

# Pennsylvania Tax Update

NUMBER 116 • AUGUST/SEPTEMBER 2005



THE TAX UPDATE IS A  
BI-MONTHLY E-NEWSLETTER

PUBLISHED BY THE  
PENNSYLVANIA  
DEPARTMENT  
OF REVENUE

**GREGORY C. FAJT**  
SECRETARY OF REVENUE  
**EDWARD G. RENDELL**  
GOVERNOR



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## FAST FACT:

*More than 25 percent of the businesses that will be required to file Employer Withholding Tax returns electronically in 2006 are already registered with the e-TIDES Internet filing system.*

VISIT OUR WEB SITE AT:  
[www.revenue.state.pa.us](http://www.revenue.state.pa.us)

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## PAPERLESS EMPLOYER WITHHOLDING TAX TRANSITION

The Department of Revenue continues to prepare for the elimination of the paper coupon system for filing **Employer Withholding Tax** returns in 2006. Beginning in September, the Department will notify employers individually that they will be expected to file their returns electronically.

All employers are currently able to file and pay Employer Withholding Taxes by using the Internet based e-TIDES system at [www.etides.state.pa.us](http://www.etides.state.pa.us), or by calling the Department's Business Tax TeleFile system at 1-800-748-8299. Both systems are free, easy to use, fast and safe. Third-party computer software will be available in 2006. A list of vendors will be posted on the Department's Web site [www.revenue.state.pa.us](http://www.revenue.state.pa.us) once they are approved.

The Department encourages employers to begin the transition now. As of Sept. 6, more than 84,500 businesses, or about 25 percent of the total required to file Employer Withholding Tax returns, are already registered with the e-TIDES Internet filing system.

Unlike e-TIDES, no registration is required to use TeleFile. All you need to file or pay Employer Withholding Taxes using TeleFile is:

- Your 8-digit Employer Account Identification Number.
- Your 9-digit Entity Identification Number, which is either, your federal Employer Identification Number, your Social Security Number or a temporary number assigned by the Department. To verify your Entity Identification Number, contact the e-Business Center at (717) 783-6277.

- The ending date of the period, and
- Your banking routing number, account number and account type (checking or savings). ACH Debit is the only Electronic Funds Transfer method available on TeleFile.

To file your quarterly Employer Quarterly return, you will need:

- The amount of Personal Income Tax withheld for the period, whether quarterly, monthly or semimonthly. You should report the amount actually withheld, not the amount remitted.
- The total amount of compensation subject to PA withholding tax for the reporting quarter.
- The total amount of PA withholding tax required to be withheld (or actually withheld, if higher) for the reporting quarter.
- The amount of withholding tax paid to the PA Department of Revenue for the reporting quarter.

The Department accepts electronic payments by way of ACH debit, ACH credit and credit cards; however, taxpayers will continue to have the option of making their payments by check. Remitting payments electronically is mandatory for payments over \$20,000 and voluntary for payments under \$20,000.

If you have any questions about electronic filing, visit the Online Customer Service Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) or call the Department's e-Business Services unit at (717) 783-6277 between the hours of 8 a.m. and 5 p.m., Monday through Friday.

### SALES TAX BULLETIN

#### *State Taxation of Telecommunications Services*

The Department will be issuing a **Sales Tax Bulletin** in conjunction with proposed amendments to Statement of Policy, 61 Pa. Code 60.20. It reflects the recently enacted federal law affecting state taxation of telecommunications services known as the Internet Tax Nondiscrimination Act and the Mobile Telecommunications Sourcing Act.

In response to numerous inquiries regarding enhanced telecommunications services, the Bulletin provides a list of examples for both enhanced and non-enhanced telecommunication services in order to clarify any confusion that exists.



## STATE OFFICIALS INFORM RESIDENTS ON GOVERNOR RENDELL'S FALL AGENDA

Revenue Secretary Greg Fajt and other members of Governor Edward G. Rendell's Cabinet are visiting Pennsylvania communities to help educate the public on elements of the **Governor's fall agenda**, including property tax relief for all homeowners and increasing the income of more than 250,000 Pennsylvanians.

On Sept. 12, Governor Rendell laid out five major proposals that he said need urgent action this fall. They are:

- Property tax relief to every homeowner in every school district;
- Raising the incomes of the 254,000 lowest paid workers in the state;
- Moving the economy forward by passing the Redevelopment Assistance Capital Program Bill, so the state can continue to invest in economic and community development projects;
- Financial relief to National Guard members and veterans; and
- Protection for children and communities from sex offenders and drug dealers.

### PROPERTY TAX RELIEF

"People are waiting and watching and they need property tax relief now," Governor Rendell said. "It is urgent that the General Assembly pass legislation to ensure that every homeowner gets tax relief."

The Governor said his simple proposal for property tax relief still remains viable -- legalize limited slots gaming and use state funds generated from gaming to cut property taxes. However, the legislation on property tax relief - Act 72 -- must be amended to remove language that gave the school districts the power to decide if their homeowners would get property tax relief. The Governor also wants to eliminate Act 72's mandatory Earned Income Tax hike.

### RAISING INCOMES

The Governor proposed raising the state's minimum wage to \$6.25 an hour by January 2006, and to \$7.15 an hour by January 2007.

"We have not raised the minimum wage in this country in eight years and everyone knows and has seen other increases -- business profits have risen, worker productivity has increased, and the cost of food, clothing and basic necessities along with fuel prices, have climbed," Governor Rendell said.

Since 1997 17 states, plus the District of Columbia, have increased their minimum wage to above \$5.15 an hour. Some critics suggest that raising the minimum wage will hurt Pennsylvania's economy. The facts simply don't support these assertions. Many studies have shown no significant relationship between minimum wage rate increases and an increase in business failures.

*Continued on page 3*

## COMMONWEALTH CAUCUS PLAN FALLS \$4.4 BILLION SHORT

### *Revenue Secretary Fajt Says Plan is Unworkable and Unwise*

In an attempt to eliminate local school property taxes and other local nuisance taxes, the Commonwealth Caucus, a group of state legislators, has proposed to lower the state's sales tax to 5 percent, but expand it to goods and services currently exempt from tax. The plan also triples the state's **realty transfer tax** from 1 percent to 3 percent. While the goal of eliminating school taxes is commendable, the Department of Revenue's research and analysis does not find this plan to be a feasible way to accomplish that goal.

The Department's analysis of the legislation has determined that it would collect about \$5.6 billion in new taxes in FY 2006-07. Because school property and Act 511 taxes raise approximately \$10 billion annually, the plan would fall \$4.4 billion short.

Revenue Secretary Greg Fajt feels that the plan is both unworkable and unwise. It would impose new taxes on food, clothing and footwear, electricity, water, fuel oil and gas, flags, caskets, newspapers and magazines, non-prescription drugs, textbooks, school buses, stair lift devices, college tuition and a broad range of services. Those taxes would disproportionately impact lower income Pennsylvanians and impose a huge, and enormously complicated, tax increase on the business community.

The complete **analysis of HB 1920, PN 2521** with a letter from Secretary Fajt is posted on the Department's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

STATE OFFICIALS INFORM RESIDENTS ON GOVERNOR RENDELL'S FALL AGENDA - *Continued from page 2*

## FINANCIAL RELIEF FOR NATIONAL GUARD MEMBERS

The Governor said various elements of legislation he **proposed last April** have not been enacted, and further action is needed "to address the real needs of our active duty guard and their families."

One of the elements that has been approved was a state income tax check-off, called the Military Family Relief Assistance Program, to help military families who suffer from a sudden or unexpected loss in income. Taxpayers will be able to donate all or a portion of their state personal income tax return to the fund when they file their 2005 state income tax return.

The remaining elements include:

- Critical financial resources to the families of deployed soldiers;
- Emergency assistance and support for families who lose family members in the war;
- College access for surviving spouses and deferments of student loans for deployed soldiers;
- Priority access to state-funded child care and job training programs;

- Tax benefits for disabled veterans and deployed soldiers; and
- Incentives to employers of deployed soldiers.

Current law exempts active duty military pay earned outside the Commonwealth from state income tax and active duty military pay from local earned income taxes. State active duty pay is not exempt from state income taxes, and its status for local earned income tax purposes (which uses the phrase "active military service" in the statute) is not clear.

Governor Rendell supports an initiative to exempt all military pay and allowances earned by Pennsylvania National Guard personnel performing state active duty from state and local income taxes.

Governor Rendell also supports a 20 percent state business tax credit for employers that provide compensation to deployed soldiers and airmen. When employers pay the difference between a soldier's civilian and military pay, they should be recognized for their support.

## "KICK OFF" OF THE USE TAX COMPLIANCE PROGRAM

On Aug. 29, 2005, the Department of Revenue began the outreach and education phase of the Use Tax Compliance Program. During this phase, meetings will be held with various professional and business associations to discuss the Use Tax Compliance Program plans, and to solicit input from these associations on how to best communicate the voluntary compliance message to their business members. During this phase, the Department will also send information packets to businesses, explaining the Use Tax and steps to be taken by taxpayers to assure their compliance.

As previously reported, the Department is initiating a focused, proactive campaign to increase business taxpayers' awareness of reporting and paying PA Use Tax. The goal of the program is to stimulate **voluntary compliance**.

Use Tax is the companion tax to Sales Tax, and is owed when Sales Tax has not been charged on a taxable purchase or service. Many business owners are not aware that Use Tax may be due when purchases are made from an out-of-state business not registered to collect and remit Pennsylvania Sales Tax.

Without Use Tax compliance, Pennsylvania-based businesses face a competitive disadvantage to out-of-state businesses. As Pennsylvania customers increasingly purchase items from out-of-state businesses, either over the Internet or through other mail order operations, the Department must ensure that the appropriate taxes are collected.

Businesses that have a Pennsylvania Sales Tax License should report and remit Use Tax along with their Sales Tax returns. The **PA-1 Use Tax Return** may be printed and used by taxpayers who do not have a Sales Tax License.

At the conclusion of the education and outreach programs, the Department will move to an enforcement phase. Taxpayers who wish to voluntarily disclose and pay delinquent Use Tax may do so by contacting the Department at (717) 214-7287, option 1.

The Department has added **Use Tax** information, specific to businesses, to its Web site including a new brochure, **Use Tax for Businesses (REV-935)**.

### REVENUE DEPARTMENT EXTENDS STATE TAX DEADLINES FOR TAXPAYERS IMPACTED BY HURRICANE KATRINA

The PA Department of Revenue will extend filing and payment deadlines for business and individual taxpayers directly impacted by Hurricane Katrina.

In general, Pennsylvania will follow Internal Revenue Service rules outlined in a news release (IR-2005-91) that extended federal tax deadlines. Secretary Fajt urges business and individual taxpayers to contact the state Department of Revenue if they are unable to file returns or make payments due to Hurricane Katrina. Business taxpayers should call 717-787-1064; individual taxpayers should call 717-787-8201. Taxpayers may also contact the Department through its Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

“Hurricane Katrina destroyed more than property,” Fajt said. “In some cases it also destroyed the records businesses and individuals need to prepare and file their tax returns.

“We will work with taxpayers on a case by case basis to ensure that they are given the time they need to complete their Pennsylvania tax returns.”

### MOTOR FUEL TAXES HOST NATIONAL TRAINING PROGRAM

The Department of Revenue’s Motor Fuel Taxes hosted a national training program for the EXTOLE (Excise Tax Online Exchange) system, which is an electronic system for tracking the movement of fuel.

The EXTOLE system was designed by the Federation of Tax Administrators (FTA) and built by the IRS in 2001. It gives the ability to communicate electronically via a clearinghouse. Queries such as license information, fuel diversions, suspect truck activities as well as contact lists and various other fuel accountability and compliance tools are available.



*Executive Deputy Secretary Eileen McNulty addresses attendees at the Motor Fuel Taxes EXTOLE training session on Aug. 31 in Harrisburg*

As of 2005, less than 10 percent of the states use the EXTOLE system due to a knowledge gap. Earl “Jack” Crago, III, Director, Motor Fuel Taxes approached the FTA about this knowledge gap and offered to host a national training program.

There were two training sessions, lasting two days each. Each session consisted of classroom training and hands-on data input and exchange. States participating in this training were Pennsylvania, North Dakota, Maryland, Rhode Island, Connecticut, Indiana, New Mexico and Arizona. Mike Dougherty and Debbie Barrett from Maryland were the trainers. FTA Motor Fuel National Representative Cindy Anders was the training coordinator and was on-site.

## 2005 FALL TAX SEMINARS SCHEDULE

SPONSOR	DAY	DATE	CONTACT	SEMINAR LOCATION
<b>Duquesne University</b> School of Bus. and Admin. 701 Rockwell Hall Pittsburgh, PA 15282	Tuesday	10-04-2005	<b>Elaine Franks</b> (412) 396-1642	<b>Duquesne Union Hall</b> Duquesne University Campus Pittsburgh, PA 15282
<b>Alvernia College</b> 400 Saint Bernardine Street Reading, PA 19603	Tuesday	10-11-2005	<b>Alan D. Ross, CPA</b> (610) 372-9911	<b>Alvernia College</b> Student Center 400 Saint Bernardine Street Reading, PA 19603
<b>PA Department of Revenue</b> <i>(Limited to Government Employees)</i>	Monday	10-17-2005	<b>Richard Santo</b> (717) 787-8346	<b>The State Museum of PA</b> Auditorium Third and North Streets Harrisburg, PA 17120
<b>Harrisburg Area Community College</b> One HACC Drive Harrisburg, PA 17110	Thursday	11- 03-2005	<b>Non-Credit Registration</b> (717) 780-2414	<b>Wildwood Conference Center</b> Harrisburg Area Community College One HACC Drive Harrisburg, PA 17110
<b>Wilkes University</b> <b>Continuing Education Dept.</b> 215 South Franklin Street Wilkes-Barre, PA 18766	Thursday	11-10-2005	<b>Margaret Steele</b> (570) 408-4462	<b>The Woodlands Inn and Resort</b> Highway 315 Wilkes-Barre, PA 18766
<b>Neumann College</b> Continuing Education Dept. 1 Neumann Drive Aston, PA 19014	Thursday	11-17-2005	<b>Lois Ritacco</b> (610) 558-5629	<b>Neumann College</b> Life Conference Center Aston, PA 19014
<b>Penn State University</b> <b>Ogontz Campus</b> 1600 Wood Land Road Abington, PA 19001	Thursday	12-15-2005	<b>Theresa Bloom</b> (215) 881-7402	<b>Holiday Inn, Select</b> 4700 Street Road Trevos, PA 19053

## 2005 FALL TAX SEMINAR AGENDA

*See page 5 for Seminar Schedule Dates*

TIME	TOPIC	PRESENTER
8:30 - 9:30 AM	<b>PERSONAL INCOME TAX UPDATES</b> <ul style="list-style-type: none"> <li>&gt; Schedule G Changes</li> <li>&gt; PA Legislative Changes</li> <li>&gt; Federal Tax Law Changes Applicability to PA</li> <li>&gt; PA Forms Changes and New PA Forms</li> </ul>	<i>David Braden, CPA</i> Bureau of Individual Taxes
9:30 - 10:15 AM	<b>PASS THROUGH BUSINESS</b> <ul style="list-style-type: none"> <li>&gt; Trusts</li> <li>&gt; Common Errors Found on Pass-Through Returns</li> </ul>	<i>Regis Egan</i> Pass Through Business Office
<i>10:15 - 10:30 AM Break</i>		
10:30 - 11:00 AM	<b>USE TAX VOLUNTARY COMPLIANCE PROGRAM</b>	<i>Kevin Milligan</i> Enforcement, Planning, Analysis, and Discovery
11:00 - 11:45 AM	<b>SALES AND USE TAX – “BE A SALES TAX SURVIVOR”</b> <ul style="list-style-type: none"> <li>&gt; Sales Bulletins and Letter Rulings Topics</li> <li>Issues in Litigation</li> </ul>	<i>Attorneys Marianne Rempe,                      Jeffery Snavelly, Dean Picarella</i> Office of Chief Counsel
11:45 - NOON	<b>QUESTIONS AND ANSWERS</b>	
<i>Noon - 1:00 PM Lunch</i>		
1:00 - 2:00 PM	<b>CORPORATION TAXES UPDATES</b> <ul style="list-style-type: none"> <li>&gt; Limited Liability Companies</li> <li>&gt; Bonus Depreciation</li> <li>&gt; Qualified Sub Chapter S Subsidiaries</li> <li>&gt; Legislative Updates</li> </ul>	<i>Jeffrey A. Creveling,                      Joseph Clover, Cathy Benson</i> Bureau of Corporation Taxes
2:00 - 3:00 PM	<b>INHERITANCE TAX AND ESTATE TAX UPDATE</b> <ul style="list-style-type: none"> <li>&gt; Updates in the Law</li> <li>&gt; Electronic Initiatives</li> <li>&gt; Inheritance Tax Refresher</li> </ul>	<i>Shawn E. Young</i> Bureau of Collections and Taxpayer Services <i>Holly McClintock</i> Bureau of Individual Taxes
<i>3:00- 3:15 PM Break</i>		
3:15 - 4:15 PM	<b>UNEMPLOYMENT COMPENSATION TAX UPDATES (LABOR AND INDUSTRY)</b>	<i>Timothy McGarvey,                      Jim Diffendal, Paul Bowes</i> Labor and Industry
4:15 - 4:30 PM	<b>QUESTIONS AND ANSWERS</b>	

*In compliance with the Americans with Disabilities Act, the Department will make every effort to provide an alternative format for persons with disabilities .*