

# Keystone Innovation Zone (KIZ) Tax Credit

Program Guidelines | June 2011

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## Section I – General

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### A. Introduction

The Keystone Innovation Zone Tax Credit Program is a key component of the Keystone Innovation Zone (KIZ) Program. The KIZ Program, established in 2003, creates designated geographic zones to foster innovation and create entrepreneurial opportunities by aligning the combined resources of educational institutions and the private sector. For-profit business entities 1) located within the geographic boundaries of a particular KIZ, 2) in operation less than 8 years, 3) operating within one of the KIZ targeted industry segments or sectors, 4) and meeting any other requirements as specified by the Department of Community & Economic Development (DCED) may be qualified KIZ Companies and eligible to participate in the KIZ Tax Credit Program. KIZ Tax Credits can be used to offset certain state tax liabilities. With a total pool of up to \$25 million in tax credits available to KIZ Companies annually, the KIZ Tax Credit Program significantly contributes to the ability of young KIZ companies to transition through the stages of growth.

This innovative program also provides for a tradability component crucial to young companies that do not yet have a tax liability. The application form to apply to DCED for approval to sell the KIZ Tax Credits is included in the KIZ Tax Credit Sales Program guidelines (see Section E for more information).

### B. Award Calculation

A KIZ Company may claim a tax credit equal to 50% of the increase in that KIZ Company's gross revenues in the immediately preceding taxable year attributable to activities in the KIZ, over the KIZ Company's gross revenues in the second preceding taxable year attributable to its activities in the KIZ. A tax credit for a KIZ Company shall not exceed \$100,000 annually. For the purposes of the KIZ Tax Credit Program, the term "gross revenues" is defined as revenues derived from the sale of goods and services from activities in a KIZ targeted industry, and from operations transacted within the KIZ. Gross revenues may include grants received by the KIZ Company from any source whatsoever (including but not limited to: KIZ, SBIR/STTR, NIH and DOD funds). All other forms of income (i.e., rent collected, sales of tax credits, etc.) shall not be included as KIZ gross revenues.

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

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

The DCED will adhere to the Commonwealth's Keystone Principals for Growth, Investment and Resource Conservation when awarding KIZ Tax Credits. The total of all KIZ Tax Credits awarded in any given year shall not exceed \$25 million. If the total amount of tax credits approved for any single year is less than \$25 million, the unused portion does not carry over to future years. If the total amount of tax credits approved for any one year exceeds \$25 million, the tax credit for each approved applicant shall be determined as follows:

- Divide each application approved for tax credits for the year by the total of all approved tax credits that year and multiply the quotient by \$25 million to determine the amount of tax credits allocated to each company.

### C. KIZ Company's Gross Revenues Attribution Formulas

The KIZ Company's gross revenues attributable to target industry activities within the KIZ shall be calculated by using the following formula.

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

1. The property factor is a fraction, the numerator of which is the average value of the applicant's real and tangible personal property owned or rented and used in the KIZ during the tax period and the denominator of which is the average value of all the applicant's real and tangible personal property owned or rented and used in this Commonwealth during the tax period. To determine the property factor refer to 61 Pa. Code Sec.153.28.
2. The payroll factor is a fraction, the numerator of which is the total amount paid in the KIZ during the tax period by the applicant for compensation and the denominator of which is the total compensation paid in this Commonwealth during the tax period.
  - a. Compensation is paid in the KIZ if:
    - i. the person's service is performed entirely within the KIZ; or
    - ii. the person's service is performed both within and without the KIZ, but the service performed without the KIZ is incidental to the person's service within the KIZ; or
    - iii. the net profits of the KIZ company are paid to the company's owner and are included as part of the owners federal personal tax returns; or
    - iv. the company's officers receive compensation indicated on the company's federal tax returns; or
    - v. the company's partners receive guaranteed payments or dividends indicated on the company's federal tax returns; or
    - vi. the cost of labor identified on the KIZ company's federal/state tax returns (provided the workers are directly employed by the company).
  - b. Compensation does not include any individual not employed directly by the KIZ Company including (but not limited to): contracted employees (i.e., employees of a third party entity contracted to perform work at the KIZ company), consultants, independent sales people, etc., who are not eligible to be included as part of the payroll.
  - c. If the KIZ company did not have property OR payroll within the KIZ during the base or comparable tax year the KIZ Tax Credit may be reduced. Also, if the KIZ company did not have property AND did not have payroll within the KIZ in either the base or comparable tax years then the company is ineligible to receive the KIZ Tax Credit.

## D. Applying for an Award

A for-profit business entity that qualifies as a KIZ Company must file an application through DCED's Electronic Single Application (ESA – [www.esa.dced.state.pa.us](http://www.esa.dced.state.pa.us)) on or before September 15 of each year. If the program you are applying under requires multiple copies of the application, they may be sent via US Mail with the hard-copy of the signature page that accompanies the application. The required documents must be attached electronically to the application on the Addenda tab. The application must be complete and contain the following items:

- Completed Excel spreadsheet provided in the ESA,
- Completed KIZ Coordinator's Certificate (Appendix B) of this document,
- Final, signed copies of the two prior years' Pennsylvania tax returns,
- The first page with the signed signature pages of the applicant's Federal return submitted by the applicant to the IRS (or the verification forms of electronically filed tax returns),
- All other documents identified on the completed Excel spreadsheet (i.e., RCT 101, RCT 106, financial statements, etc.).

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

Applicants must verify on the ESA that they have been or are actively working with the KIZ Coordinator and/or the KIZ partners. Additionally, the applicant must have submitted their online semi-annual KIZ reports in accordance with the KIZ guidelines.

Applicants that wish to provide a third party agent access to the status of their application must complete Appendix A and upload it to the ESA.

All applications must be submitted by September 15th, contain all required documentation and be completed correctly to be deemed eligible for review and potential award of KIZ tax credits. No time extensions will be granted. In cases of granted federal and/or state tax filing extensions to the KIZ Tax Credit applicant, please note these extensions will not be taken into consideration in the review of the KIZ Tax Credit application. All state and federal filed tax returns must be submitted with this application. Each application will be reviewed as submitted. If applications are deficient or missing required information/documentation, the application will be determined to be ineligible.

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

## E. Sale or Use of Tax Credits

A tax credit approved in accordance with these guidelines must first be applied against the KIZ Company's own tax liability under Articles III (Personal Income Tax), IV (Corporate Net Income Tax), or VI (Capital Stock - Franchise Tax) of the Pennsylvania Tax Reform Code of 1971, for the taxable year during which the tax credit is approved.

A KIZ Company may not carry back or obtain a refund of an unused KIZ Tax Credit or any part of that credit. If the KIZ Company's tax liability is less than the amount of the KIZ Tax Credit, the company may:

1. Carry forward the unused portion of the tax credit for a period not to exceed four additional taxable years (five years total) and use the tax credit to offset an eligible tax liability at some point during those years; or
2. Apply to DCED for approval for the sale, including the transfer or assignment of all or a portion of the approved, unused tax credit to an identified buyer. The application form to apply to DCED for approval to sell the KIZ Tax Credits is included in the KIZ Tax Credit Sales Program guidelines located on the KIZ program internet web site: <http://www.newpa.com/find-and-apply-for-funding/funding-and-program-finder/keystone-innovation-zones>.

If a KIZ Company has a tax liability for the tax year in which the KIZ Tax Credit is approved, that approved KIZ Tax Credit must be used against that tax liability. However, in any subsequent year during the lifetime of the unused KIZ Tax Credit, the KIZ Company is not required to use the tax credit from a previous year for the current year's tax liabilities and may sell the tax credit.

## **F. Submitting an Application**

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

A corporate officer, general partner or limited liability company member that has authority to bind the applicant KIZ Company must print and sign the ESA signature page and mail it to the address provided on the signature page (no photocopies or electronic signatures will be accepted).

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

## **Section II – Appendices**

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## APPENDIX A THIRD PARTY AGENT CONSENT FORM

### SECTION I

Were the services of any agent(s) or facilitator(s) used to arrange this prospective KIZ Tax Credit award?  Yes  No

If the services of any agent(s) or facilitator(s) were used, please identify the name of the agent(s) or facilitator(s) and provide their contact information:

### SECTION II

If you would like to allow DCED's Technology Investment Office to release information concerning the progress of the award of your tax credit to an agent(s) or facilitator(s) please sign and date the "Consent to Release Information" below. Executing the "Consent to Release Information" will serve as your consent to release the tax credit award information to the party identified in this section.

**Disclaimer:** Third party agents/facilitators are entirely independent of the Department of Community and Economic Development and the Commonwealth of Pennsylvania. Neither the Department of Community and Economic Development nor the Commonwealth of Pennsylvania are affiliated with or endorse or recommend any third party agents/facilitators or the products or services of any third party agents/facilitators. Nor, do the Department of Community and Economic Development and the Commonwealth of Pennsylvania warrant or assume any legal liability or responsibility for the accuracy, completeness or usefulness of any information or service provided by any third party agents/facilitators. Engagement of any third party agents/facilitators is solely between the applicant and the third party agents/facilitators.

**Applicant Consent to Release Information**

I, \_\_\_\_\_, on behalf of \_\_\_\_\_ (the "Applicant") do hereby  
*(name)* *(company)*

consent to and authorize the Pennsylvania Department of Community and Economic Development Technology Investment Office to disclose to the agent(s) or facilitator(s) listed above in part I any and all information, including tax information, concerning the award of Applicant's Keystone Innovation Zone Tax Credit for the sole purpose of facilitating the completion of the award of the tax credits.

In providing such information, neither the Department of Community and Economic Development nor the Commonwealth of Pennsylvania shall be deemed liable for any act of commission or omission, excluding willful misconduct or gross negligence, nor for any error of judgment or mistake of fact or law.

I fully understand the nature of this consent and authorization, and understand that signing it is not a condition of my eligibility for award of the tax credits and that my authorization shall remain effective from the date of my signature until the completion of the award of the KIZ Tax Credits at which time it will automatically expire. I understand that I may revoke this consent and authorization at any time by written, dated communication except to the extent the person making the disclosure has acted in reliance on it.

I, the undersigned, do hereby declare and certify that I am a corporate officer, general partner or limited liability company member of the below named KIZ Company and that I have authority to bind the below named applicant.

The undersigned has executed this Consent and Authorization to Release Information this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Company Name	Date
Signature of Company Official	
Printed Name	
Printed Title or Affiliation to the KIZ Company	Phone





## APPENDIX B KIZ COORDINATOR'S CERTIFICATION

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

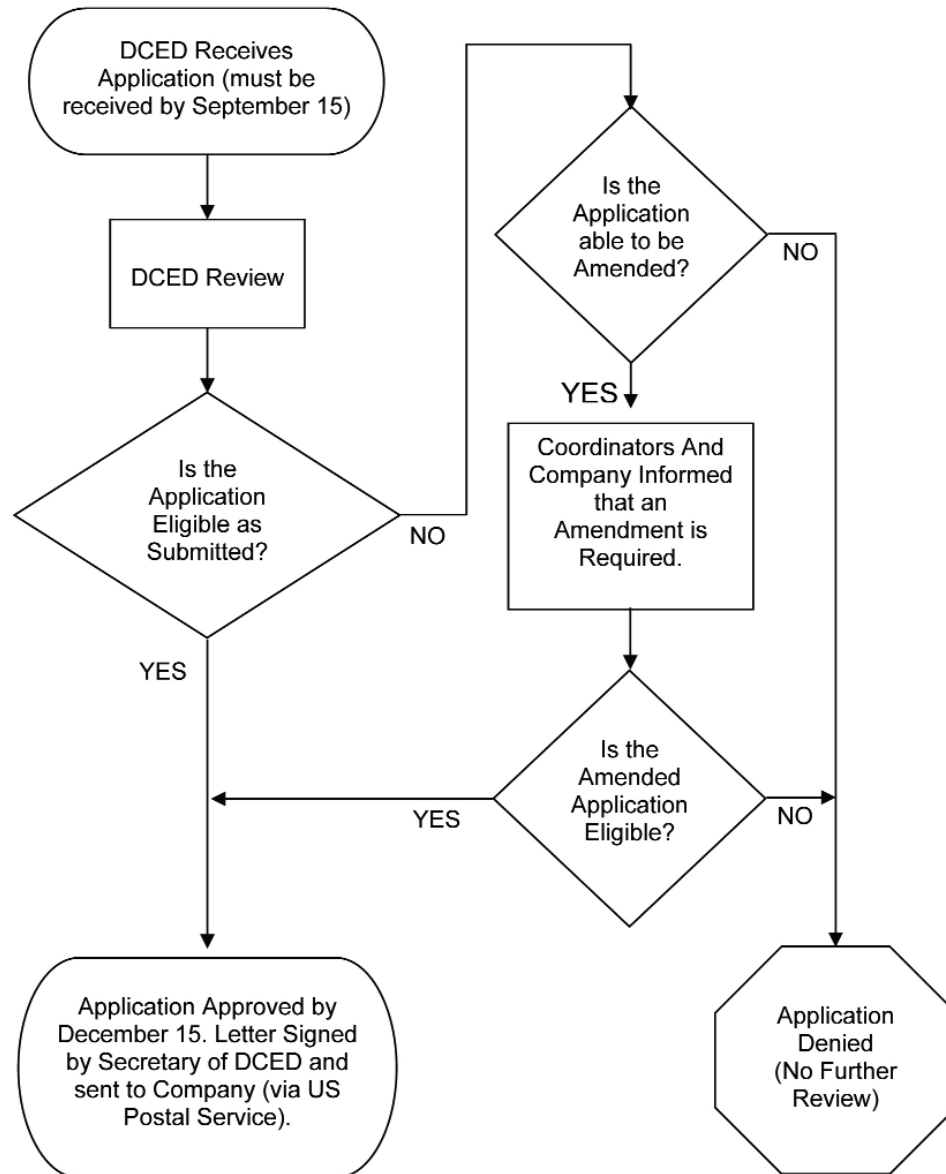
\_\_\_\_\_.

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

Signature of KIZ Coordinator	Date
Printed Name	Phone



## Appendix C: KIZ Tax Credit Award Process Flow Chart



### Additional Information

- > Applications must be postmarked on or before September 15 and will be approved or denied no later than December 15.
- > All KIZ Tax Credit inquiries should be emailed to [RA-TechInvTaxCredit@state.pa.us](mailto:RA-TechInvTaxCredit@state.pa.us).
- > Approval letters will be mailed via the US Postal Service to the address provided on the award application.

## Section III – Definitions

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

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

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

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

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

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

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

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

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

**ESA** – DCED's Single Application.

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

**Industry Sector/Targeted Industry** – An industry specifically identified for entrepreneurial development (e.g. information technology, life sciences, advanced materials, finance/service sectors, advanced manufacturing, agricultural, nanotechnology, etc.) in the KIZ's application for designation to the Ben Franklin Technology Development Authority.

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

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

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