

2004 Business Privilege Tax (EZ and Regular Returns)

Due Date: April 15, 2005

TAKE CREDIT WHERE CREDIT IS DUE

Remember to take credit for any 2004 BPT payments previously made.

- * Did you make an estimated payment for 2004 BPT when you filed the 2003 BPT return?
- * Did you have a credit from overpayment for 2003 BPT that was applied to 2004 BPT?
- * Did you make a payment against the 2004 BPT during the year as a result of a bill?
- * Did you make a 2004 BPT extension payment?

These payments/credits should be totaled and entered on Page 1 or Page 3, Line 6b of the 2004 BPT return. You are entitled to these credits, be sure to use them.

MANDATORY 2005 BPT ESTIMATED TAX PAYMENT

Line references noted below pertain to Page 1 or Page 3 of the 2004 Business Privilege Tax return.

*** If you terminated Philadelphia business activity prior to January 1, 2005, no estimated payment is required.** Place a "zero" on Line 4 of the 2004 BPT return and enter the termination date in the block provided.

*** If you continued business in Philadelphia after January 1, 2005, you are required to make an estimated payment for the 2005 BPT when you file the 2004 BPT return.** This mandatory 100% estimated payment (which is entered on Line 4 of the 2004 BPT return) is an amount equal to the 2004 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 2005 BPT return.



IMPORTANT CHANGE FOR 2004



*** Taxpayers who believe their 2005 BPT liability will be less than their 2004 BPT liability may calculate their own estimated payment. No separate petition is required.** Enter the estimate for 2005 BPT on Line 4 of the 2004 BPT return and pay this amount. **However, if the amount due on the 2005 BPT return is higher than the estimate paid in 2004, you will be billed interest and penalty on the difference.** By paying an estimate less than the 2004 liability, you also waive the right to appeal the accelerated interest and penalty incurred on the estimated payment.

The 2004 BPT return must be filed by April 15, 2005.

BASIS FOR FILING THE 2004 BUSINESS PRIVILEGE TAX RETURN

Calendar year taxpayer:

Receipts and net income from all business activity from January 1, 2004 to December 31, 2004.

Fiscal year taxpayer who started business in Philadelphia prior to 2004:

Receipts and net income from actual business activity in the 12 month fiscal period that ends during calendar year 2004. For example, if the fiscal year ended June 30, 2004 the basis would be the receipts and net income for the period July 1, 2003 through June 30, 2004.

Fiscal year taxpayer who started business in Philadelphia during 2004:

For a taxpayer that filed a federal fiscal year return for a period ending in 2004 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 2004 BPT return. A fiscal year taxpayer whose fiscal year did not end prior to December 31, 2004 would file the 2004 BPT using zero ("0") as the tax base.

TAXPAYERS THAT TERMINATED BUSINESS ACTIVITY DURING 2004

Calendar year taxpayer:

A calendar year taxpayer that terminated business activity in 2004 must file a 2004 BPT return based on the business activity during 2004.

Fiscal year taxpayer:

A fiscal year taxpayer that terminated business activity in 2004 must file a 2004 BPT return based on the business activity from the last 12 month fiscal year ending in 2004 and the business activity from the "short" fiscal year ending on the date of business termination in 2004.

All taxpayers must enter the business termination date on Page 1 or Page 3 of the return.

LOSS CARRY FORWARD

The basis for the loss carry forward to be used, if applicable, on the 2004 BPT return is derived from the figures reported on the 2001, Actual 2002 and 2003 BPT returns. Any loss claimed on the Original 2002 BPT return that was due April 15, 2002 is disregarded.

2004 Business Privilege Tax (EZ and Regular Returns)

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Instruction Sheet	VI: 2004 Business Privilege Tax Extension Worksheet and Coupon and Business Privilege Tax Payment Coupon
Instruction Sheet	VII: Depreciation Decoupling Explanation and Example



Page 1: 2004 Business Privilege - EZ Summary Page

Use when all business is conducted and/or located within Philadelphia

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



Page 3: 2004 Business Privilege Tax Summary Page

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

Page 4: Schedule B - Net Income Based on Federal Taxable Income (Method 2)

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Change Form - Use this form to report changes in mailing address, business entity, or to cancel your tax account completely.

GENERAL INFORMATION

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.

Labels with your tax account number and address of record are included in the tax package mailed to you. Place the label on Page 1 or Page 3 of the return to facilitate proper processing. **Do not make changes to a name or address on the label; use the Change Form. Enter your account number on each schedule.**

Pages 1 and 3 of this booklet 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 will be treated as confidential.

Do not staple or fold the tax return. Do not submit photocopies of the tax return. To obtain additional returns, schedules and instructions, refer to the contact information below.

Coupons -- All payments of tax due with the return are to be made with a payment coupon. Preprinted coupons have been enclosed with the tax booklet(s) mailed to existing business accounts. The blank coupons located in this booklet should only be used if the preprinted coupons are not available.

An **Estimated Payment** of the 2005 Business Privilege Tax is **mandatory**. A coupon to remit any 2004 Business Privilege tax due **and** the estimated 2005 Business Privilege Tax is on Instruction Sheet VI.

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 or call 215-686-6432.

Change Form -- If your business terminated, changed address or entity, use the enclosed Change Form. A single Change Form can be used for all tax types for which you are liable. If there was a change of business entity (e.g., individual proprietorship to corporation) during 2004, you need a new Philadelphia Tax Account Number and Business Privilege License (a \$250 one-time fee). Refer to the contact information below to obtain an application.

Contact Information -- Call 215-686-6600 or send e-mail to revenue@phila.gov. Applications, tax returns, schedules and instructions can be downloaded from our web site at 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 Regulations, is available on our web site.

Federal Tax Return Schedules -- Include **only** appropriate Federal tax return schedules. **Do not submit blank schedules.** Worksheets are to be retained for your records.

Federal Form #1099 -- Copies of Federal Form #1099 should be sent to:

Philadelphia Department of Revenue
Forms Processing Unit
Concourse - Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

There is no transmittal form for filing Form #1099. Employers with 50 or more Federal #1099 forms must file those forms on magnetic media, preferably on a Compact Disc (CD). The record format is the same as transmitted to the Internal Revenue Service.

WHEN AND WHERE TO FILE

2004 Business Privilege Tax and 2004 Net Profits Tax returns are due by April 15, 2005 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 1529
Philadelphia, PA 19105-1529

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

If Net Profits Tax estimated payments are required, there are two payments due. The 1st estimated tax payment is due April 15, 2005 and the 2nd estimated tax payment is due June 15, 2005. **Estimated tax payments are not due on September 15, 2005 or January 15, 2006.**

ACH Debits and Credits are being accepted for payment of Business Privilege and Net Profits Tax. To register for this program, call the Electronic Filing Unit at 215-686-6519 or visit our web site.

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 of your 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 payments; P.O. Box 1660 is only used for tax returns. **All payments should be sent to P.O. Box 1529 as noted above.**

If you maintain a Business Privilege license but did not actively engage in business during 2004, you must complete the Change Form in this booklet and indicate that you are not in business. **Do not file the 2004 Business Privilege or 2004 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 the Net Profits Tax 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. See the computation of interest and penalty chart on Instruction Sheet III.

2004 TAX LIABILITY AND FILING GUIDE

<u>Business Scenarios</u>	<u>Pages to File</u>
Business conducted and located entirely within Philadelphia	Pages 1 and 2 only
<u>Business conducted, and/or located within and outside of Philadelphia</u> (Method II filers - using federal taxable income: see Instruction Sheet IV)	Pages 3, 4, 5 and 6
<u>Business conducted, and/or located within and outside of Philadelphia</u> (Method I filers - using accounting system net income: see Instruction Sheet IV)	Pages 3, 5, 6 and 7
Manufacturers, wholesalers, and/or retailers selecting the alternate method of computing gross receipts must also use Page 8, Schedule E.	

LOSS CARRY FORWARD - ILLUSTRATION and WORKSHEET

BPT Return	Current Year Income (Loss)
2000	(100)
2001	(200)
Actual 2002	(300)
2003	(400)

WORKSHEET

Total losses through 2003	<u>1000</u>	_____
Less: Expired 2000 BPT Loss	<u>100</u>	_____
Accumulated loss carry forward to be applied on the 2004 BPT	<u>900</u>	=====

Enter the loss carry forward on Page 2, Line 3 or Page 4, Line 10 or Page 7, Line 10 as a positive number.

Losses incurred prior to the 2001 tax year cannot be carried forward; **the maximum loss carry forward period is 3 years.**

Any loss claimed on the Original 2002 BPT return that was due April 15, 2002 will be disregarded.

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

COMPUTATION OF INTEREST AND PENALTY

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

NET INCOME INSTRUCTIONS

IRREVOCABLE ELECTION OF "NET INCOME" COMPUTATION METHOD FOR BPT-EZ, PAGE 2, LINES 1 AND 2; BPT SCHEDULE A, PAGE 7, LINE 1, AND BPT SCHEDULE B, PAGE 4, LINE 1.

The taxpayer must elect one of two methods for computing net income on the first Business Privilege Tax return they file. The same method must then be used by the taxpayer in all subsequent years.

**Net Income for Method I and Method II
(See Instruction Sheet VII for Depreciation Decoupling Information)**

Method I. This is the net profit (or loss) from the operation of a business according to the accounting system of the business. It is the net income after provision for all costs and expenses incurred in the conduct of business, but without any deduction for taxes which are themselves based on net income. Taxpayers who elect this method should complete Schedule A, Page 7. BPT EZ filers should use Page 2, Line 2.

Method II. This is the net profit (or loss) properly reported to the Federal Government. Taxpayers who elect this method should complete Schedule B, Page 4. BPT EZ filers should use Page 2, Line 1.

Partnerships, joint ventures, associations, syndicates, pools and "S" Corporations should use ordinary taxable income as reported to the Federal Government on Form 1065 or Form 1120S and modified by the specific adjustments which are outlined in Section 404 of the Business Privilege Tax Regulations.

DEDUCTIBILITY OF TAXES TO COMPUTE THE BUSINESS PRIVILEGE TAX

Method I: Taxpayers electing Method I may not deduct taxes based on Net Income such as Philadelphia Net Profits Tax, other local, state and Federal income taxes, but may deduct the Business Privilege Tax and all other taxes that are considered to be ordinary and necessary business expenses.

Method II: Taxpayers electing Method II may deduct all taxes which are considered ordinary and necessary business expenses in accordance with the Internal Revenue Code.

Taxes which are **not** deductible under Method II include but are not limited to the following:

- 1) For Individuals: Philadelphia Net Profits Tax, and Federal and State Income Taxes. The Philadelphia Net Profits Tax and State Income Tax are personal deductions for individuals under the Internal Revenue Code, not business expenses.
- 2) For Partnerships: Taxes described in Internal Revenue Code Section 901, paid or accrued to foreign countries and to possessions of the United States.
- 3) For Corporations: Corporation Federal Income Tax and (for prior years) excess profits tax.

**APPORTIONMENT OF NET INCOME
PAGE 5, SCHEDULE C-1**

The taxpayer's net income after adjustments and allocation of nonbusiness income is apportioned to Philadelphia on Schedule C-1 through a modified three part formula composed of a property factor, payroll factor and double-weighted receipts factor.

Property Factor (Page 5, Line 8C) - The property factor includes all real and tangible personal property (except coin and currency) owned or rented by the taxpayer which was used or was available for use during the income year in the regular course of business. Property or equipment under construction are not included. However, raw materials and reserve inventories of materials must be included. Property used in connection with the production of nonbusiness income is excluded from the property factor.

Payroll Factor (Page 5, Line 9C) - The payroll factor includes all compensation paid or accrued by the employer in the regular course of business. Such compensation includes wages, salaries, commissions and any benefits which are classified as employee income by the Internal Revenue Code. However, compensation does not include payments to employees in connection with the production of nonbusiness income.

Receipts Factor (Page 5, Line 10C, 10D) - The receipts factor should include all business receipts (as defined in Section 301 of the regulations) received from operations everywhere. Receipts associated with nonbusiness income should not be included.

Averaging of Factors (Page 5, Line 12) - The percentages for the includible factors should be added together and divided by the number of includible factors. The receipts factor will count as two factors. This average is then multiplied by the net income (or loss) after adjustments and allocation of nonbusiness income.

Excludible Factors - If any of the factors has a denominator which is zero, that factor should be omitted from the computation. If the numerator is zero, then the resulting factor is zero and should be included in the computation. It is highly unlikely that Line 8B is zero.

Other Methods of Apportionment - If the apportionment method does not fairly represent the taxpayer's business activity in Philadelphia, the taxpayer may request from the Revenue Commissioner, prior to filing the return, certain variations on the apportionment method. See Section 408 of the Regulations if you feel that the above formula results in an apportionment factor that does not fairly represent your Philadelphia business activity.

APPORTIONMENT FACTOR ILLUSTRATION

Enter apportionment factors for Schedule A, Page 7, Line 6; Schedule B, Page 4, Line 6; and Schedule C-1, Page 5, Lines 8C, 9C, 10C, 10D, 11 and 12 as illustrated below.

100% (Schedule C-1 only) =	1	.	0	0	0	0	0	0
98.7654% =	.	9	8	7	6	5	4	
96.5% =	.	9	6	5	0	0	0	
6.75% =	.	0	6	7	5	0	0	

GROSS RECEIPTS INSTRUCTIONS

DEFINITION OF GROSS RECEIPTS

Schedule D, Page 6, Lines 1 through 3:

Receipts are cash, credits or property of any kind received from conducting business or from the sale of goods or services. The resale of goods received as a trade-in or partial payment for other goods must be included in receipts. No expenses, such as labor or the cost of goods sold, may be deducted when calculating receipts. Insurance companies should consult Sections 301 and 317 of the Regulations for additional information about calculating receipts.

Receipts from the rental or license of tangible personal property are included in the calculation of taxable receipts if the original situs of the property is within the City of Philadelphia and is subsequently delivered to a lessee within the City of Philadelphia. Where the original situs of the property is outside Philadelphia, the receipts are taxable if the tangible personal property is delivered to a lessee within Philadelphia. (Refer to Regulation Section 303.)

Exclusions - Page 6, Lines 5a through 5e:

Several items may be excluded from receipts, such as taxes collected by a business as agent for the Federal, State or City government. (See Section 302 of the Regulations for other items which can be excluded from receipts.)

Information Technology Company

(for 2002 to 2006 Business Privilege Tax returns), Line 5d:

Chapter 19-2600 of the Philadelphia Code has been amended to exclude any receipts from the specific business conducted by an Information Technology Company. An "Information Technology Company" is a business categorized as electronic data processing services, computer system design and related services, computer facilities management services, and on-line information services as set forth in the North American Industry Classification System, 1997 (NAIC) codes. If the largest percentage of a company's total receipts is derived from one or more of these activities, the company is considered to be an "Information Technology Company" for the purpose of this exclusion. See the definitions of "Information Technology Company" and "Receipts" at the Philadelphia Code, Section 19-2601.

RATE OF TAX ON GROSS RECEIPTS

Schedule D, Page 6, Line 9:

The rate for the gross receipts portion of the Business Privilege Tax is **2.1 mills (.0021)**.

ALTERNATE METHODS FOR COMPUTING TAX ON GROSS RECEIPTS

Schedule E, Page 8:

Taxpayers engaged in manufacturing, wholesale and/or retail sales may use Schedule E to employ alternative methods for computing the tax on receipts. Any alternative method selected must be used only on the type of sales to which it applies and must be used for **all** taxable receipts of that type. Also, if the taxpayer elects to use an alternative method, deductions for labor and the cost of goods sold may only be made from receipts of that type.

The amounts of labor and costs of goods deductible from each type of receipts must be calculated by multiplying the percentage of that type of receipt which is taxable by the total cost attributable to that type of receipts. For example, if total sales are \$1,000,000 and taxable wholesale receipts are \$600,000, the portion of the total of \$50,000 of labor attributable to wholesale receipts which can be deducted is \$30,000 ($50,000 \times 600,000/1,000,000$).

"Cost of goods sold" for the manufacturer (Page 8, Line 2) is as defined by the Internal Revenue Code. For the wholesaler (Line 6a) and the retailer (Line 11a), cost of goods sold includes the cost of the goods which were sold, freight charges for delivery to the taxpayer (but not to the customer), direct costs of independent contractors or suppliers to prepare the goods for sale, and the cost of containers which are essential to the use of the goods sold. (See Section 305 of the Regulations.)

"Cost of labor" for the wholesaler (Line 6b) or retailer (Line 11b) includes salaries and most benefits provided to employees who are involved in receiving, storing, shipping, delivering and making the actual sales of the goods, wares, commodities or merchandise. These benefits are outlined in Section 305 of the Regulations.

Alternate Method Rates (other than a Regulated Industry)

Manufacturers. A manufacturer shall at its option be permitted to compute the gross receipts tax on manufacturing sales at the rate of **3.47%** on taxable receipts from manufacturing sales after deducting the applicable cost of goods sold as determined in accordance with the applicable provisions of the Internal Revenue Code and Regulations promulgated thereunder. (Page 8, Line 4)

Wholesalers. A wholesaler shall at its options be permitted to compute the gross receipts tax on wholesale sales at the rate of **4.88%** on taxable receipts from wholesale sales after deducting the cost of goods and the cost of labor applicable to such receipts. (Page 8, Line 9)

Retailers. A retailer shall at its option be permitted to compute the gross receipts tax on retail sales at the rate of **1.16%** on taxable receipts from retail sales after deducting the cost of goods and the cost of labor applicable to such receipts. (Page 8, Line 14)

Extension Worksheet and Coupon - 2004 BPT and BPT-EZ Returns

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. **Retain this worksheet for your records.**

An automatic extension of time for filing the 2004 Business Privilege Tax Return will be granted for 60 days by filing the extension coupon and paying 100% of the estimated tax due. If an extension of time has been obtained from the Internal Revenue Service for filing your corporate, partnership or individual tax returns, the corresponding Business Privilege Tax return is due on or before the due date of the Federal extension(s) or 6/15/2004, whichever is later. **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 Business Privilege Tax, you **must** file the extension coupon indicating "0" tax due.

1. 100% of estimated 2004 Business Privilege tax due.....1.	<input type="text"/>	. 00
2. Mandatory 2005 BPT estimated payment (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 2004 BPT-EZ return, Page 1, Line 6c or the 2004 BPT return, Page 3, Line 6c.....4.	<input type="text"/>	. 00
5. Subtract Line 4 from Line 3. This is the Tax Balance Due to be entered on the Extension Coupon , below. If Line 4 is greater than Line 3, enter "0"5.	<input type="text"/>	. 00

----- DETACH ALONG DOTTED LINE -- RETURN WITH PAYMENT -----

2004 BPT and MANDATORY ESTIMATED 2005 BPT - EXTENSION COUPON

Print name:

Address:

Phone #:

CITY ACCOUNT NUMBER

FEDERAL EIN OR SOCIAL SECURITY #

Tax Balance Due from above Worksheet, Line 5.
 . 00

**Make check payable to:
"City of Philadelphia"**

Due Date: 4/15/2005

**DEPARTMENT OF REVENUE
CITY OF PHILADELPHIA
P.O. BOX 1529
PHILADELPHIA, PA 19105-1529**

If the Tax Balance Due from the above worksheet, Line 5 is "0" (zero), you must file this coupon indicating "0".

Every taxpayer must remit a mandatory 2005 BPT estimated payment by April 15, 2005. Use the coupon below to remit any 2004 Business Privilege tax you owe **and** the 2005 estimated Business Privilege Tax.

----- DETACH ALONG DOTTED LINE -- RETURN WITH PAYMENT -----

2004 BPT and MANDATORY ESTIMATED 2005 BPT - PAYMENT COUPON

Print name:

Address:

Phone #:

CITY ACCOUNT NUMBER

FEDERAL EIN OR SOCIAL SECURITY #

Total Due (From Page 1 or 3, Line 9)
 . 00

**Make check payable to:
"City of Philadelphia"**

Due Date: 4/15/2005

**DEPARTMENT OF REVENUE
CITY OF PHILADELPHIA
P.O. BOX 1529
PHILADELPHIA, PA 19105-1529**

Decoupling Federal Bonus Depreciation

Policy Update - Jobs & Growth Reconciliation Act of 2003

The Federal **Jobs and Growth Reconciliation Act of 2003** increased the Federal additional first-year bonus depreciation allowance to fifty percent (50%) from thirty (30%) for property acquired after May 5, 2003 and placed in service before January 1, 2005. The Department of Revenue has received several inquiries concerning what effect the Federal change will have on the calculation of the City of Philadelphia's Business Privilege Tax (BPT) and Net Profits Tax (NPT).

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 CNI/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. The Commonwealth of Pennsylvania has stated that ***"taxpayers will be allowed to deduct any remaining unrecovered amount in the last taxable year that the property is depreciated for federal tax purposes"***. 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. **(Refer to the Pennsylvania DOR policy at www.revenue.pa.us/revenue).**

Example for Decoupling Federal Bonus Depreciation

A calendar year taxpayer acquires a MACRS five (5) year property with an original cost basis of \$100,000 on October 1, 2004. The allowable **Federal** depreciation on the asset (assuming the 200% declining-balance method and the mid-quarter convention) for calendar tax year 2004 is as follows:

Bonus Depreciation (\$100,000 x .50)	\$50,000
Annual Depreciation (\$100,000 - 50,000) x 40% x 12.5%	\$2,500
(A) Total Federal Depreciation	\$52,500

Required BPT/NPT Adjustment to Taxable Net Income

<u>Step 1</u> - Add back the Bonus Depreciation taken	\$50,000
<u>Step 2</u> - Calculate the BPT/NPT additional depreciation (Total Federal Depreciation - Bonus Depreciation) x 3/7 (\$52,500 - 50,000) x 3/7 =	<\$1,071>
(B) Add back to Federal Taxable Income	\$48,929
(C) Philadelphia BPT/NPT Depreciation (Line (A) - Line (B))	\$3,571

2004 Business Privilege Tax / 2004 Net Profits Tax Bonus Depreciation Adjustment Worksheet

1. Net Income as properly reported to the Internal Revenue Service on Form #1120, 1120S, 1065 or Schedule C (Method II) or in accordance with your Accounting System (Method I), whichever is applicable.....1.		
2. Add back the Federal Bonus Depreciation taken.....2.		
3. Calculate the BPT/NPT additional depreciation (Total Federal Depreciation - Bonus Depreciation) x 3/7.....3.		
4. Line 1 plus Line 2 minus Line 3. This is the Adjusted Net Income to be reported on the 2004 Business Privilege Tax return, Page 2, Lines 1 or 2, or Page 4, Line 1, or Page 7, Line 1 and the 2004 Net Profits Tax, Page 2, Worksheet A and/or Worksheet B, Line 1.....4.		