

## Income/Franchise:

### Pennsylvania DOR Explains “Split Factor” Apportionment Methodology under Corporate Net Income Tax

*Corporation Tax Bulletin 2022-01*, Penn. Dept. of Rev. (2/17/22). The Pennsylvania Department of Revenue (Department) issued a bulletin providing guidance on the proper apportionment of income by a Pennsylvania corporate net income tax (CNIT) taxpayer involved in both an activity subject to one or more of Pennsylvania’s special industry apportionment formulas under 72 P.S. section 7401(3)2.(b)-(e), as well as separate activities subject to Pennsylvania’s standard single sales factor apportionment under 72 P.S. section 7401(3)2.(a)(15)-(17). Citing a case from 1997, the Department explains that it has consistently applied the “split factor methodology” adopted by that court to similarly situated taxpayers engaged in multiple activities and that application of such approach involves the following steps:

**URL:** [https://www.revenue.pa.gov/TaxLawPoliciesBulletinsNotices/TaxBulletins/CT/Documents/ct\\_bulletin\\_2022\\_01.pdf](https://www.revenue.pa.gov/TaxLawPoliciesBulletinsNotices/TaxBulletins/CT/Documents/ct_bulletin_2022_01.pdf)

1. Calculate the income or loss to be apportioned (currently reported as line 6 of Section B of the Form RCT-101); in accordance with the unitary business concept, this is one amount encompassing all of the activities engaged in by the taxpayer;
2. Determine the entity’s total gross receipts from all activities;
3. Determine the gross receipts from special apportionment activities;
4. Subtract the amount from Step 3 from the amount in Step 2 to determine the gross receipts from standard apportionment activities;
5. Calculate the percentage of gross receipts applicable to each activity by separately dividing the amounts from Step 3 and Step 4 by the amount determined in Step 2;
6. Multiply each of the percentages from Step 5 by the income or loss to be apportioned from Step 1;
7. Apply the standard apportionment formula to the amount of income or loss determined in Step 6 to be subject to standard apportionment;
8. Apply the applicable special apportionment formula to the amount of income or loss determined in Step 6 to be subject to special apportionment;
9. Add the results of Steps 7 and 8 together;
10. Add any nonbusiness income or loss allocated to Pennsylvania to the amount determined in Step 9;
11. If the taxpayer has positive income in Step 10, deduct available Pennsylvania net losses (subject to applicable limitations); and
12. Apply the CNIT rate to the amount determined in Step 11.

Please contact us with any questions.

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