

# CITY OF PHILADELPHIA DEPARTMENT OF REVENUE

## 2005 Business Privilege Tax / 2005 Net Profits Tax Instruction Booklet

Complete Business Privilege and Net Profits Tax Regulations are available at [phila.gov/revenue](http://phila.gov/revenue) in the "Technical Rulings and Tax Regulations" section. Corporations are not subject to the Net Profits Tax. A partnership comprised solely of corporate partners must file a Net Profits Tax return even if no tax liability exists.



### IMPORTANT CHANGE FOR 2005



The format of the 2005 tax booklet instructions has changed. The various schedules comprising the tax returns remain the same as last year. You have been sent tax returns based on the type of Business Privilege Tax return (EZ or Regular) you filed last year. The actual tax returns are now personalized with your tax account number, name and address preprinted for you. Use these preprinted forms and payment coupons when filing to ensure accurate processing of your returns and payments.

### Contents of This Booklet

Instruction Sheet I: General Information  
Instruction Sheet II: When and Where to File  
Instruction Sheets III and IV: Business Privilege Tax Information  
Instruction Sheets V: Net Profits Tax Information  
Instruction Sheet VI: Interest and Penalty Chart; Extension Worksheets  
Change Form

### General Information

The tax returns contain provisions for entering **Social Security** and **Federal Employer Identification** numbers. Disclosure of this information is required. Social Security and Employer Identification numbers are used to identify taxpayers and to ensure compliance with all City tax laws and are treated as confidential information.

**Coupons** -- All payments of tax due with the return are to be made with a payment coupon. Preprinted coupons and a postage paid envelope are contained in the tax booklets mailed to all active business accounts.

**Do not staple or fold the tax return. Do not submit photocopies of the tax return. Do not submit blank schedules.** To obtain additional returns, schedules and instructions, visit [phila.gov/revenue](http://phila.gov/revenue).

**Change Form** -- If your business has terminated, changed address, organization or entity, use the enclosed Change Form. A single Change Form can be used for all tax types. If there was a change of business entity (e.g., individual proprietorship to corporation), you need a new Philadelphia Tax Account Number and Business Privilege License (a \$250 one-time fee). Register online for a tax account number at [phila.gov/revenue](http://phila.gov/revenue) in the "Online Services" section.

**Contact Information** -- Call 215-686-6600 or send e-mail to [revenue@phila.gov](mailto:revenue@phila.gov). Applications, tax returns, schedules and instructions can be downloaded from our web site at [phila.gov/revenue](http://phila.gov/revenue). All forms are in Adobe Acrobat Format and require Acrobat Reader 4.0 or later. Additional Department of Revenue information, including complete BPT and NPT Regulations, is available on our web site.

**Federal Form #1099** -- mail copies to: Philadelphia Department of Revenue - Forms Processing Unit - Concourse - Municipal Services Building - 1401 John F. Kennedy Boulevard - Philadelphia, PA 19102.

**There is no transmittal for filing Form #1099.** Employers with 50 or more Federal #1099 forms must file those forms electronically, preferably on a Compact Disc (CD). The record format is the same used by the Internal Revenue Service.

## WHEN AND WHERE TO FILE

2005 Business Privilege Tax and 2005 Net Profits Tax returns are due by April 17, 2006 and must be filed using the following procedures:

### I. TAX PAYMENTS

Payment of tax **MUST be made separately from the filing of the tax returns.** Coupons for each tax must be included with a check or money order payable to the City of Philadelphia and mailed to:

City of Philadelphia  
Department of Revenue  
P.O. Box 1393  
Philadelphia, PA 19105-9731

Entities currently registered with the City of Philadelphia Department of Revenue receive a POSTAGE PAID envelope and PREPRINTED coupons for this purpose.

If Net Profits Tax estimated payments are required, two payments are due. The 1st estimated tax payment is due April 17, 2006 and the 2nd estimated tax payment is due June 15, 2006. **Estimated tax payments are not required on September 15, 2006 or January 15, 2007.**

ACH Debits and Credits are accepted for payment of Business Privilege and Net Profits Tax. To register for this program go to [phila.gov/revenue](http://phila.gov/revenue) in the "Electronic Filing" section under "Electronic Payments", or call 215-686-6628, 6459 or 2694.

### II. TAX RETURNS

Remove both perforated labels from the envelope flap and choose the label that applies to either of the following situations.

**A. If a return you are filing requests a refund, use the label marked "Refund Due" and mail ALL returns to:**

Refund Due  
City of Philadelphia  
Department of Revenue  
P.O. Box 1137  
Philadelphia, PA 19105-1137

**B. If you are not requesting a refund on any tax filings, mail ALL returns to:**

City of Philadelphia  
Department of Revenue  
P.O. Box 1660  
Philadelphia, PA 19105-1660

**Important:** Do not use P.O. Box 1660 to remit tax payments; this box is used only for tax returns.

If you maintain a Business Privilege license but did not actively engage in business during 2005, you must complete the Change Form in this booklet and indicate that you are not in business. **Do not file the 2005 Business Privilege or 2005 Net Profits Tax returns.** If you begin a business again with the same Federal Identification or Social Security number, you should reinstate your Philadelphia tax account number. In this scenario, you will not have to pay for an additional Business Privilege Tax license.

**Failure to file a return by the due date could result in the imposition of fines and legal costs.** Taxpayers unable to pay the tax due with the return must file the return and contact the Taxpayer Services Unit, Public Service Concourse, Municipal Services Building, 1401 John F. Kennedy Boulevard, Philadelphia, PA 19102, or call 215-686-6600 to discuss entering into a payment agreement.

**Filing an extension coupon does not extend the time to pay the tax.** Interest and penalty shall be added to the amount of tax not paid by the statutory due date.

# 2005 Net Profits Tax Return

**Corporations are not subject to and should not file the Net Profits Tax.**

**Who must file --** Every individual **residing** in Philadelphia during 2005 and operating a business or other activity within or outside of Philadelphia and **non-residents** of Philadelphia, if engaged in such activities within Philadelphia, are subject to the Net Profits Tax.

Every partnership, limited partnership, limited liability company filing with the IRS as a partnership, association, or other group of two or more persons operating a business within Philadelphia, whether residents or non-residents of Philadelphia, is subject to the Net Profits Tax.

Every estate or trust is subject to the Net Profits Tax if the estate or trust is engaged in any business which is subject to the Net Profits Tax per Income Regulation 220(A)(3).

**Corporations are not subject to the Net Profits Tax.** A partnership comprised solely of corporate partners must file a Net Profits Tax return even if no tax liability exists.

## **Page 1: Summary Page for the Net Profits Tax Return**

**Page 2: Worksheet A** - Used by Philadelphia residents to calculate the taxable income (loss) from a business,

**Worksheet B** - Used by non-residents to calculate the taxable income (loss) from a business,

**Worksheet C** - Used to calculate whether estimated tax payments for the 2006 Net Profits Tax are needed,

**Page 3: Worksheet D** - Used to allocate the Business Privilege Tax credit for partnerships with corporate members. Partnerships which do not have any CORPORATE partners **do not** complete Worksheet D,

**Worksheet E** - Used to summarize Net Profits tax payments and other credits,

**Worksheet K** - Used to calculate the Business Privilege Tax credit which is applied to the 2005 Net Profits Tax liability,

**Page 4: Worksheet NR-3** - Used to compute apportionment factors for certain non-residents,

**Page 5:** Depreciation Decoupling Explanation, Example and Worksheet

## **FREQUENTLY ASKED QUESTIONS**

**Question 1:** Does Philadelphia allow as a deduction the special first year depreciation allowance on certain property acquired after September 10, 2001 and before September 11, 2004?

**Answer:** No. This special allowance depreciation is not allowed as a deduction in determining taxable net income for Business Privilege and Net Profits tax purposes. See **Page 5** for more information on this "Depreciation Decoupling".

**Question 2.** If I have incurred an overall loss, must I file a Net Profits Tax Return?

**Answer.** Yes. A return must be filed even if an overall loss is incurred. If a return is not filed, non-filer penalties could be imposed.

**Question 3:** Are Limited Liability Companies (LLC's) subject to the Net Profits Tax?

**Answer:** The City of Philadelphia follows the Federal tax treatment for LLC's. If the LLC chose corporate tax treatment, it would not be liable for Net Profits. If the LLC chose to be treated as a partnership or as a disregarded entity, treated for federal filing purposes as an individual, it would be liable for Net Profits Tax.

# 2005 Business Privilege Tax (EZ and Regular Returns)

Corporations are liable for the gross receipts and the net income portions of the Business Privilege Tax. Complete Business Privilege Tax Regulations are available at [phila.gov/revenue](http://phila.gov/revenue).

## MANDATORY 2006 BPT ESTIMATED TAX PAYMENT

Line references noted below pertain to Page 1 of the BPT-EZ return or the Summary Page of the BPT Regular return.

### TAKE CREDIT WHERE CREDIT IS DUE

**Remember to take credit for any 2005 BPT payments previously made.**

- \* Did you make an estimated payment for 2005 BPT when you filed the 2004 BPT return?
- \* Did you have a credit from overpayment for 2004 BPT that was applied to 2005 BPT?
- \* Did you make a payment against the 2005 BPT during the year as a result of a bill?
- \* Did you make a 2005 BPT extension payment?

**These payments/credits should be totaled and entered on Page 1, Line 6b of the BPT-EZ return or the Summary Page, Line 6b of the 2005 BPT return. You are entitled to these credits, be sure to use them.**

\* **If you terminated Philadelphia business activity prior to January 1, 2006, no estimated payment is required.** Place a "zero" on Line 4 of the 2005 BPT return and enter the termination date in the block provided.

\* **If you continued business in Philadelphia after January 1, 2006, you are required to make an estimated payment for the 2006 BPT when you file the 2005 BPT return.** This mandatory 100% estimated payment (which is entered on Line 4 of the 2005 BPT return) is an amount equal to the 2005 BPT due as entered on Line 3. Payment of this amount will exempt the taxpayer from interest and penalty on any tax balance due on a timely paid 2006 BPT return.

\* **Taxpayers who believe their 2006 BPT liability will be less than their 2005 BPT liability may calculate a lower estimated payment. No separate petition is required.** Enter the estimate for 2006 BPT on Line 4 of the 2005 BPT return and pay this amount. Do **NOT** enter "zero" as your estimate on Line 4 unless you terminated Philadelphia business activity prior to January 1, 2006. **However, if the amount due on the 2006 BPT return is higher than the estimate paid in 2005, you will be billed interest and penalty on the difference.** By paying an estimate less than the 2005 liability, you also waive the right to appeal the accelerated interest and penalty incurred on the estimated payment.

#### To be used when all business is conducted and/or located within Philadelphia:

**Page 1: 2005 Business Privilege - EZ Summary Page**

**Page 2: BPT - EZ Net Income and Gross Receipts Schedules**

#### To be used when business is conducted and/or located in and out of Philadelphia:

**2005 Business Privilege Tax Summary Page**

**Schedule B - Net Income Based on Federal Taxable Income (Method 2)**

**Schedule C-1 - Computation of Apportionment Factors**

**Schedule D - Computation of Tax on Gross Receipts**

**Schedule A - Net Income Based on Accounting System Income (Method 1)**

**Schedule E - Alternate Method of Computing Tax on Gross Receipts for  
Manufacturers, Wholesalers and/or Retailers**

**Job Creation Tax Credit** -- The City of Philadelphia has enacted a Job Creation Tax Credit against Business Privilege Tax liability (Philadelphia Bill #020116). Under the Job Creation Tax Credit program, eligible taxpayers may claim a BPT credit of \$1,000 for each qualified new full-time job created in the City. **You must apply for and be accepted into this program before any Job Creation Tax Credit may be taken.** For more information on this program, visit [www.phila.gov/revenue](http://www.phila.gov/revenue) or call 215-686-6432.

## **BASIS FOR FILING THE 2005 BUSINESS PRIVILEGE TAX RETURN**

### **Calendar year taxpayer:**

Receipts and net income from all business activity from January 1, 2005 to December 31, 2005.

### **Fiscal year taxpayer who started business in Philadelphia prior to 2005:**

Gross receipts and net income from actual business activity in the 12 month fiscal period that ends during calendar year 2005. For example, if the fiscal year ended June 30, 2005 the basis would be the gross receipts and net income for the period July 1, 2004 through June 30, 2005.

### **Fiscal year taxpayer who started business in Philadelphia during 2005:**

For a taxpayer that filed a federal fiscal year return for a period ending in 2005 that was for less than 12 months (a "short" period), the receipts and income from that "short" period would be the basis for filing the 2005 BPT return. A fiscal year taxpayer whose fiscal year did not end prior to December 31, 2005 would file the 2005 BPT using zero ("0") as the tax base.

## **TAXPAYERS THAT TERMINATED BUSINESS ACTIVITY DURING 2005**

### **Calendar year taxpayer:**

A calendar year taxpayer that terminated business activity in 2005 must file a 2005 BPT return based on the business activity during 2005.

### **Fiscal year taxpayer:**

A fiscal year taxpayer that terminated business activity in 2005 must file a 2005 BPT return based on the rule provided under Section 203 (D)(2) or 203 (D)(3) of the BPT regulations, whichever is applicable. These regulations are available at [www.phila.gov/revenue](http://www.phila.gov/revenue).

**All taxpayers must enter the business termination date on Page 1 of the BPT-EZ or on the Summary Page of the BPT Regular return.**

## **LOSS CARRY FORWARD**

The basis for the loss carry forward to be used, if applicable, on the 2005 BPT return is derived from the figures reported on the Actual 2002, 2003 and 2004 BPT returns.

<u><b>ILLUSTRATION</b></u>		<u><b>WORKSHEET</b></u>	
BPT Return	Current Year Income (Loss)		
		Total losses through 2004	<b>1000</b> _____
2001	(100)	Less: Expired 2001 BPT Loss	<b>100</b> _____
Actual 2002	(200)	Accumulated loss carry forward to be applied on the 2005 BPT	<b>900</b> _____
2003	(300)		
2004	(400)		

Enter the loss carry forward on Page 2, Line 3 or Schedule B, Line 10 or Schedule A, Line 10 as a positive number.

Losses incurred prior to the 2002 tax year cannot be carried forward; **the maximum loss carry forward period is 3 years.**

If your business terminated and you have an unused loss carry forward, any unused loss carry forward expired.

**COMPUTATION OF INTEREST AND PENALTY**

Month after Due Date	Returns Filed After Due Date	Interest	Penalty	Combined Interest & Penalty	Cumulative Interest & Penalty
1st	04/18/06 thru 05/15/06	1%	1%	2%	2%
2nd	05/16/06 thru 06/15/06	1%	1%	2%	4%
3rd	06/16/06 thru 07/15/06	1%	1%	2%	6%
4th	07/16/06 thru 08/15/06	1%	2%	3%	9%
5th	08/16/06 thru 09/15/06	1%	2%	3%	12%
6th	09/16/06 thru 10/15/06	1%	2%	3%	15%
7th	10/16/06 thru 11/15/06	1%	3%	4%	19%
8th	11/16/06 thru 12/15/06	1%	3%	4%	23%
9th	12/16/06 thru 01/15/07	1%	3%	4%	27%
10th	01/16/07 thru 02/15/07	1%	4%	5%	32%
11th	02/16/07 thru 03/15/07	1%	4%	5%	37%
12th	03/16/07 thru 04/15/07	1%	4%	5%	42%

For each additional month or fraction thereof, after the 12th month, add 1% for interest and 1¼% for penalty.

**Note:** Payments made with returns filed after the due date that do not include applicable interest and penalty will be **automatically pro-rated** between principal, interest and penalty. You will be subsequently billed for the remaining tax balance and associated interest and penalty.

**EXTENSION WORKSHEETS - 2005 BUSINESS PRIVILEGE AND NET PROFITS TAX RETURNS**

If an extension of time has been obtained from the Internal Revenue Service for filing your corporate, partnership or individual tax returns, the corresponding returns are due on or before the due date of the Federal extension(s) or 6/15/2006, whichever is later. **You must pay 100% of the estimated tax due by April 17, 2006.** You will not receive written confirmation of your extension request.

**NOTE:** If you have filed for an automatic federal extension but do not believe you will owe any tax, you do not need to file an extension coupon.

This is an extension worksheet to be used when figuring the amount of **Business Privilege Tax** you owe. You must file an actual return by the extension due date to satisfy filing requirements.

1. 100% of estimated <b>2005 Business Privilege</b> tax due.....1.	<input type="text"/>	. 00
2. <b>Mandatory 2006 BPT estimated payment</b> (repeat Line 1).....2.	<input type="text"/>	. 00
3. Total Tax Due (Line 1 plus Line 2).....3.	<input type="text"/>	. 00
4. Other payments and credits you expect to report on the 2005 BPT-EZ return, Page 1, Line 6c or the 2005 BPT return, Summary Page, Line 6c.....4.	<input type="text"/>	. 00
5. <b>Tax Balance Due</b> (Line 3 minus Line 4) <b>Enter on the Extension Coupon.</b> If Line 4 is greater than Line 3, no extension coupon is needed.....5.	<input type="text"/>	. 00

This is an extension worksheet to be used when figuring the amount of **Net Profits Tax** you owe. You must file an actual return by the extension due date to satisfy your filing requirements.

1. 100% of estimated <b>2005 NET PROFITS</b> tax due.....1.	<input type="text"/>	. 00
2. Other payments and credits you expect to report on the NPT return.....2.	<input type="text"/>	. 00
3. <b>Tax Balance Due</b> (Line 1 minus Line 2). <b>Enter on the Extension Coupon.</b> If Line 2 is greater than Line 1, no extension coupon is needed.....3.	<input type="text"/>	. 00

**WORKSHEETS A, B and C  
2005 NET PROFITS TAX RETURN**

**These are worksheets only.  
Do not file these worksheets with your return.**

**Instructions for Worksheets A and B**  
**See Depreciation Decoupling explanation on Page 5.**

Enter on Line 1 the net income or loss from the appropriate Federal Tax return(s) or if applicable, the Profit and Loss Statement.

Examples of Line 2 adjustments (not all inclusive): Federal Form 1040, Schedule "C" filers - add back to net income any taxes based on net income which have been deducted in arriving at reported net income, e.g., prior year Net Profits Tax (**the Business Privilege Tax paid is deductible**). Federal Form 1065 filers - add back to net income any taxes based on net income, capital gains, and guaranteed payments to partners; deduct from net income IRC section 179 expense. Non-residents may take an income exclusion for Public Law 86-272 activity.

Line 3 includes taxable income from the sale of business capital assets, income from estates or trusts, and income from patents and royalties.

**WORKSHEET A: Business Income (Loss) for Residents**

1. Net Income (Loss).....1.		
2. Federal Form 1065, Schedule K-1 and other adjustments.....2.		
3. Other taxable income .....3.		
4. Taxable Resident Net Income (Loss). Add Lines 1 through 3 and enter here and on Page 1, Line 1.....4.		

**WORKSHEET B: Business Income (Loss) for Non-Residents**

Non-residents of Philadelphia may apportion all or part of their net income to their places of business located outside of Philadelphia on Line 5, using **Worksheet NR-3** on Page 4. The apportionment is based on a **three factor** formula consisting of an average of the property owned, the salaries and wages paid, and the receipts earned during the tax year. Include on Line 5 a corporate partner's share of the net income of the partnership, joint venture or association.

1. Net Income (Loss).....1.		
2. Federal Form 1065, Schedule K-1 and other adjustments.....2.		
3. Other taxable income .....3.		
4. Total Net Income (Loss) (Total of Lines 1 through 3).....4.		
5. Net Income apportioned outside Philadelphia from Page 4, Line 14, Worksheet NR-3.....5.		
6. Taxable Non-Residents Net Income (Loss). Subtract Line 5 from Line 4. Enter here and on Page 1, Line 3.....6.		

**WORKSHEET C: COMPUTATION OF ESTIMATED TAX BASE**

If the amount on Line 3 is \$100 or less, estimated payments are not required. If the amount on Line 3 is greater than \$100, enter 25% of the amount on Line 3 on the first estimated coupon (ENP-1), Line 1 and the second estimated coupon (ENP-2), Line 1. If Net Profits Tax estimated payments are required, there are two payments due. The 1st estimated tax payment is due April 17, 2006 and the 2nd estimated tax payment is due June 15, 2006. **Estimated tax payments are not required on September 15, 2006 or January 15, 2007.**

1. Net Profits Liability from Page 1, Line 5.....1.		
2. Business Privilege Tax Credit from Page 1, Line 6a or Page 3, Worksheet D, Line 8.....2.		
3. Estimated Payments Base (Line 1 less Line 2).....3.		

**WORKSHEETS D, E and K  
2005 NET PROFITS TAX RETURN**

**These are worksheets only.  
Do not file these worksheets with your return.**

**WORKSHEET D: ALLOCATION OF BUSINESS PRIVILEGE TAX CREDIT FOR PARTNERSHIPS, ETC., WITH CORPORATE MEMBERS (THIS SCHEDULE IS TO BE USED ONLY BY PARTNERSHIPS, JOINT VENTURES AND ASSOCIATIONS WHICH ARE COMPOSED OF ONE OR MORE CORPORATE PARTNERS, CORPORATE JOINT VENTURES, OR CORPORATE ASSOCIATES.)**

1. Enter the portion of taxable income on which 2005 Business Privilege Tax has been paid, AND which represents the distributive shares of net income of ALL CORPORATE MEMBERS.....1.				
2. Enter the total taxable income of the taxpayer on which 2005 Business Privilege Tax has been paid.....2.				
3. Divide Line 1 by 2 and enter the percentage here and on Page 1.....3.				%
4. Enter the amount from Page 3, Worksheet K, Line 2.....4.				
5. Multiply the amount on Line 4 by the percentage on Line 3.....5.				
6. Subtract Line 5 from Line 4.....6.				
7. Enter the amount from Page 1, Line 5.....7.				
8. <b>Business Privilege Tax Credit allowed.</b> Enter the lesser of Line 6 or Line 7 here, and on Page 1, Line 6a.....8.				

**WORKSHEET E: SUMMARY OF PAYMENTS AND OTHER CREDITS**

1. 2005 Estimated Net Profits Tax Payments.....1.		
2. Payments of 2005 Net Profits Tax made with Application for Extension of Time to File.....2.		
3. Overpayment of 2005 Business Privilege Tax or 2004 Net Profits Tax to be applied to this tax return.....3.		
4. TOTAL of Lines 1 through 3. Enter here and on Page 1, Line 6b of the return.....4.		

**WORKSHEET K: 60% BUSINESS PRIVILEGE TAX CREDIT 2005 NET PROFITS TAX RETURN**

1. Enter the amount from Page 1, Line 1 of the 2005 BPT-EZ return or the Summary Page, Line 1 of the 2005 Business Privilege Tax return.....1.		
2. Enter 60% of the amount on Line 1. If your entity has corporate members, <b>STOP HERE</b> and enter this amount on Page 3, Worksheet D, Line 4.....2.		
3. Enter the amount from Page 1, Line 5 of the 2005 Net Profits Tax return.....3.		
4. Business Privilege Tax credit allowed. Enter the lesser of Line 2 or Line 3 here and on Page 1, Line 6a.....4.		

**WORKSHEET NR-3  
2005 NET PROFITS TAX RETURN**

**COMPUTATION OF APPORTIONMENT FACTORS TO BE APPLIED TO  
APPORTIONABLE NET INCOME OF CERTAIN NON-RESIDENTS OF PHILADELPHIA.**

**Calculation of Average Values of Real and Tangible  
Property Employed in Business:**

1. Inventories of Raw Materials, Work in Process and Finished Goods.
2. Land & Building Owned (At original cost).....
3. Machinery & Equipment Owned (At original cost).....
4. Other Tangible Assets Owned (At original cost).....
5. Rented Property (At 8 times the net annual rental).....
6. Total average value of Property used **OUTSIDE PHILADELPHIA**.....
7. Total average value of Property used **EVERYWHERE**.....

	COLUMN A OUTSIDE PHILADELPHIA	COLUMN B TOTAL EVERYWHERE
1.		
2.		
3.		
4.		
5.		
6.		XXXXXXXXXX
7.	XXXXXXXXXX	

**Computation of Apportionment Factors:**

**Enter the factors on Lines 8C, 9C, 10C, 11 and 12 as a decimal.**

8A. Total Average Value of Property outside Philadelphia from Column A, Line 6 above.....8A.		
8B. Total Average Value of Property Everywhere from Column B, Line 7 above.....8B.		
8C. Out of Philadelphia Property Factor (Line 8A divided by 8B).....8C.	■	
9A. Out of Philadelphia Payroll.....9A.		
9B. Payroll Everywhere.....9B.		
9C. Out of Philadelphia Payroll Factor (Line 9A divided by 9B).....9C.	■	
10A. Out of Philadelphia Receipts.....10A.		
10B. Gross Receipts Everywhere.....10B.		
10C. Out of Philadelphia Receipts Factor (Line 10A divided by 10B).....10C.	■	
11. TOTAL FACTORS (Total of Lines 8C, 9C, and 10C)..... 11.	■	
12. AVERAGE OF FACTORS (Line 11 divided by applicable number of factors).....12.	■	
13. Enter the amount from Worksheet B, Page 2, Line 4.....13.		
14. Multiply Line 13 times Line 12. Enter here and on Worksheet B, Page 2, Line 5.....14.		

**Allocation versus Apportionment of a Non-resident's Net Profits**

A non-resident individual, partnership, association or other unincorporated entity conducting or carrying on any business, profession, trade, enterprise or other activity is required to pay the Net Profits Tax (NPT) on the entire net profits of the business if **all** activity is conducted within the City of Philadelphia. This is true despite the absence of a Philadelphia office or business location.

Where a non-resident maintains **both** Philadelphia and non-Philadelphia branch offices, the taxpayer **may allocate** net profits between or among the Philadelphia and non-Philadelphia branch locations. The taxpayer must be prepared to show the Revenue Department that each branch office or location is self-sustaining and established. This is a question of fact, depending on the particular circumstances in each case. One factor (of many) used by the Department to support a branch office is the presence of separate branch accounting books and records to support the allocation of the net profits between or among the various branch offices. Absent these separate accounting records, the non-resident taxpayer **must apportion** their net profits using the three-factor apportionment formula. ***Refer to Income Tax Regulation 222 at [www.phila.gov/revenue](http://www.phila.gov/revenue).***

**Note: Taxpayers cannot allocate net income for purposes of the Business Privilege Tax (BPT).**

## Decoupling Federal Bonus Depreciation

### Long Production Period Property & Certain Aircraft IRC §§ 168(k)(2)(B) & 168(k)(2)(C) Property

Generally, qualified property had to be placed in service before January 1, 2005 in order to claim the Federal additional first year depreciation provided by IRC § 168(k). However, as an exception, Long-production-period property [described at IRC§168(k)(2)(B)] and certain aircraft [described at IRC § 168(k)(2)(C)] can be placed in service by January 1, 2006 and still claim the Federal additional first year depreciation. Therefore, taxpayers claiming additional first-year depreciation on their Federal tax return under these IRC provisions will need to decouple for purposes of their 2005 Philadelphia Business Privilege and Net Profits Tax returns.

Pennsylvania's Act 89 of 2002 legislatively ties Philadelphia's decoupling methodology to that used by the Commonwealth of Pennsylvania for Corporation Net Income Tax (CNI) purposes. Therefore, the City of Philadelphia will require the following two (2)-step adjustment for BPT/NPT purposes:

1. The amount of any IRC § 168(k) bonus depreciation for the qualified property must be added back to net income.
2. After the amount of the IRC § 168(k) bonus depreciation is added back, an additional deduction for depreciation is allowed for the qualified property. The additional deduction is equal to 3/7 of the Federal deduction allowed for depreciation of the qualified property (net of the bonus depreciation of IRC § 168(k) for the tax year). In effect, the non-bonus portion of the allowed Federal depreciation is multiplied by 3/7 to arrive at the additional BPT/NPT depreciation.

While Act 89 will normally permit the recovery of the entire amount of the 30% bonus depreciation by the time the property is fully depreciated for Federal tax purposes, an amount of the 50% bonus depreciation will not be recovered. To achieve the full recovery of the entire bonus depreciation, Act 89 permits the continued deduction of any remaining un-recovered bonus depreciation until the total amount has been claimed. In cases where the asset is disposed of prior to the taxpayer recovering the full amount of the disallowed bonus depreciation, the taxpayer may deduct the remaining disallowed bonus depreciation in the year of disposition.