of penalty varies according to the tax type.

If a required tax payment is not paid in full on or before the due date, simple interest will be charged daily from the date the tax is due and payable to the date of payment. The rate of interest will be announced annually by the PA Department of Revenue. This interest rate will continue for the calendar year regardless of subsequent change in the federal interest rate in the calendar year. Interest is computed by multiplying the tax due times the number of days delinquent divided by number of days in the year. See *Interest Rate and Calculation Method For All Taxes Due* (REV-1611), for more information on the interest rate.

The Department maintains a telephone collection unit which is designed to collect taxes by telephone contact. Taxpayers who cannot pay their delinquent taxes in full can arrange a deferred payment plan with the Department. Call or visit the Department's district office nearest you, which is listed in the state government section of your telephone directory.

Once the deferred payment plan agreement is signed, the taxpayer is required to make the payments according to the agreement, or collections procedures will begin again.

After the Department has made attempts to collect past due taxes or secure unfiled tax returns, it has the authority to lien your property in the county courthouse where you own property. The liens filed by the Department are permanent and will remain until the tax debt is paid in full. Tax liens are public information.

When a lien is paid, the Department issues a satisfaction for the lien. The taxpayer must take that satisfaction to the courthouse, and the prothonotary will remove the lien from the public record.

In addition, the Department can collect trust fund taxes - Employer Withholding or Sales Tax - by a lien execution. A lien execution means a business will be padlocked and assets seized will be sold at a sheriff's sale to help pay the tax debt to the Commonwealth.

Responsible Party

All taxes required to be withheld or collected pursuant to law constitute a trust fund. If a tax is not withheld, collected, or is misapplied, the responsible party can be held personally liable for payment of the tax. A responsible party is an employee or representative of the employer who has a duty to collect or pay tax, or prepare tax documents. An officer, director, or partner of the employer and the person who receives trust fund monies may be held personally liable for payment.

Any person required to collect, account for, and pay any income tax who willfully fails to collect, truthfully account for, or attempts to evade or defeat the payment of a tax shall be liable to pay a penalty equal to the total of tax evaded, not collected, or accounted for and paid.

Criminal Prosecution. Any person who willfully fails or refuses to collect and remit tax, fails to pay the tax, fails to file a return, files a fraudulent or false return, or presents a check for payment, which is returned to the Commonwealth as uncollectible, may also be subject to criminal prosecution.

Taxable Sales

The current rate of Sales Tax is 6 percent, which has remained unchanged since 1968.

Sales & Use Tax is imposed on the retail sale, consumption, rental or use of tangible personal property in Pennsylvania. The tax is also imposed on certain services relating to such property and on specific business services. Major items exempt from the tax include food (not ready-to-eat), most wearing apparel, textbooks, drugs, sales for resale, and residential heating fuels such as oil, electricity, gas, coal, and firewood. Purchases which are taxable are exempt when paid for with food stamps.

Exemptions are allowed for purchases or use by the United States Government, the Commonwealth and its political subdivisions, ambassadors, ministers and consular officers of foreign governments, volunteer firemen's organizations and certain charitable, religious and nonprofit educational institutions. There are also exemptions for certain activities of business involved in the following operations: manufacturing, processing, farming, dairying, agriculture, horticulture, floriculture or aquaculture, and public utilities.

A Use Tax, at the same rate as Sales Tax, is due on purchases of tangible personal property or specified services used or consumed in Pennsylvania where no Sales Tax is paid to a vendor. For example, if you purchase office equipment in Delaware or over the Internet, and no Sales Tax was paid, when you use the furniture in Pennsylvania, a 6 percent tax is due. You must report and pay Use Tax on or before the end of the month following the month during which the tax was incurred. Use Tax can be reported on a licensee's Sales and Use Tax return or on a PA-1 Individual Use Tax return.

The Hotel Occupancy Tax, imposed at the same rate as Sales Tax, applies to room rental charges at a hotel, motel, motor lodge, inn, bed and breakfast, summer camp or similar establishments for periods of less than 30 days by the same person.

Sales, Use & Hotel Occupancy Tax is required to be collected by those engaged in making taxable sales of tangible personal property or services, leasing, renting, or using tangible personal property, or renting hotel rooms within the Commonwealth.

Local Taxes

Under the Pennsylvania Intergovernmental Cooperation Authority Act for cities of the first class (Act 6§1991), Philadelphia City Council levied a local Sales, Use & Hotel Occupancy Tax at the rate of 1 percent effective October 1, 1991. The provisions of Act 6 parallel those under the Sales, Use & Hotel Occupancy Tax except that it is a point-of-sale tax.

Under the Second Class County Code, Allegheny County is authorized (Act 77§1993, signed December 22, 1993) to levy Sales, Use, & Hotel Occupancy Tax at the rate of 1 percent to be administered in the same manner as provided in Act 6 of 1991 (the Philadelphia 1 percent Local Sales, Use & Hotel Occupancy Tax). The implementation date for the county tax was July 1, 1994.

Sales Tax Vendor Licenses

All businesses selling products and services subject to Sales Tax are required to complete a PA-100 Pennsylvania Enterprise Registration Form to obtain a Sales Tax license, which should be prominently displayed at the location of the business.

Sales Tax vendor licenses are issued free of charge and are renewable on a five-year cycle. Operating without a Sales Tax license or with a revoked license could result in the conviction of a summary offense. You could be sentenced to a fine of $100 - $1,000 for each offense. Should you default, you could undergo imprisonment.

It may be suspended or revoked for such things as failing to file tax reports or failing to make the required payments. Payments and reports are due from vendors as follows:

1. Monthly returns – Taxpayers must file monthly reports when the total tax liability for the third calendar quarter equals or is greater than $600. Payments and reports are due on the 20th day of the next succeeding month.

2. Quarterly returns – When the total tax liability does not exceed $600 in the third calendar quarter, the taxpayer must file quarterly (unless liability was less than $75 in the previous calendar year). The report for January, February, and March is due on April 20; April, May, and June, on July 20th; July, August, and September, on October 20th; and October, November, and December on January 20th.

3. Semi-annual returns – When the total tax collected is $75 a year or less, a taxpayer must file tax reports twice a year. The report for the period of January to June is due on August 20th, and the report for the period of July to December is due February 20th of the following year.

Sales, Use & Hotel Occupancy Tax returns can be filed and payments can be made using the Internet business tax filing system, e-TIDES. To use e-TIDES, your business must register to file electronically. This allows your tax payment to be transferred electronically from your business' bank account directly to the Commonwealth's bank account. Electronic filing registration is included in e-TIDES.

E-TIDES can be accessed through the Revenue e-Services Center at **www.revenue.state.pa.us.**

Out-of-state vendors, with the exception of artists and craft persons, with no permanent location in Pennsylvania are required to obtain a transient vendor's Sales Tax license, which is renewable on a yearly basis. All other vendors, including out-of-state artists and craft persons, are issued a license valid for five years.

More information is available in the *Retailers' Information Guide* (REV-717), available on the Revenue Web site at www.revenue.state.pa.us or by calling the 24-hour Forms Ordering Message Service at 1-800-362-2050.

Tax Year

You must figure your taxable income and file an income tax return based on an annual accounting period called a tax year. A tax year is usually 12 consecutive months. There are two kinds of tax years: *calendar and fiscal*

A calendar year is 12 consecutive months beginning January 1 and ending December 31.

A fiscal year is 12 consecutive months ending on the last day of any month other than December, or a 52-week year. The Commonwealth operates on a fiscal year which begins July 1 and ends on June 30.

If you operate a business as a sole proprietor, the tax year for your business must be the same as your individual tax year. However, special rules apply to S corporations and partnerships. They have options to establish their own fiscal years to report their taxes. Most companies prefer to close their fiscal years at a time when their business activities are naturally at a low point. For example, most retailers close their fiscal years January 31 or later, after the holiday shopping season is over. Pennsylvania uses the same tax year that businesses use for federal income tax purposes.

Accounting Method

An accounting method is a set of rules used to determine when and how to report income and expenses in your books and on your income tax returns.

The two basic accounting methods are the cash method and the accrual method. Under the cash method, you report income received during the year. You usually deduct expenses in the tax year you pay them. Under the accrual method, you generally report income when you earn it, even though you may receive payment in a later year. You deduct expenses in the tax year you incur them, whether or not you pay them in the same year. The accrual method must be used for Sales Tax purposes.

If you need inventories to show income correctly, you must generally use an accrual method of accounting for purchases and sales. Inventories include goods held for sale in the normal course of business. They also include raw materials and supplies that will physically become a part of merchandise intended for sale.

You must use the same accounting method from year to year to figure your taxable income and keep your books, if that method clearly shows your income. In general, any accounting method that consistently uses accounting principles suitable for your trade or business clearly shows income. An accounting method clearly shows income only if it treats all items of gross income and expense the same from year to year.

More than one business. When you own more than one business, you can use a different accounting method for each business, if the method you use for each clearly shows your income. You should keep a complete and separate set of books and records for each business.

Changing your method of accounting. The Department can require taxpayers to use an accounting method that is reflective of the type of income if they did not use one regularly, or if they used a method that was not reflective of the income reported. A change in an accounting method not only includes a change in your overall system of accounting, but also a change in the treatment of any material item. For examples of changes that require permission and information on how to get permission for the change, see IRS Publication 538.

Personal Income Tax

The PA Personal Income Tax (PIT) is levied against the taxable income of resident and nonresident individuals, estates and trusts. The PIT rate increased from 2.8 percent to 3.07 percent effective January 1, 2004.

As a business owner you may be required to make PIT quarterly estimated payments on your anticipated income. If you employ people, you are required to withhold PA Personal Income Taxes from their wages.

There is a special tax credit program for employers that hire and employ former welfare recipients. To learn more about the Employer Incentive Program (EIP), contact the county public assistance office or job center nearest you. You will find them listed in the local telephone directory.

Pennsylvania taxes eight classes of income; (1) compensation; (2) interest; (3) dividends; (4) net profits from the operation of a business, profession, or farm; (5) net gains or income less net losses from dispositions of property; (6) net gains or income from rents, royalties, patents and copyrights; (7) net gains or income derived through estates or trusts; and (8) gambling and lottery winnings (except PA Lottery winnings won on or after July 21, 1983). A loss in one class of income may not be offset against income in another class, nor may gains or losses be carried backward or forward from year to year.

Credit against the tax is allowed for gross or net income taxes paid to other states or foreign countries by Pennsylvania residents. See PA Schedule G for more information.

A full or partial Tax Forgiveness credit against the tax is provided for eligible low-income taxpayers. The law also allows an additional adjustment to eligibility income for each dependent. See PA Schedule SP for more information.

While deductions and exemptions are not permitted, certain income exclusions are available to eligible taxpayers. An exclusion from taxable income is permitted for allowable reimbursed business expenses. Taxpayers may also deduct allowable unreimbursed employee business expenses. Taxpayers may also exclude the gain on the sale of their principal residence (sold after Jan. 1, 1998) if they satisfy ownership and use requirements.

The Commonwealth employs three primary methods for collecting Personal Income Taxes: (1) estimated and final payments from individuals; (2) employer withholding; and (3) withholding from nonresident partners or shareholders by partnerships and S corporations.

1. Individuals, sole proprietors, estates and trusts must file annual returns on or before April 15th for the previous year's income. Taxpayers with income not subject to withholding by a PA employer, that is expected to be over $8,000 annually, must file and remit estimated payments by the 15th day of April, June, September, and January. There are special estimated tax provisions for farm income.

2. Employers withhold and remit employees' taxes on wage and salary income according to the following schedule:
   a. Quarterly – If total withholding tax is under $300 per quarter, the taxes are due the last day of April, July, October, and January.

   b. Monthly – If $300 but less than $1,000 of tax is withheld per quarter, the taxes are due the 15th day of the following month.

   c. Semi-Monthly – If $1,000 or more in tax is withheld per quarter, the taxes are due within three banking days of the close of the semi-monthly period.

Employers with tax accounts are also issued an enterprise number in addition to their Federal EIN, which should be used on all correspondence.

Employers receive coupon books containing a year's supply of quarterly reconciliation forms, which must be filed by the due date for each quarter.

The fourth employer coupon is the annual reconciliation statement which should be filed with copies of W-2's or other forms showing Pennsylvania withholding including a W-2 transmittal (REV-1667), and must be filed by January 31 following the calendar year for which taxes were withheld, or within 30 days after the termination of a business.

Monthly and semi-monthly employer accounts also receive deposit statements in their coupon books to remit with payments previously described in items "b" and "c".

Employer Withholding Tax returns can also be filed and payments can be made using the Internet business tax filing system, e-TIDES. In order to use e-TIDES, your business must register to file electronically. This allows your tax payment to be transferred electronically from your business' bank account directly to the Commonwealth's bank account. Electronic Filing registration is included in e-TIDES.

You can access e-TIDES through the Revenue e-Services Center at **www.revenue.state.pa.us.** More information is available in the *Employers Handbook for Withholding Taxes* (REV-415), available on the Revenue Web site at **www.revenue.state.pa.us** or by calling the 24-hour Forms Ordering Message Service at 1-800-362-2050.

3. Partnerships and PA S corporations with nonresident partners or shareholders must remit tax on income from sources within this Commonwealth, that is allocable to the nonresident member. The nonresident partner or shareholder may take a credit on their annual return for the tax remitted by the partnership or S corporation.

Taxpayer Assistance

The PA Department of Revenue's e-Services Center at www.revenue.state.pa.us is the one site for all of the Department's electronic filing services. Taxpayers can file returns and reports, make payments, register businesses and file appeals electronically for PA Personal Income Tax and Business Taxes.

If you have Internet access, find the answer to your question by using the Department's Online Customer Service Center. Use the *Find an Answer* feature to search the database of commonly asked questions, and if you cannot find your answer, submit your question to a customer service representative. Visit the Department's Web site at **www.revenue.state.pa.us** to use this service.

The Department of Revenue publishes a free e-newsletter, the *Pennsylvania Tax Update*. It highlights changes in tax laws, policies, practices, procedures, and tax forms. It is a good way to keep up with what is happening in the Department. To receive the *Tax Update*, register for a Tax Update e-alert on the Revenue Web site at **www.revenue.state.pa.us** or call (717) 787-6960.

The Department provides a tax bulletin board on its toll-free FACT and Information Line, which can be accessed by calling 1-888-PATAXES.

If you need personal attention, you may call the Taxpayer Service and Information Center during normal business hours. For business tax questions, call (717) 787-1064 and for individual tax questions, call (717) 787-8201.

The Department maintains district offices across the state. If you need assistance, contact the district office nearest you. You will find the offices listed on Pages 38 & 39.

Department of Revenue District Offices

NOTE: A district office's location may change. Please call to verify the address before visiting a district office. Office hours are 8:30 a.m. to 5 p.m.

Southeast Region

Bethlehem District Office
44 E. Broad St.
Bethlehem, PA 18018-5998
(610) 861-2000

Norristown District Office
Stoney Creek Office Center
151 W. Marshall St.
Norristown, PA 19401-4739
(610) 270-1780

Philadelphia District Office
Rm. 201
State Office Bldg.
1400 W. Spring Garden St.
Philadelphia, PA 19130-4007
(215) 560-2056

Central Region

Harrisburg District Office
Lobby
Strawberry Sq.
Harrisburg, PA 17128-0101
(717) 783-1405

Pottsville District Office
115 S. Centre St.
Pottsville, PA 17901-3047
(570) 621-3175

Reading District Office
Ste. 239
625 Cherry St.
Reading, PA 19602-1186
(610) 378-4401

York District Office
140 N. Duke St.
York, PA 17401-1110
(717) 845-6661

Southwest Region

Altoona District Office
Ste. 204
Cricket Field Plz.
615 Howard Ave.
Altoona, PA 16601-4867
(814) 946-7310

Department of Revenue District Offices

Greensburg District Office
Second Fl.
15 W. Third St.
Greensburg, PA 15601-3003
(724) 832-5386

Johnstown District Office
Third Fl.
345 Main St.
Johnstown, PA 15901-1641
(814) 533-2495

Pittsburgh District Office
Rm. 104
State Office Bldg.
300 Liberty Ave.
Pittsburgh, PA 15222-1210
(412) 565-7540

Northeast Region

Scranton District Office
Rm. 305
Samters Bldg.
101 Penn Ave.
Scranton, PA 18503-1970
(570) 963-4585

Sunbury District Office
535 Chestnut St.
Sunbury, PA 17801-2834
(570) 988-5520

Williamsport District Office
440 Little League Blvd.
Williamsport, PA 17701-5055
(570) 327-3475

Northwest Region

Erie District Office
448 W. 11th St.
Erie, PA 16501-1501
(814) 871-4491

New Castle District Office
103 S. Mercer St.
New Castle, PA 16101-3849
(724) 656-3203

FOR MORE INFORMATION:

Online Customer Service Center
www.revenue.state.pa.us

24-hour FACT & Information Line
1-888-PATAXES (1-888-728-2937)
Touch-tone service is required.

This automated service allows you to:

- Check on the progress of your Personal Income Tax return, payment or refund, and your Property Tax/Rent Rebate claim.
- Order a form, which can be either faxed or mailed to you.
- Obtain answers to the most commonly asked questions for personal and business taxes.

Forms Ordering Message Service
1-800-362-2050

Service for Taxpayers with Special Hearing and/or Speaking Needs (TT only)
1-800-447-3020

Taxpayer Service & Information Center
Personal Taxes: **(717) 787-8201**

Business Taxes: **(717) 787-1064**

Call or visit your local
Department of Revenue district office.

PENNSYLVANIA DEPARTMENT OF Revenue