



Name as shown on PA-40KOZ tax return:

Social Security Number

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Complete this schedule after you have completed Lines 1 thru 24 of your PA-40KOZ and include it with your return to claim your KOZ credit.

PART I Fill in the oval(s) that apply(ies) to you. Then complete the corresponding section(s) of this schedule, as necessary.			
RESIDENCY	BUSINESS	SALE OF PROPERTY	RENTAL
☐ I reside or resided in a KOZ. a. Were you a resident of a KOZ for all of 2011? Yes ☐ No ☐ If you answered Yes , enter the amounts from Lines 1c, 2, 3 and 7 of your PA-40 KOZ return on Lines 1, 2, 3 and 7 of Part II of this schedule. b. If you answered No , enter the dates you lived in the KOZ. ____/____/2011 until ____/____/2011 If you resided in the KOZ for less than 184 consecutive days in the taxable year, you are not eligible for a KOZ credit. See instructions for part year KOZ residents in Part III, Section A of this schedule. Gain from the Sale of Intangible Property - If you sold intangible property (such as stocks or bonds) while a resident of a KOZ, you must complete Part III, Section B of this schedule.	☐ I owned or operated a qualified business as a sole proprietorship located inside a KOZ. a. Did you realize a gain in net profits in this class of income? Yes ☐ No ☐ If No , you do not qualify for KOZ credit in this class of income. If Yes , please continue. b. Did you conduct all business operations entirely inside a KOZ in 2011? Yes ☐ No ☐ If you answered Yes to b and you reported income on Line 4 of your PA-40 KOZ, enter that amount on Part II, Line 4 of this schedule. If you answered No to b , complete Part III, Section C of this schedule to apportion your net income or loss from operations inside a KOZ.	☐ I sold real or tangible personal property located inside a KOZ. Did you realize a gain from the sale of personal property in a KOZ? Yes ☐ No ☐ If No , you do not qualify for a KOZ credit in this class of income. If Yes , complete Part III, Section D of this schedule. Gain from the Sale of Intangible Property - If you sold intangible property (such as stocks or bonds) while a resident of a KOZ, you must complete the Residency category.	☐ I derived rental income from real or tangible personal property(ies) located inside a KOZ. a. Did you realize a gain in rental income in a KOZ? Yes ☐ No ☐ If No , you do not qualify for a KOZ credit in this class of income. If Yes , please continue. b. Was all of this rental income derived from real or tangible personal property(ies) while located inside a KOZ in this taxable year? Yes ☐ No ☐ c. Do you have any income from royalties, patents, copyrights, PA S corporations or partnerships? Yes ☐ No ☐ If you answered Yes to b and No to c , enter the amount from Line 6 of your PA-40 KOZ Return on Part II, Line 6 of this schedule. Otherwise, complete Part III, Section E of this schedule.

Round all amounts to the nearest whole dollar. For amounts ending in \$0.49 or less, round down; for amounts ending in \$0.50 or more, round up.

PART II Calculation of KOZ Credit (Read the instructions.)

- | | |
|---|-----------|
| 1. Net KOZ Compensation. (From Line 1c of your PA-40 KOZ or from Part III, Section A, Column 2 of this schedule.) | 1. _____ |
| 2. KOZ Interest Income. (From Line 2 of your PA-40 KOZ or from Part III, Section A, Column 2 of this schedule.) | 2. _____ |
| 3. KOZ Dividend Income. (From Line 3 of your PA-40 KOZ or from Part III, Section A, Column 2 of this schedule.) | 3. _____ |
| 4. Net KOZ Income from the Operation of a Qualified Business, Profession or Farm. (Total from Part III, Section C of this schedule and/or Schedules C, F or C-F Reconciliation. If this is a net loss, enter zero. In no circumstance can this amount exceed the amount reported on Line 4 of PA-40 KOZ.) | 4. _____ |
| 5a. Net KOZ Gain or Loss from the Sale, Exchange or Disposition of Intangible Property.
[Total from Part III, Section B, Lines a and 5 of this schedule, individual sale(s).] | 5a. _____ |
| 5b. Net KOZ Gain or Loss from the Sale, Exchange or Disposition of Real and Tangible Property.
(Total from Part III, Section D, Lines a and 5 of this schedule, individual sales.) | 5b. _____ |
| 5c. Total of Lines 5a and 5b. (If this is a net loss, enter zero. In no circumstance can this amount exceed the amount reported on Line 5 of PA-40 KOZ.) | 5c. _____ |
| 6. Net Income from rents from property located inside a KOZ. (Total from Part III, Section E of this schedule or from individual net rentals. If this is a net loss, enter zero. In no circumstance can this amount exceed the amount reported on Line 6 of PA-40 KOZ.) | 6. _____ |
| 7. Estate or Trust Income. (From Line 7 of your PA-40 KOZ or from Part III, Section A, Column 2 of this schedule.) | 7. _____ |
| 8. Total Net KOZ Income. Add Lines 1, 2, 3, 4, 5c, 6 and 7. | 8. _____ |
| 9. Multiply Line 8 by 3.07 percent (0.0307). Enter the KOZ credit amount here and on Line 24 of your PA-40 KOZ return. | 9. _____ |

PA-KOZ (03-12)

Name as shown on PA-40 KOZ tax return:

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PART III, Section A (For part-year KOZ residents only)Column 1
Total IncomeColumn 2
Income Received While
Living in a KOZ

KOZ Schedule to Allocate Income

Enter the following amounts:

- | | | | |
|---|-------|-------|--------------------------|
| a. Net Compensation, from PA-40 KOZ Line 1c | _____ | _____ | enter on Part II, Line 1 |
| b. Interest Income, from PA-40 KOZ Line 2 | _____ | _____ | enter on Part II, Line 2 |
| c. Dividend Income, from PA-40 KOZ Line 3 | _____ | _____ | enter on Part II, Line 3 |
| d. Estate and Trust Income, from PA-40 KOZ Line 7 | _____ | _____ | enter on Part II, Line 7 |

PART III, Section B: Sale, Exchange or Disposition of Intangible Property. This sale must have occurred while you were a resident of a KOZ to qualify for the credit. Complete a separate Part III, Section B for each sale.Did you have a net gain on Line 5 of your PA-40 KOZ? **Yes** _____ **No** _____If **Yes**, complete this section. If **No**, you do not qualify for a KOZ credit in this class of income.

Description of the property sold: _____

- a. If the intangible property was purchased and sold while you were a resident of a KOZ, enter the gain or loss here and on Part II, Line 5a of this schedule. a. _____
- b. If the intangible property was purchased prior to 1/1/99 (KOZ), 1/1/01 (KOEZ), 1/1/03 (KOIZ) or 1/1/10 (AKOEZ) (before the date you became a resident of the KOZ) you must follow the steps below to calculate the gain or loss on the sale.
- | | |
|---|----------|
| 1. Enter the number of days you owned the intangible property while you were a resident of a KOZ. | 1. _____ |
| 2. Enter the total number of days you owned the intangible property. | 2. _____ |
| 3. Apportionment Factor. Divide Line 1 by Line 2. Calculate to six decimal places. | 3. _____ |
| 4. Enter the amount of gain or loss on the sale of intangible property. | 4. _____ |
| 5. Multiply Line 4 by Line 3, and enter here and on Part II, Line 5a of this schedule. | 5. _____ |

For more than one sale of intangible property, total each Part III, Section B of this schedule, before entering on Part II, Line 5a.**PART III, Section C: Operation of a Qualified Business, Profession or Farm as a Sole Proprietorship.****If you had business operations inside and outside a KOZ during the taxable year, you must apportion your business income between KOZ and non-KOZ income.**

Address of your business, profession or farm: _____

Complete this section if apportionment is required.

- | | |
|--|----------|
| 1. Net Profits from business(es) from Line 4 of the PA-40 KOZ. | 1. _____ |
| Please complete a separate apportionment section for each business. | |
| 2. Total profit or loss from this business from PA Schedules C or F. | 2. _____ |

If all of your business operations are inside Pennsylvania, go to Worksheet 2. Worksheet 1 is not applicable to you.

If you operated a business with activities inside and outside Pennsylvania, you must first calculate your net profits from Pennsylvania sources by apportioning your net profits from all sources. Go to Worksheet 1.

Worksheet 1

Factors	i Total Everywhere	ii Inside Pennsylvania	iii Apportionment Factor. Calculate to six decimal places (ii divided by i).
3a. Property Factor – Enter the average value of real and tangible personal property.			_____
3b. Payroll Factor – Enter amount of wages, salaries and compensation paid.			_____
3c. Sales Factor – Enter the amount of sales.			_____
3d. Apportionment Factor – Add the decimals from 3a, 3b and 3c in Column iii; divide by the number of factors (1, 2 or 3) and calculate to six decimal places.			_____
3e. Net Income from business, profession or farm apportioned to Pennsylvania. Multiply Line 2 by Line 3d.			

Now complete Worksheet 2.

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Name as shown on PA-40 KOZ tax return:

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Worksheet 2

Factors	i Inside Pennsylvania	ii Inside KOZ	iii Apportionment Factor. Calculate to six decimal places (ii divided by i).
4a. Property Factor – Enter the average value of real and tangible personal property.			____.____.____.____.____.____.
4b. Payroll Factor – Enter amount of wages, salaries and compensation paid.			____.____.____.____.____.____.
4c. Apportionment Factor – Add the decimals from 4a and 4b in Column iii; divide by the number of factors (1 or 2) and calculate to six decimal places.			____.____.____.____.____.____.
5. Net KOZ exempt profit from this business. If you were only required to complete Worksheet 2, multiply Line 4d by Line 2. If you were required to complete Worksheet 1 and Worksheet 2, multiply Line 4d of Worksheet 2 by Line 3e of Worksheet 1. Enter this amount on Part II, Line 4 of this schedule. (If this figure represents a loss, enter zero.) This amount cannot exceed the amount entered on Line 1 of Part III, Section C. If you have more than one business, total allocated or apportioned profits or losses from all KOZ businesses before entering on Part II, Line 4.			

If the total amount on Line 5 is a loss, you do not qualify for a KOZ credit in this class of income.

PART III, Section D: Sale, Exchange or Disposition of Real or Tangible Personal KOZ Property. Complete a separate Part III, Section D for each sale.

Complete this section if you sold real or tangible personal property located inside a KOZ for which you realized a gain or loss in the taxable year. If you sold real or tangible personal property that straddles KOZ and non-KOZ areas, see the instructions before continuing.

Description and/or address of the property sold, including tax parcel ID number: _____

- If the property was acquired: after 12/31/98 and was located inside the KOZ; after 12/31/00 and was located inside a KOEZ; after 12/31/02 and was located inside a KOIZ; or after 12/31/09 and was located inside an AKOEZ for the entire time you owned it, enter the gain or loss here and on Part II, Line 5b of this schedule. a. _____
- If the property was acquired prior to 1/1/99 (KOZ), 1/1/01 (KOEZ), 1/1/03 (KOIZ) or 1/1/10 (AKOEZ) or if it was located outside of a KOZ/KOEZ/KOIZ during your ownership, follow the steps below.
 - Enter the number of days you owned the property inside a KOZ since 1/1/99, inside a KOEZ since 1/1/01, inside a KOIZ since 1/1/03 or inside an AKOEZ since 1/1/10. 1. _____
 - Enter the total number of days you owned the property. 2. _____
 - Apportionment Factor. Divide Line 1 by Line 2. Calculate to six decimal places. 3. _____._____._____._____._____._____.
 - Enter the amount of gain or loss on the sale of the property. 4. _____
 - Multiply Line 4 by Line 3, and enter here and on Part II, Line 5b of this schedule. 5. _____

For more than one sale of real or tangible personal property located in a KOZ, total each Part III, Section D before entering on Part II, Line 5b.**PART III, Section E: Rental of Real or Tangible Personal Property Inside a KOZ. Complete a separate Part III, Section E for each property you rented.**

Complete this section if you derived rental income from real or tangible personal property inside a KOZ during the taxable year. Do not include royalty, patent or copyright income. If you rented real or tangible personal property that straddles KOZ and non-KOZ areas, see the instructions before continuing.

Description and/or address of the rental property: _____

Real Property

- Net rental income or loss from real property located inside a KOZ. 1. _____

Tangible Personal Property

- Net rental income or loss from tangible personal property rented inside a KOZ. 2a. _____
- Days during taxable year tangible personal property was rented inside a KOZ. 2b. _____
- Total days rented during the taxable year. 2c. _____
- Apportionment Factor. Divide Line 2b by Line 2c. Calculate to six decimal places. 2d. _____._____._____._____._____._____.
- Multiply Line 2a by Line 2d for each item of tangible personal property rented during the taxable year. 2e. _____

Enter the amount from Line 1 or Line 2e on Part II, Line 6 of this schedule, only if net income. (If this figure represents a loss, enter zero.) This amount cannot exceed the amount on Line 6 of the PA-40 KOZ return, excluding royalties, patents and copyrights.

If you have more than one rental property (real or tangible personal), then total each Part III, Section E before entering on Part II, Line 6 of this schedule.

If the total amount is a loss, you do not qualify for a credit in this class of income.

GENERAL INSTRUCTIONS

The **Keystone Opportunity Zone (KOZ) tax credit** referenced in this document also encompasses and is synonymous with the **Keystone Opportunity Expansion Zone (KOEZ) tax credit**, **Keystone Opportunity Improvement Zone (KOIZ) tax credit** and the **Additional Keystone Opportunity Expansion Zone (AKOEZ) tax credit**. Unless otherwise noted on this form and in these instructions, all references to KOZ include the KOEZ, KOIZ and AKOEZ tax credits.

To receive a KOZ credit, you must first complete your PA-40 KOZ return, including all required schedules and forms. Schedule KOZ is designed to calculate your KOZ credit. You must complete and submit Schedule KOZ with your PA-40 KOZ return.

Spouses must file "married, filing separately" if claiming the KOZ credit. Each spouse must qualify individually for a KOZ credit. A non-qualifying spouse must file a regular PA tax return.

The KOZ credit is a nonrefundable credit. This means your KOZ credit cannot exceed your tax liability.

Note to taxpayers eligible for Tax Forgiveness on PA Schedule SP: If you are eligible for 100 percent Tax Forgiveness, do not complete Schedule KOZ as you are not entitled to a KOZ credit. If you are eligible for less than 100 percent Tax Forgiveness, see the Tax Forgiveness instructions on Page 7.

Residents of a KOZ

As a qualified resident of a KOZ, you may be eligible for a credit against PA personal income tax due on:

- Compensation;
- Interest income;
- Dividend income;
- Net profit from the operation of a business, profession or farm inside a KOZ;
- Net taxable gain from the sale, exchange or disposition of real or tangible and intangible personal property for the time you owned the property inside a KOZ;
- Net income from renting real or tangible personal property inside a KOZ; and/or
- Estate or trust income distributed or credited.

Nonresidents of a KOZ

As a nonresident of a KOZ, you may be eligible for a credit against PA personal income tax due on:

- Net profit from the operation of a business, profession or farm inside a KOZ;
- Net taxable gain from the sale, exchange or disposition of real or tangible personal property for the time you owned the property inside a KOZ; and/or
- Net income from renting real or tangible personal property inside a KOZ.

PART I

Fill in each oval that applies and answer the questions for each category.

Residency

Fill in this oval if you are a resident of a KOZ. In order to be considered a resident in a KOZ, you must have been domiciled and lived in the KOZ for 184 consecutive days.

Full-Year Resident of a KOZ

You are a full-year resident if you reside in a KOZ for the entire taxable year.

Nonresidents of a KOZ

You are a nonresident if you were not domiciled in and did not reside in a KOZ for 184 consecutive days during the taxable year.

Part-Year Residents

You are a part-year resident if you moved into or out of a KOZ during the taxable year and lived in the KOZ for 184 consecutive days during the taxable year. For additional information regarding part-year residents, refer to the instructions for Part III, Section A.

Business

Fill in this oval if you are a sole proprietor of a qualified business that owns or leases real property inside a KOZ from which you actively conduct a business, profession or farm.

Sale of Property

Fill in this oval if you sold real or tangible personal property located inside a KOZ. If you sold intangible property such as stocks, bonds, etc. while a resident of a KOZ, see Part I, Residency category.

Rental

Fill in this oval if you derived rental income from real or tangible personal property located inside a KOZ.

The KOZ law does not allow a KOZ credit on income from patents, royalties and copyrights.

PART II Calculation of KOZ Credit Amount

Lines 1, 2 and 3. Report taxable net compensation, taxable interest and dividend income. Full-year KOZ residents should use the amounts from PA-40 KOZ, Lines 1c, 2 and 3. Part-year KOZ residents must complete and use the amounts from Part III, Section A, Schedule KOZ. You must also include copies of your form(s) W-2.

Line 4. Report the net KOZ income from the operation of a qualified business, profession or farm operated as a sole proprietorship. If Part III, Section C of the Schedule KOZ is completed, use the amount on this line. Use the amounts from your PA-40 KOZ, Line 4 from Schedules C and F and adjustments from C-F Reconciliation only for those operations conducted completely within a KOZ.

Line 5a. Report the net KOZ gain or loss from the sale, exchange or disposition of intangible property from Part III, Section B.

Line 5b. Report net KOZ gain or loss from the sale, exchange or disposition of real or tangible property from Part III, Section D of Schedule KOZ.

Line 5c. Total Lines 5a and 5b.

Line 6. Report the amounts from qualifying net rental from Part III, Section E of Schedule KOZ. Income from royalties, patents or copyrights are not eligible for a KOZ credit. Do not report these types of income on this line.

Line 7. Report taxable estate or trust income. Full-year KOZ residents should use the amount from PA-40 KOZ, Line 7. Part-year KOZ residents must complete and use the amount from Part III, Section A, Schedule KOZ.

Line 8. Total only the positive income amounts from Lines 1, 2, 3, 4, 5c, 6 and 7.

Line 9. Multiply Line 8 by 3.07 percent (0.0307). Enter here and on Line 24 of PA-40 KOZ.

PART III, Section A - Part-Year Residents of KOZs

Complete this section if you moved into or out of a KOZ during the taxable year. If you sold intangible property while a resident of a KOZ, complete Section B. If you did not live in a KOZ for all of the taxable year, you may only receive a KOZ credit on the taxable compensation, interest, dividend income, gain on sale of intangible property (prorated) and estate or trust income received, credited to your account or distributable to you while residing in a KOZ. In addition, you may not claim any KOZ credit on this income until you have resided in a KOZ for at least 184 consecutive days during the taxable year.

Enter in Part III, Section A, Column 1 the total amount of taxable compensation, interest, dividend income or income from estates or trusts from your PA-40 KOZ return.

Enter in Part III, Section A, Column 2 the exact amount of taxable compensation (less unreimbursed business expenses), interest, dividend income or income from estates or trusts received while a resident of a KOZ.

Special Instructions - Estates or Trusts

For income from estates or trusts, use the amount of distributed and credited income from PA-41 Schedule RK-1.

Multiply this income by an apportionment factor determined by dividing the number of days you were a KOZ resident during your taxable year by the total number of days in your taxable year. Enter this amount in Part III, Section A, Line d, Column 2.

PART III, Section B - Sale of Intangible Property

If you sold intangible property, you must complete Part III, Section B. A separate Section B must be completed for each sale of intangible property. You may duplicate the page for this section as needed. If more than one property is sold, exchanged or disposed of, all sales should be netted together and entered in PART II, Line 5a.

If you purchased and sold the same intangible property while a resident of a KOZ, the entire gain you derived from the sale is exempt. Enter that exempt gain on Part III, Section B, Line a. Otherwise, you must apportion the gain based upon the number of days you held the property while a KOZ resident.

For calculating the KOZ portion of the gain on the sale of intangible property, you multiply the actual gain by an apportionment factor. The factor is determined by dividing the number of days from 1/1/99 (KOZ); 1/1/01(KOEZ); 1/1/03 (KOIZ); or 1/1/10 (AKOEZ) to the date of sale, or from the date you became a KOZ resident to the date of sale, whichever is later, by the total number of days held.

NOTE: Resident taxpayers reporting a gain from Line 4 of PA-20S/PA-65 Schedule RK-1 for a partnership or S corporation (or long term or short term capital gains from federal Schedule K-1) must inquire if any of the net gain reported is from the sale of intangible property. If any part of the gain was related to intangible property, the resident taxpayer must inquire as to the purchase date of the asset(s), sale date of the asset(s) and taxpayer's portion of the cost and sales price of the intangible asset(s) sold to determine the amount of any credit on such gains. Resident taxpayers who fail to provide the data for gain on the sale of intangible property by a partnership or S corporation will be denied the credit on such income.

PART III, Section C - Operation of a Qualified Business, Profession or Farm as a Sole Proprietorship

Residents and nonresidents use Part III, Section C to apportion business income from operations carried on inside a KOZ.

If you had business operations inside and outside a KOZ during the taxable year, you must apportion your business income between KOZ and non-KOZ income. You apportion your income by using Part III, Section C. Enter the results on Part II, Line 4.

A separate apportionment calculation of income must be completed for each business. The total of each business's apportioned income or loss must be entered on Part II, Line 4.

NOTE: If the amount on Line 4 of your PA-40 KOZ or on Part II, Line 4 is a loss, no KOZ credit will be granted for this class of income.

A. Operation Wholly Inside a KOZ

If the operation of a qualified business is wholly inside the KOZ, the sole proprietor allocates its net profit or loss exclusively to the KOZ. The operation of a business is wholly inside the KOZ if, during the entire taxable year:

1. The sole proprietor or his/her representative maintained or operated within the KOZ an office, shop, store, warehouse, factory, agency or commercial establishment where it systematically and regularly conducted or managed such business; and
2. The sole proprietor or his/her representative did not maintain and operate outside the KOZ any office, shop, store, warehouse, factory, agency or commercial establishment. The sole proprietor or his/her representative did not employ individuals who solicit sales outside the KOZ; make installation of or repairs to the products sold; repair, improve or service the real or personal property of the customer at a location outside a KOZ; or provide services to a customer or client when the income-producing activity was performed outside the KOZ.

B. Operation Wholly Outside a KOZ

If the operation of the business is wholly outside a KOZ, the sole proprietor cannot allocate or apportion to the KOZ any item of revenue, loss, cost or expense it derives or incurs. The operation of a business is wholly outside a KOZ if, during the taxable year, the sole proprietor is not a qualified business because it does not own or lease an office, shop, store, warehouse, factory, agency or commercial establishment inside the geographical boundaries of a KOZ.

C. Operation Partly Inside a KOZ.

A sole proprietor that operates a qualified business neither wholly inside or outside a KOZ is defined as partly inside a KOZ. The sole proprietor must also determine if the business income is derived from sources inside and outside PA or derived only from sources within PA. Use the following instructions for determining the respective sources of income:

1. **Business Income Derived from Sources Inside and Outside PA.** An entity receiving income from sources inside and outside PA must complete Worksheet 1 to apportion its income to PA before determining the exempt portion of the business income derived from sources inside PA using Worksheet 2. Use the apportioned PA source income from Worksheet 1 to determine the exempt portion of the business income under KOZ law on Worksheet 2.
2. **Business Income Derived from Sources Inside PA.** A sole proprietor must complete Worksheet 2 to determine the exempt portion of business income under KOZ law. Worksheet 2 uses the apportionment method for determining exempt business income. Follow the instructions for Worksheet 2 to calculate the exempt business income under the KOZ law.

NOTE: Sole proprietors with income derived only from sources inside PA are not required to complete Worksheet 1 and may skip to the Line Instructions for Worksheet 2.

Line Instructions for Worksheet 1

Line 3a Property Factor. The property factor is a fraction determined by dividing the average historical cost of property located inside PA by the average historical cost of property located everywhere. In Box i, enter the average value of the entity's real and tangible personal property owned or rented by and used everywhere during the tax period. In Box ii, enter the average value of the entity's real and tangible personal property owned or rented by and used in this commonwealth during the tax period. Rental property is valued by multiplying the gross rents paid during the taxable year by eight. Divide the amount in Box ii by the amount in Box i and enter the result in Box iii. Calculate the factor to six decimal places.

Line 3b Payroll Factor. The payroll factor is a fraction determined by dividing the amount of payroll inside PA by the amount of payroll everywhere. In Box i, enter the total compensation paid everywhere during the tax period by the entity. In Box ii, enter the total compensation paid in this commonwealth during the tax period by the entity. Compensation is paid in PA if:

- a. The person's service is performed entirely inside PA;
- b. The person's service is performed both inside and outside PA but the service performed outside PA is incidental to the service inside PA;
- c. Some of the service is performed inside PA and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is inside PA; or
- d. Some of the service is performed inside PA, and the base of operations from which service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is inside PA.

Divide the amount in Box ii by the amount in Box i and enter the result in Box iii. Calculate the factor to six decimal places.

Line 3c Sales Factor. The sales factor is a fraction determined by dividing the amount of sales inside PA by the amount of sales everywhere. In Box i, enter the total sales of the sole proprietorship everywhere during the tax period. Enter in Box ii, the total sales of the sole proprietorship inside this commonwealth during the tax period. Sales inside the commonwealth include sales of tangible personal property and sales of property other than sales of tangible personal property if:

- a. The sales of tangible personal property are delivered or shipped to a purchaser inside PA regardless of the F.O.B. point of other conditions of the sale;
- b. The sales of property other than sales of tangible personal property are from an income-producing activity performed inside PA; or
- c. The sales of property other than sales of tangible personal property are from an income-producing activity that is performed inside and outside PA and a greater proportion of the income-producing activity is performed inside PA than in any other state, based upon costs of the performance.

Divide the amount in Box ii by the amount in Box i and enter the result in Box iii. Calculate the factor to six decimal places.

Lines 3d and 3e. See the instructions on Worksheet 1.

Line Instructions for Worksheet 2

Line 4a Property Factor. The property factor is a fraction determined by dividing the amount of property located inside the KOZ by the amount of property located inside PA. In Box i, enter the average value (average historical cost) of the entity's real and tangible personal property owned or rented by and used in this commonwealth during the tax period. In Box ii, enter the average value of the entity's real and tangible personal property owned or rented by and used inside the KOZ during the tax period. Rental

property is valued by multiplying the gross rents paid during the taxable year by eight. Divide the amount in Box ii by the amount in Box i and enter the result in Box iii. Calculate the factor to six decimal places.

Line 4b Payroll Factor. The payroll factor is a fraction determined by dividing the amount of payroll inside the KOZ by the amount of payroll in PA. In Box i, enter the total compensation paid in this commonwealth during the tax period by the entity. In Box ii, enter the total compensation paid in the KOZ during the tax period by the entity. Compensation is paid in a KOZ if:

- a. The person's service is performed entirely inside the KOZ;
- b. The person's service is performed inside and outside the KOZ but the service performed outside the KOZ is incidental to the service inside the KOZ;
- c. Some of the service is performed inside the KOZ and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is inside the KOZ; or
- d. Some of the service is performed inside the KOZ, and the base of operations from which service is directed or controlled is not in any location in which some part of the service is performed, but the person's residence is inside the KOZ.

Divide the amount in Box ii by the amount in Box i and enter the result in Box iii. Calculate the factor to six decimal places.

Lines 4c and 5. See the instructions on Worksheet 2.

NOTE: Separate accounting may only be used upon written request to and approval by the PA Department of Revenue.

Resident and nonresident taxpayers with business income from any partnership or S corporation are not required to complete Worksheet 1 or Worksheet 2. PA-20S/PA65 Schedules RK-1 and NRK-1 from KOZ eligible businesses do not include KOZ income in the amounts of distributable income reported by those entities, and the credit is therefore given as an exemption of the income. Business income from any non-KOZ eligible partnership or S corporation along with any amounts reported for KOZ eligible partnership or S corporation should not be included in any calculation of the amount reported in Part II, Line 4.

See the Special Rules for Income from Partnerships and S Corporations beginning on Page 6 for more information.

PART III, Section D - Net Gain or Loss from the Sale, Exchange or Disposition of Real and Tangible Personal Property

Use Part III, Section D to allocate or apportion the gain or loss from real or tangible personal property located inside a KOZ. Residents and nonresidents who sold, exchanged or disposed of real or tangible personal property located inside a KOZ during the taxable year must complete this section.

A separate Section D must be used for each sale, exchange or disposition of property. You may duplicate the page for this section as needed. If more than one property is sold, exchanged or disposed of, all sales should be netted together and entered in Part II, Line 5b.

If you sold real or tangible personal property and the property was acquired: after 12/31/98 and was located inside the KOZ; after 12/31/00 and was located inside a KOEZ; after 12/31/01 and was located inside a KOIZ; or after 12/31/09 and was located inside an AKOEZ for the entire time you owned it, the entire gain you derived from the sale is exempt. Enter that exempt gain on PART III, Section D, Line a. Otherwise, you must apportion the gain based upon the number of days the property was located in the KOZ.

For calculating the KOZ portion of the gain on the sale of real or personal property, you multiply the actual gain by an apportionment factor. The factor is determined by dividing the number of days from 1/1/99 (KOZ), 1/1/01 (KOEZ), 1/1/03 (KOIZ) or 1/1/10 (AKOEZ) to the date of sale, or from the date the property became eligible in a KOZ to the date of sale, whichever is later, by the total number of days held.

Losses from the sale, exchange or disposition of income-producing property located inside a KOZ must be subtracted from any gain. Do not include any exempt gain or loss on the sale of a personal residence inside a KOZ.

If you sold real or tangible personal property that straddles a KOZ, you must use a method that reasonably and accurately reflects the value of the property inside the KOZ for purposes of determining the gain or loss attributable to the KOZ.

NOTE: If the amount on Line 6 of the PA-40 KOZ or Line 5c of Part II of this schedule is a loss, no credit will be granted for this class of income.

Any gains from the sale, exchange or disposition of real or tangible personal property by a partnership or S corporation by a KOZ eligible entity are not included in the amounts reported on Line 4 of a PA-20S/PA-65 Schedule RK-1 or Line 2 of a PA-20S/PA-65 Schedule NRK-1. Therefore, such gains are not eligible for the KOZ tax credit and are not to be included in the amounts reported in PART II, Line 5b. Gains from the sale, exchange or disposition of real or tangible assets (IRC Section 1231) reported on federal Schedule K-1 are also not eligible for the KOZ tax credit and are not to be included in the amounts reported in PART II, Line 5b.

PART III, Section E - Rental of Real or Tangible Personal Property Inside a KOZ

Complete a separate schedule for each rental property or article of personal property leased or rented during the taxable year. Only complete the schedule for rental income if you have positive income from rents on PA Schedule E. If you have an overall loss for rents for the taxable year, do not complete this section or claim a KOZ credit for rents.

Do not include income from royalties, patents or copyrights. PA law does not allow a KOZ credit on this income. This income is fully reportable on the PA-40KOZ return.

Real Estate Rental Income

KOZ law exempts rental income the taxpayer (whether a resident or nonresident of a KOZ) derives from real estate situated inside a KOZ and not employed in a business, profession or farm. The costs, expenses and liabilities a taxpayer incurs in the production or collection of such rental income are attributable to a KOZ only if the rental property is inside a KOZ.

Tangible Personal Property Rental Income

KOZ law includes an exemption for net rental income received by a resident or nonresident of a KOZ for the use of his/her tangible personal property inside a KOZ. This exemption relates to rental income derived from tangible personal property inside a KOZ and not employed in a business, profession or farm. Use the schedule in Part III, Section E, to calculate exempt income under KOZ law for each item of tangible personal property. You may only claim an exemption for rental income attributable to the use of the property inside a KOZ.

1. Enter the net rental income or loss for the taxable year from real property located inside a KOZ.
- 2a. Enter the total net rental income or loss received for the use of your tangible personal property for the taxable year, only if the item of property was (a) rented inside a KOZ for all rental periods during the year; or (b) rented both inside and outside of a KOZ during the taxable year.
- 2b. Enter the days during the taxable year the tangible personal property was rented inside a KOZ.
- 2c. Enter the total days the tangible personal property was rented during the taxable year.
- 2d. Divide Line 2b by Line 2c.
- 2e. Multiply Line 2a by Line 2d for each item of tangible personal property rented during the taxable year. This is the exempt rental income for this item of tangible personal property.

If you have real or tangible rental property that straddles a KOZ, you must use a method that reasonably and accurately reflects the value of the property inside the KOZ for purposes of determining the rental income or loss attributable to the KOZ.

Resident and nonresident taxpayers with rental income from any partnership or S corporation are not required to complete Worksheet 1 or Worksheet 2. PA-20S/PA65 Schedules RK-1 and NRK-1 from KOZ eligible businesses do not include KOZ income in the amounts of distributable income reported by those entities, and the credit is therefore given as an exemption of the income. Rental income from any non-KOZ eligible partnership or S corporation along with any amounts reported for KOZ eligible partnership or S corporation should not be included in any calculation of the amount reported in Part II, Line 6.

See the Special Rules for Income from Partnerships and S Corporations following for more information.

Special Rules for Income from Partnerships and PA S Corporations Nonresidents of a KOZ

Partnerships (including limited liability companies and business trusts that file PA-20S/PA-65 Information Returns) and S corporations must complete PA-20S/PA-65 Information Returns, and KOZ-eligible entities must complete PA Schedules PS-KOZ. However, an entity will not receive a KOZ credit on its PA-20S/PA-65 Information Return.

The entity must make an adjustment by excluding KOZ-exempt income on the PA Schedules RK-1 and NRK-1 it provides to its partners or shareholders (owners). Therefore, the owners will not report KOZ-exempt income on their PA-40 tax returns, and only non-exempt income will be reported. Since KOZ-exempt income will not be included on PA Schedule RK-1 or NRK-1, the owners receive an equivalent KOZ credit in the form of an income exemption. Nonresident owners may receive refunds of PA tax withheld based on KOZ-exempt income.

If the qualified business has operations inside and outside a KOZ, it must apportion its net exempt KOZ income. If an entity derives income from inside a KOZ, the total of its PA Schedules RK-1 and NRK-1 will not equal the amounts on its PA-20S/PA-65 Information Return.

Residents of a KOZ

The above information for nonresidents of a KOZ applies to residents of a KOZ with the following exceptions. A resident of a KOZ may also be eligible for a KOZ credit on the following classes of income passed through from the entity: interest, dividends, gain on the sale of intangible property and estate or trust income. The amount a resident may exclude would be based on the same rules for residents of a KOZ covered in the prior instructions.

For additional information, call the department's Taxpayer Service and Information Center at 717-787-8201.

Tax Forgiveness (PA Schedule SP)

If you have income not eligible for a KOZ credit, you can apply for Tax Forgiveness using PA Schedule SP. To report income that was not eligible for a KOZ credit, use the PA-40 KOZ return and include PA Schedule SP and Schedule KOZ.

To calculate Tax Forgiveness, first reduce the total tax liability from Line 12 of PA-40 KOZ by the amount of KOZ credit. If the KOZ credit equals the tax liability less any resident credit, do not complete PA Schedule SP. If the KOZ credit is less than the total tax liability, subtract the KOZ credit

from the total tax liability and enter this amount on PA Schedule SP, Part D, Line 12, and submit PA Schedule SP.

NOTE: The total of your KOZ credit and Tax Forgiveness cannot exceed the total tax liability, less any resident credit. The tax credit for KOZ is not a refundable credit.

Amending a KOZ Return

To amend any mistake in filing your PA-40 KOZ return and Schedule KOZ, use another PA-40 KOZ return and Schedule KOZ for that taxable year, and fill in the "Amended Return" oval in the top right corner. Returns can be amended within three years from the original due date or approved extension date, or within three years from the date of payment. Mail amended KOZ returns to the address below.

Special Help

For further information or to order forms and tax books, visit **www.revenue.state.pa.us** or call toll-free, at 1-888-PATAXES. For personal assistance in completing a PA-40 KOZ return, visit a Revenue district office listed in the blue pages of the telephone directory or call 717-787-8201.

NOTE: If you were a resident partner or PA S corporation shareholder, inquire about Schedule KOZ Supplemental Instructions to determine if you are entitled to KOZ benefits in relation to certain classes of income from the partnership or PA S corporation.

Mailing Instructions - Mail your completed PA-40 KOZ tax return and this Schedule to:

PA DEPARTMENT OF REVENUE
KOZ UNIT
PO BOX 280600
HARRISBURG PA 17128-0600