CONTACT INFORMATION

For more information and to apply for the Keystone Opportunity Zone program, visit the DCED Web site at www.newpa.com, or call 1-800-379-7448.

Department of Revenue KOZ Coordinator: 717-772-3896 or ra-btftrevkoz@state.pa.us.

FOR GENERAL TAX QUESTIONS:

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

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

Business Taxes: 717-787-1064

e-Business Center: 717-783-6277

1-888-PATAXES (728-2937)
Touch-tone service is required for this automated 24-hour toll-free line. Call to order forms or check the status of a personal income tax account or property tax/rent rebate.

Automated Forms Ordering Service
1-800-362-2050

Services for Taxpayers with Special Hearing and/or Speaking Needs
1-800-447-3020

KEYSTONE OPPORTUNITY ZONES

PROPERTY

The Keystone Opportunity Zone program provides specific state and local tax benefits to residents and businesses within designated zones.

BUSINESS

RESIDENCE

pennsylvania
DEPARTMENT OF REVENUE

ABOUT KEYSTONE OPPORTUNITY ZONES

Keystone Opportunity Zones (KOZ), Keystone Opportunity Expansion Zones (KOEZ) and Keystone Opportunity Improvement Zones (KOIZ) – collectively referred to as KOZ – are geographic areas designated by local communities and approved by the state as economic development zones that can provide specific state and local tax benefits.

The KOZ program consists of 12 defined areas in 61 counties across Pennsylvania. KOZs range in size from under 10 acres to over 500 acres. Projects in KOZs may be given priority consideration for various community-building assistance programs.

STATE TAXES:
The KOZ program may reduce one or more of the following state taxes for qualified taxpayers:

- Corporate net income tax
- Capital stock/foreign franchise tax
- Personal income tax
- Sales and use tax (on purchases used and consumed by businesses in a KOZ)
- Bank and trust company shares tax
- Mutual thrift institutions tax
- Insurance premiums tax

LOCAL TAXES:
The KOZ program may reduce one or more of the following local taxes for qualified taxpayers:

- Earned income/net profits tax
- Business taxes including gross receipts tax, occupancy tax and privilege and mercantile tax
- Local property taxes
- Wage and net profits tax

TO QUALIFY FOR KOZ BENEFITS:

- Complete and submit an application to the PA Department of Community and Economic Development (DCED) each year by Dec. 31.
- Comply with all state and local tax laws.
- Reapply each year.

PROPERTY OWNERS

Does a property owner have to meet the 184-day residency requirement to get property tax abatement on a property owned in a KOZ?
No, the 184-day residency requirement applies only to PA personal income tax and local earned income tax.

When does KOZ abatement of local property taxes occur?
Individuals and businesses can take advantage of property tax abatement immediately upon KOZ certification.

Does KOZ status affect existing state or local tax liens, encumbrances, judgments or other claims against a property within a zone?
No. However, these past-due liabilities must be paid by Feb. 5 of the following year in order to claim any KOZ tax benefits.

Who is entitled to KOZ property tax benefits when a property owner leases the property?
The property owner is entitled to KOZ property tax abatement. The tenant may be entitled to other KOZ tax benefits if he/she is a KOZ resident or qualified business.

If I own property located in a KOZ and decide to sell it, is the capital gain subject to PA income tax? Does it matter whether I live in a KOZ?
Net gains from the sale of real estate in a KOZ are exempt from PA income tax for residents and nonresidents. The exemption is limited to the following percentage: number of days the property is in a KOZ and owned by a taxpayer, divided by the

number of days the property is owned by that taxpayer.

However, if you are selling your principal residence and you have been there for at least two of the last five years preceding the date of the sale, you are most likely exempt from taxes on the gain under another state law. Refer to REV-625, Sale of Your Principal Residence, for more information.

BUSINESS OWNERS

How does a company become a KOZ-qualified business?

A business must:

- own or lease property in a KOZ, from which it actively conducts a trade, profession or business; and
- obtain annual certification from DCED.

What items are exempt from sales and use tax through KOZ?

Services and tangible personal property – excluding motor vehicles – are exempt from sales and use tax when they are sold to, used or consumed by a qualified business exclusively at its facility in a KOZ. Also exempt from sales and use tax are services, construction materials and tangible personal property purchased by a construction contractor for use in a construction contract with a qualified KOZ business, landowner in a KOZ or lessee in a KOZ at a facility owned by the entity in a KOZ.

The sale or lease of motor vehicles licensed for road use, including special mobile equipment, is subject to sales and use tax, even when used in an approved KOZ.

After a business is accepted into the KOZ program, the Department of Revenue will automatically issue to the business a Tax Certificate of Exemption (REVK-644), which the business should provide to a vendor when purchasing tax-exempt items.

Must a KOZ business continue to collect state and local sales tax from its customers?

Yes, unless the purchase is otherwise exempt.

May a qualified business claim a corporate net income tax and/or capital stock/foreign franchise tax KOZ credit?

A qualified business may take a tax credit, subject to certain limitations, against the corporate net income tax and/or the capital stock/foreign franchise tax for the tax liability attributable to business activity conducted within a KOZ. The credit must be apportioned to the KOZ by use of a two-factor formula, taking into consideration property and payroll.

Are railroad, truck, bus, airline, pipeline, natural gas or water transportation companies entitled to KOZ tax benefits?

Such companies may qualify for Job Creation Tax Credits for full-time jobs created in a KOZ, provided the number of full-time jobs in Pennsylvania increased from the prior year.

Are banks, trust companies and mutual thrift institutions entitled to KOZ tax benefits?

Such companies may qualify for credits, subject to certain limitations, against bank and trust company shares tax or mutual thrift institutions tax for liabilities attributable to business activities conducted within a KOZ.

Are insurance companies entitled to KOZ tax benefits?

A qualified insurance company may use a Job Creation Tax Credit, subject to certain limitations, to offset insurance premiums tax liabilities attributable to business activities conducted within a KOZ.

How do owners operating a qualified sole proprietorship, partnership or PA S corporation within a KOZ receive KOZ tax benefits?

Income earned by a qualified business in a KOZ is not subject to PA personal income tax when the income is passed through to the shareholder, partner, member, etc. Income earned by a qualified sole proprietor is exempt from PA personal income tax. If a taxpayer has any other income earned or realized from outside a KOZ, he/she is liable for PA personal income tax on that income.

Are qualified businesses in a KOZ entitled to local property tax abatement?

Yes. A qualified business may be entitled to complete or partial abatement of local property taxes.

RESIDENT OWNERS

Is a KOZ resident subject to PA personal income tax or local earned income tax?

An individual domiciled in a KOZ and who lives there for at least 184 consecutive days during a taxable year may be entitled to an exemption from most PA personal income tax and local earned income tax.

I live in a KOZ. Why is my employer still withholding state and local income taxes from my pay?

Employers are required to withhold state income tax and local earned income tax from the paychecks of KOZ residents. Residents claim the tax exemption by filing KOZ PA personal income tax returns after the close of the taxable year, and the taxes paid are refunded to qualifying taxpayers.

How do I claim the PA personal income tax exemption as a KOZ resident?

Shortly after the new year, the Department of Revenue will send KOZ residents KOZ personal income tax returns, PA-40 KOZ, which must be completed and filed with the department by April 15. If the KOZ return indicates an overpayment of PA tax, the individual will receive a tax refund. Each resident must submit a separate return to claim a KOZ exemption. Joint filing is not permitted.

I am not a resident of a KOZ, but I own and operate a sole proprietorship within one. Must I pay PA personal income tax on the income I earn from my business?

No. Income earned by a sole proprietor of a qualified business that is related to business activities conducted within a KOZ is not subject to PA personal income tax.

Further, rents received from a rental property in a KOZ are exempt from PA personal income tax.

Partners in partnerships, members of limited liability companies and shareholders of PA S corporations are encouraged to review the instructions for Schedule P-S KOZ for further information.

Do individual residents of a KOZ have to pay state and local sales tax on purchases?

Yes. Individuals must pay sales tax on purchases, utility bills and motor vehicles licensed for road use, even when used in an approved KOZ.