

Keystone Innovation Zone Tax Credit and Tax Credit Sale

Program Guidelines | March 2006

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Section I – General

A. Introduction

The Keystone Innovation Zone Tax Credit Program is a key component of the Keystone Innovation Zone (KIZ) program. The KIZ program was established to create designated geographic zones to foster innovation and create entrepreneurial opportunities, aligning the combined resources of educational institutions, private businesses, business support organizations, commercial lending institutions, venture capital networks (including angel investors) and foundations. These “knowledge neighborhoods” provide companies which have been in operation for less than 8 years and are located in a KIZ, with a maximum of \$100,000 in tax credits annually. With a total pool of up to \$25 million available to KIZ companies per year, the KIZ Tax Credit Program is significantly contributing to the ability of young KIZ companies to transition through the stages of growth. This innovative program also provides for a tradability component which is crucial to young companies that do not yet have a tax liability. By supporting these emerging businesses, the KIZ Tax Credit Program is strengthening the collaborations that exist within the KIZs that increase technology transfer activities, entrepreneurship, economic and community development and the retention of talent.

B. Tax Credit Awards

The Keystone Innovation Zone (KIZ) program provides for the awarding of KIZ Tax Credits to companies located within the KIZ, provided that certain conditions are met. 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 that is attributable to its 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 under this program for a KIZ Company shall not exceed \$100,000 annually. For the purposes of the KIZ Tax Credit, the term “gross revenues” may include grants received by the KIZ Company from any source whatsoever.

For example, ABC Co. operates in a KIZ within the targeted industry segment for that KIZ. 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 increase from year 2 to year 3 is \$440,000, but 50% of this increase (\$220,000) exceeds the \$100,000 maximum allowable tax credit.

C. Application for KIZ Tax Credits

A KIZ Company must meet the following conditions. It must:

- be operating within the designated KIZ geographical area;
- be in the targeted industry segment for that particular KIZ;
- have been in operation less than 8 years; and
- the KIZ Company must meet all of the other requirements for application.

A KIZ Company may file an application with the Department of Community & Economic Development (“DCED”) by September 15 of each year, beginning in 2006. The application must be on the forms included with these guidelines, and must be accompanied by a certification from the KIZ coordinator stating the KIZ Company meets all of the required conditions. DCED will review the application to determine if all of the required conditions have been met. If all required conditions are met, a tax credit certificate will be issued. All certificates shall be awarded by December 15 of each year. The application and KIZ Coordinator’s Certification forms are included in these guidelines as Appendix A and Appendix B respectively.

D. Limitations of KIZ Tax Credits

The total of all KIZ Tax Credits for 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 approvable tax credits for any one year exceeds \$25 million, the tax credit for each approved applicant shall be determined as follows:

- Divide the eligible tax credit applied for and approved for the applicant by the total of all eligible and approved tax credits for all applicants. Multiply the resulting number by \$25 million to calculate the amount of tax credits for the individual company.

E. Pennsylvania S Corporations – Tax Credit Carry-Through to Shareholders

If the KIZ Company is a Pennsylvania S Corporation, and does not have an eligible tax liability against which the tax credit may be applied, a shareholder of the S Corporation is entitled to a tax credit equal to the product of:

1. The unused amount of the KIZ tax credit, and
2. The percentage of the Pennsylvania S Corporation’s distributive income to which the shareholder is entitled.

This tax credit for the S Corporation shareholder is in addition to any tax credit to which the shareholder is otherwise entitled, but the Pennsylvania S Corporation and a shareholder of that corporation may not claim a tax credit for the same portion of approved KIZ tax credit. The corporation may not apply to transfer any KIZ tax credit that is being used by a shareholder to offset the shareholder’s tax liability.

F. Use or Sale of the Tax Credit:

A tax credit approved in accordance with these guidelines must be first applied against the KIZ Company’s own tax liability under Articles III, IV, or VI of the Tax Reform Code of 1971, for the taxable year during which the tax credit is approved. Awarded tax credits may be used by the KIZ Company being awarded the tax credits against the following state taxes:

- Personal Income Tax
- Corporate Net Income Tax
- Capital Stock and Franchise Tax

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 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 Credit is included as Appendix C in these guidelines. 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. When the KIZ Company submits an application to sell the KIZ tax credit, the company may no longer use that tax credit to offset an eligible tax liability unless the application for the sale is denied by DCED or the application is withdrawn by the KIZ Company.

The KIZ Company must identify the buyer company or individual, and the buyer must sign off on the application to sell the KIZ Tax Credits.

G. KIZ Tax Credit Buyer

The buyer must be identified in the application for the sale of the KIZ Tax Credits submitted by the KIZ Company. A separate application must be submitted by the KIZ Company for each buyer.

The buyer must claim the full amount of the purchased KIZ Tax Credit against certain enumerated tax liabilities in the taxable year in which the application for the sale of the tax credit is submitted to DCED. The buyer or assignee of a KIZ Tax Credit may use that tax credit against any tax liability under Articles III, IV, VI, VII, VIII, IX, or XV of the Tax Reform Code of 1971. The purchased or assigned KIZ Tax Credits may be used against the following state taxes:

- Personal Income Tax
- Corporate Net Income Tax
- Capital Stock and Franchise Tax
- Bank Shares Tax and Trust Companies Share Tax
- Title Insurance Tax
- Insurance Premiums Tax
- Mutual Thrift Tax

Any portion of the tax credit not used by the buyer in the year of the purchase is lost and may not be used in any other tax year. The amount of the purchased credit may not be used to offset more than 75% of the buyer's tax liability in that year. The buyer may not carry-over, carry back, obtain a refund of, or assign the KIZ Tax Credit. KIZ Tax Credits may be sold only once, and that must be after the original KIZ Company applies the KIZ Tax Credit to any eligible tax liability in the original year of the tax credit. The transfer of KIZ Tax Credits will be closely coordinated with the PA Department of Revenue.

H. Application

Prospective applicants must submit their application on the forms included in these guidelines. Completed Applications, including all required signatures and attachments, are to be submitted to:

PA Dept. of Community & Economic Development
Technology Investment Office
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225
ATTN: KIZ Tax Credit or KIZ Tax Credit Sale Program (as appropriate)

For specific questions on this program contact the Technology Investment Office in DCED at (717) 787-4147.

Appendix A

Keystone Innovation Zone Company Application for a KIZ Tax Credit

This application form must be submitted by September 15 for KIZ Tax Credits resulting from the company's Gross Receipts of the prior tax year.

Application Number: _____
(To be filled in by DCED)

KIZ Company Identification:

Company Name: _____

Address: _____

Other Contact Information:

Telephone: () _____

Fax: () _____

E-mail Address or other: _____

(Please use the name and address as is on record with the PA Dept. of Revenue unless that on-file information has been changed and is no longer valid.)

Taxpayer Identification (SSN, FEIN or Box Number): _____

Keystone Innovation Zone in which the Company is located: _____

Certification:

Attach a certification from the KIZ Coordinator stating that the applicant company is located within the geographic boundaries of the KIZ, that the applicant company operates within a targeted industry segment of the KIZ, identifying the targeted industry segment, and stating that the company has been in operation less than 8 years.

Identify the tax year prior to this application: _____

Gross Receipts of the company for the tax year prior to this application attributable to activities in the KIZ: \$ _____

Gross Receipts of the company for the tax year prior to the tax year listed above attributable to activities in the KIZ: \$ _____

Increase in Gross Receipts:
(Difference between the two prior lines) \$ _____

50% of the Previous line: \$ _____

(This amount or \$100,000, whichever is less, is the maximum KIZ Tax Credit for which the company may apply)

Amount of KIZ Tax Credit for which the company is applying: \$ _____

(Note: the maximum is \$100,000, and if applications exceed the entire annual quota, the amount awarded may be reduced from the amount of the application)

Please attach copies of either Pennsylvania State tax returns or certified documents from a CPA verifying the applicant's revenues generated within the KIZ for the tax year and the base year (two consecutive years) covered by this KIZ Tax Credit application.

Signature of Company Official:

Signature: _____

Printed Name: _____

Printed Company Title or Affiliation to the KIZ Company:

Appendix B

KIZ Coordinator's Certification of the Applicant KIZ Company

As designated coordinator for the

_____ Keystone Innovation Zone,
(Identify the KIZ)

I certify that

_____ operates within the geographical boundary of the KIZ.
(Identify the KIZ Company Applicant)

This KIZ Company operates within our designated target industry of

_____, and this KIZ
(Identify the designated target industry)

Company has been in operation for less than eight (8) years. This company sited in the
KIZ on _____.
(Date)

Signature of KIZ Coordinator _____

Printed Name of KIZ Coordinator: _____

Date: _____

Appendix C

Keystone Innovation Zone Company Application to Sell KIZ Tax Credits

Date Received by DCED: _____

Application Number: _____
(To be filled in by DCED)

I. Prospective SELLER Identification:

Name: _____

Address: _____

Other Contact Information:

Telephone: (_____) _____

Fax: (_____) _____

E-mail Address or other: _____

(Please use the name and address as is on record with the PA Dept. of Revenue unless that on-file information has been changed and is no longer valid.)

Taxpayer Identification (SSN, FEIN or Box Number of Seller): _____

Date of Issue or Approval of KIZ Tax Credits to be sold: _____

(Attach a copy of the KIZ Tax Credit certificate or approval letter to this application)

(Please use separate applications if Tax Credits issued on different dates are to be sold)

Has any portion of the approved KIZ Tax Credit been used against a tax liability of the applicant, _____ and if so how much? \$ _____

Amount of unused approved KIZ Tax Credit to be sold from the listed Issue or Approval date: \$ _____

Signature and Business Title of Prospective SELLER:

Signature: _____

Printed Name: _____

Printed Title or Affiliation to the Business: _____

II. Prospective KIZ Tax Credit BUYER:

Name: _____

Address: _____

Other Contact Information:

Telephone: (_____) _____

Fax: (_____) _____

E-mail Address or other: _____

(Please use the name and address as is on record with the PA Dept. of Revenue unless that on-file information has been changed and is no longer valid.)

Tax-payer Identification (SSN, FEIN or Box Number of Buyer): _____

Signature and Business Title of Prospective BUYER:

Signature: _____

Printed Name: _____

Printed Title or Affiliation to the Business: _____

III. Information on the KIZ Tax Credit Sale:

Dollar Amount agreed upon to complete the sale: \$ _____

Were the services of any agent(s) or facilitator(s) used to arrange this prospective KIZ Tax Credit sale?

If the services of any agent(s) or facilitator(s) were used, please identify the agent(s) or facilitator(s):

What, if any, fee or commission was, or is being, paid to each agent(s) or facilitator(s) listed above?

\$ _____

Appendix D

Definitions

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

Buyer – Entity that is purchasing the KIZ Tax Credit from the business of issue, and to which the tax credit is to be sold, transferred or assigned.

Business of Issue – KIZ Company to which the KIZ Tax Credits were originally issued or approved.

DCED – The Pennsylvania Department of Community & Economic Development.

Facilitator – Some person, business, or organization acting to facilitate the arrangements between the seller and the buyer to complete the sale of KIZ Tax Credits.