

Pennsylvania Taxes

Source: *Pennsylvania Department of Revenue*,
www.revenue.state.pa.us

- **Personal Income Tax:** The Pennsylvania personal income tax rate of 3.07% (fixed) is one of the lowest in the U.S. and is applied to: compensation, interest, dividends, net profits from the operation of a business, capital gains, net gains from rents, royalties, patents or copyrights, income derived through estates or trusts, gambling, and out-of-state lottery winnings. Corporations defined as “S” corporations for federal tax purposes may elect to be treated as a partnership for Pennsylvania tax purposes and pay the 3.07% Personal Income Tax rather than the 9.99% Corporate Net Income Tax.

- **Sales/Use Tax:** Pennsylvania imposes a statewide sales tax of 6%. There are no local sales taxes. Personal exemptions include clothing, grocery food, pharmaceuticals, and other necessities. Business exemptions include sale for resale, manufacturing, processing, farming, printing, research & development, mining, and public utilities.

- **Corporate Net Income Tax:** The Corporate Net Income Tax is 9.99% including surtax and is levied on federal taxable income, without the federal net operating loss deduction. Pennsylvania allows a 20-year net operating loss carry forward up to \$2 million a year.

Certain entities are specifically excluded from the tax including building and loan associations, banks, bank and trust companies, national banks, savings institutions, trust companies, insurance and surety companies, and all Limited Liability Companies and Business Trusts that are not classified as corporations for Federal Income Tax purposes.

To arrive at Pennsylvania taxable income, all taxes imposed on or measured by net income, which are expensed on the federal corporate income tax return are added back, while the foreign dividend gross-up and net interest income and gains on United States government securities are deducted. In addition, consolidated or combined reporting is not allowed—Pennsylvania views each company as a separate company for Corporate Net Income Tax purposes.

For corporations whose entire business is not transacted in Pennsylvania, the income base may be allocated and apportioned to determine income subject to taxation in Pennsylvania.

- **Capital Stock and Franchise Tax:** This tax is imposed on corporations with capital stock, joint-stock associations, limited partnerships, business trusts, and on companies doing business within Pennsylvania. The tax is imposed at a 2005 rate of 5.99 mills (reduced from 7.24 mills since 2002) on capital stock value, as determined by the following formula: $[0.5 \times \{(Average\ Book\ Income/0.095) + (0.75 \times Net\ Worth)\}] - \$125,000$.

A statutory exemption is provided for manufacturing, processing, research & development, and air or water pollution control assets.

Pennsylvania is currently in the process of phasing out its Capital Stock and Franchise Tax, and plans to completely eliminate the tax by 2010. The CSFT will continue to be phased-out through a series of rate reductions through 2009. The new rates will be

- 5.99 mills in 2005
- 4.99 mills in 2006
- 3.99 mills in 2007
- 2.99 mills in 2008
- and 1.99 mill in 2009.

The CSFT will expire with regard to taxable years beginning after 12/31/09. Applies to tax years beginning after December 31, 2001.



● **Unemployment Compensation:** Pennsylvania Unemployment Compensation taxes are paid on the first \$8,000 of wages for each employee. Pennsylvania's Unemployment Compensation taxes are experience-rated with rates ranging from 1.5% to 9.1%. The contribution rate for newly liable employers is 3.5%. The rate for newly liable construction employers is 9.7%.

● **Personal Property / Inventory / Unitary Taxes:**
None

Local Taxes

● **Wage Tax (Earned Income Tax):** The local wage tax is determined by an individual's place of residence and is applied to salaries, wages, commissions, and other compensation. Wage taxes are limited to 1% of total compensation (0.5% to the municipality and 0.5% to the school district) in all Lackawanna County communities except the City of Scranton, the City of Carbondale, and Fell Township. Residents of Scranton pay a 3.4% wage tax (2.4% to the city and 1% to the school district), residents of Carbondale pay 1.75%, and residents of Fell Township pay 1.5%.

● **Occupational Privilege Tax:** Persons employed by a business located within the City of Scranton or the City of Carbondale must pay this fee annually to their respective cities. The Occupational Privilege Tax is set at \$10 for both cities. Additional communities that impose this tax are: the townships of Abington, Benton, Carbondale, Fell, Glenburn, Greenfield, Newton, North Abington, Ransom, Scott, and South Abington, and the boroughs of Archbald, Clarks Green, Clarks Summit, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Old Forge, Olyphant, Taylor, Throop, and Vandling.

● **Mercantile Tax:** The City of Scranton, Archbald, and Dickson City impose a tax on persons, firms, and entities engaged in business as dealers of wholesale and retail goods, wares, and merchandise. The tax is based on annual gross receipts for the previous year and is levied at the following rates:

Scranton:

Retailers- \$1.68 per \$1,000 gross receipts
Wholesalers- \$1.45 per \$1,000 gross receipts

Archbald and Dickson City:

Retailers- \$1.50 per \$1,000 gross receipt
Wholesalers- \$1.00 per \$1,000 gross receipts

● **Business Privilege Tax:** Any for-profit business located within the City of Scranton that provides a service or receives payment for an exchange of talent must pay this tax based on the previous year's gross sales. The tax equals \$6.13 for every \$1,000 of gross receipts. In general, taxable activity includes any trade, business, profession, vocation, service, construction, communication, or commercial activity, or financial business of interstate or intrastate character, that is carried on in the City of Scranton or controlled from a Scranton location. Archbald and Dickson City impose a similar tax at \$1.50 per \$1,000 gross receipts.

NOTE: Archbald Borough allows a \$100,000 deductible on this tax.