



City of Philadelphia
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City of Philadelphia
Department of Revenue
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Taxpayer:

As the Revenue Commissioner for the City of Philadelphia, I have promulgated a regulation to initiate two pilot programs for the implementation of apportionment methods different from the regular apportionment method for the purpose of the City of Philadelphia's Business Privilege Tax (BPT). This regulation is effective beginning Tax Year 2010 for filing April 15, 2011. The regulation is posted in the Business Privilege Tax section of the Department of Revenue's website under "BPT Regulation Pilot Amendment."

The link is: <http://www.phila.gov/revenue/pdfs/Rev%20PDFs/AmendmentToSection408.pdf>

The first program requires the use of **Single Receipts Factor apportionment method** for businesses engaged in Research and Development in the Physical, Engineering, and Life Sciences classified in **Industry 54171 of the NAICS**. The second program mandates **Market-Based Sourcing of service revenue** for businesses engaged in Computer Systems Design and Related Services classified in **Industry 54151 of the NAICS**.

Make sure to recognize the following important points in computing the apportionment factor applicable to your business:

- 1. It is mandatory** for businesses classified in Industry 54171 of the NAICS to use **Single Receipts Factor apportionment method**. For businesses in this industry, the receipts sourcing rule is still based on the location of the service (where the business renders the service that generates the receipts), not the location of the recipient of the service (location of the market). Only minor changes will be made in filing the BPT return and these changes are going to be reflected in Schedule C-1 of the return. In preparing Schedule C-1, a) make sure to enter the number 0 ("zero") in Lines 1 through 7, 8a, 8b, 9a and 9b, b) do not enter any number on Lines 8c and 9c and c) write the industry code "54171 NAICS" in Line 10a on the dotted line after the term "Philadelphia Receipts." This will allow Schedule C-1 to reflect property and payroll as non-factors and receipts as a single factor to be used for the purpose of apportioning the net income of businesses in this industry. Line 12, Average of Factors, will be Line 11, Total Factors, divided by two (double-receipts factor) and the result will be the same as the Philadelphia Receipts Factor reflected on Line 10c.
- 2. It is mandatory** for businesses classified in Industry 54151 of the NAICS to use the **Market-Based Sourcing rule** in computing the receipts factor used to determine the taxable net income for the purpose of the **net income portion** of the BPT. Under the Market-Based Sourcing rule, the receipts factor is designed to measure the marketplace of the taxpayer's services. Businesses in this industry are still required to use the three-factor formula (with double receipts factor) in computing the average apportionment factor. The only change in filing the BPT return for businesses in this industry will be made in Line 10a of Schedule C-1 (i.e. numerator of the receipts factor). This amount will now reflect Philadelphia receipts sourced based on the location of the recipient of the service rather than the service location. Make sure to write the industry code "54151 NAICS" on the dotted line of Line 10a after the term "Philadelphia Receipts." To determine receipts for the purpose of gross receipts portion of the Business Privilege Tax, businesses in this industry are still required to source receipts based on the location of the service.

If you have any questions regarding this regulation, please call our Technical Advisory Unit at (215) 686-6434.

Sincerely,

Keith J. Richardson
Commissioner, Department of Revenue