



Pennsylvania Tax Update

www.revenue.state.pa.us

GOVERNOR RENDELL'S PLAN FOR A NEW PENNSYLVANIA

On March 25, Governor Ed Rendell unveiled his *Plan for a New Pennsylvania* – a proposal to create jobs, improve public schools and lower property taxes. With historically high unemployment, stagnant business development, failing schools and an aging population, Pennsylvania needs to act now.

The three key components to the Governor's Plan are:

1. Economic Stimulus

The Plan will help create jobs by investing almost \$2 billion in bonds and loan guarantees to leverage an additional \$5 billion in private investment. It will provide venture capital to start-up businesses, business tax credits, low-interest loan financing to support the tourism and agriculture industries and matching grants to municipalities for Main Street, Elm Street and redevelopment projects. It will also create Keystone Innovation Zones to encourage innovation around colleges and universities. This unprecedented program will encourage economic development across the state, particularly in small and medium-sized communities.

2. Property Tax Relief

School property taxes in Pennsylvania have increased by an average of 55 percent over the past 10 years, and have

become a crushing burden for seniors and others with limited incomes. The *Plan for a New Pennsylvania* will lower school property taxes by an average of 30 percent across the state and return \$1.5 billion to taxpayers in fiscal year 03-04.

3. Improving Public Education

The Plan will invest \$3.25 billion over three years in educational programs that have been proven to increase student achievement. School districts will receive state funding for full-day kindergarten, smaller class sizes in early grades and tutoring for struggling students. Less wealthy districts will also receive funding for pre-kindergarten programs, increased staff development to help teachers boost student performance, math and reading coaches and family resource networks. All districts will be accountable for their programs and performance.

There are five basic funding principles for this plan: raise as much as possible from voluntary sources; ensure that all taxpayers who will benefit from the plan contribute equitably; ensure that the tax structure remains competitive with other states; maintain Pennsylvania's national standing for low Personal Income Taxes; and close business tax loopholes to level the playing field. We pay for

Continued on page 2

RECORD NUMBER OF TAXPAYERS FILE STATE INCOME TAX RETURNS ELECTRONICALLY

A record number of Pennsylvania taxpayers filed their 2002 state Personal Income Tax returns electronically, saving an estimated \$2.8 million.

About 2 million taxpayers filed their 2002 state returns electronically, up 31 percent from 2001. Electronically filed returns represent about 35% of all tax returns. An electronically filed tax return costs the Department of Revenue about \$2.05 to process, compared with \$3.45 for a paper return, a savings of \$1.40 per return. The Department estimates that it avoided costs of almost \$2.8 million this tax season.

Electronic returns filed using pa.direct.file, the free Internet filing option, grew 16 percent to 213,971 from the previous 2001 tax season. Returns filed through TeleFile, the free telephone filing option, grew 65 percent to 432,911, and returns using PA/IRS e-file, the joint federal/state filing option available through tax preparers and authorized software, grew 25 percent to 1,311,430.

Fast Fact:
Electronically filed returns cost \$2.05 apiece to process, compared with \$3.45 for paper returns

THE TAX UPDATE IS A

BI-MONTHLY NEWSLETTER

PUBLISHED BY THE

PENNSYLVANIA DEPARTMENT

OF REVENUE

GREGORY C. FAJT

SECRETARY OF REVENUE

(717) 787-6960

Governor's Plan. *Continued from page 1*

the Plan by cutting government waste, allowing slot machines at racetracks, increasing the beer tax (for the first time since 1947), imposing driver violation surcharges and increasing the state Personal Income Tax by 0.95 percentage points. (*The Governor has stated that he will veto any tax increase that does not include a decrease in property taxes.*) At a time when many other states are raising taxes by much larger amounts just to maintain the status quo, Pennsylvania would use modest

tax increases and new revenue sources to invest in dramatic change.

Visit www.planforanewpa.com for more information and use the Online Calculator to see how the Plan will benefit you and your community. If you agree that Pennsylvania needs a Plan to create jobs, lower property taxes and improve public schools, please tell your state Representative and Senator that you support Gov. Rendell's Plan for a New Pennsylvania.

REVENUE FUNDING CHART

Proposed Sources and Uses of Funds (\$ millions)	FY 2003-04	FY 2004-05	FY 2005-06
GENERAL FUND - SOURCES			
<i>Personal Income Tax</i>	\$2,247	\$2,562	\$2,688
Revise rate to 3.75% effective 7/1/03			
**Expand the PIT Tax Forgiveness Program			
<i>Close Corporate Net Income Tax (CNI) Loopholes</i>	\$106	\$111	\$111
Restrict deductibility of related party intangible/interest expenses			
Withhold pass-through tax for non-resident owners			
<i>Corporate Net Income Tax (CNI) - Restructuring/Base Broadening</i>		\$175	\$250
Total Sources - General Fund	\$2,353	\$2,848	\$3,049
GENERAL FUND - USES			
<i>Replacement Revenue</i>	\$704	\$739	\$776
More Effective Schools:			
Increase Basic Education Subsidy 2.5%	\$102	\$105	\$107
Increase Special Ed and Vocational Ed Subsidies 2.5%	\$25	\$26	\$27
New Investments in Educational Achievement	\$559	\$1,042	\$1,253
<i>More Effective Schools - Total</i>	\$687	\$1,173	\$1,387
Economic Stimulus for Pennsylvania:			
*Corporate Net Income Tax (CNI) Rate Reduction		\$200	\$300
*Capital Stock & Franchise Tax (CSFT) Rate Reduction	\$9	\$55	\$121
Debt Service - Economic Stimulus Program	\$12	\$35	\$65
Expansion of R&D Tax Credits	\$30	\$45	\$45
<i>Economic Stimulus - Total</i>	\$51	\$335	\$531
Total Uses - General Fund	\$1,441	\$2,247	\$2,694
Transfer to the Property Tax Relief Trust Fund	\$911	\$601	\$355

* Subject to the recommendations of the Governor's Business Tax Reform Commission.

** Assumes the income eligibility limit for full tax forgiveness under the state's special tax provisions would increase from \$9,000 per dependent to \$9,500 per dependent. A qualifying family of four with two claimants and two dependents will owe no tax on taxable income up to \$32,000, for a savings of \$1,200.

Tax Update

Governor's Plan. Continued from page 1

PROPERTY TAX RELIEF TRUST FUND - SOURCES			
Transfer from the General Fund	\$911	\$601	\$355
Telecomm Tax Restructuring	\$212	\$298	\$327
Impose PA Gross Receipts Tax on cellular telecom 1/1/04			
Modernize GRT to include interstate calls 1/1/04			
Exempt cellular telecom equipment from PA Sales & Use Tax 7/1/03			
Slot Machines at Racetracks	\$300	\$526	\$789
Malt Beverage Tax @ \$.25/gal. (\$.17/gal. increase)	\$50	\$55	\$55
Driver Violation Surcharge	\$64	\$103	\$103
Total Sources - Property Tax Relief Trust Fund	\$1,538	\$1,583	\$1,629
PROPERTY TAX RELIEF TRUST FUND - USES			
Property Tax Relief	\$1,527	\$1,573	\$1,618
Administration of Property Tax Relief Program	\$10	\$10	\$11
Total Uses - Property Tax Relief Trust Fund	\$1,537	\$1,583	\$1,629

Tax Update

PARTNERSHIP AND PA S CORPORATION WITHHOLDING REQUIREMENTS FROM NONRESIDENT SHAREHOLDERS AND PARTNERS

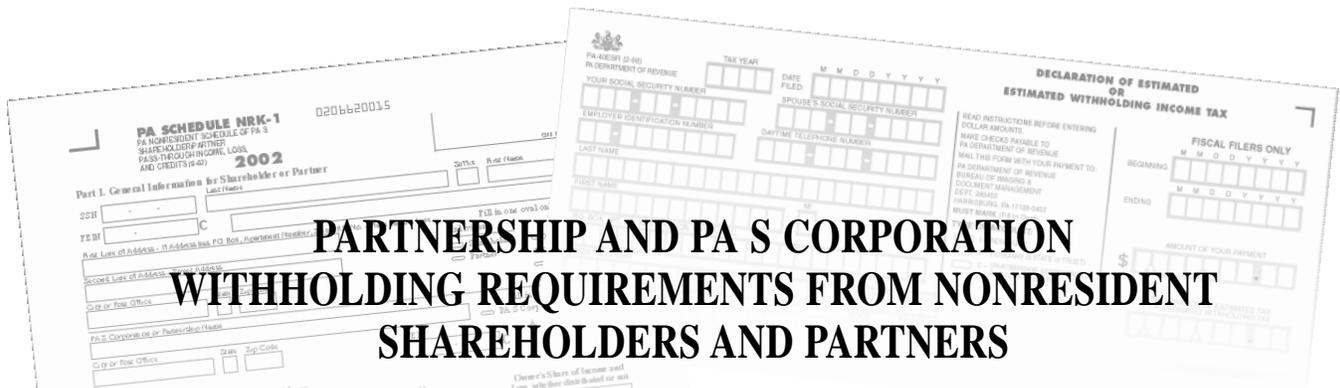
The Department of Revenue provides instructions and a worksheet to determine the correct amount of nonresident withholding tax. These forms are: Instructions for Withholding PA Personal Income Tax from Nonresident Members and Shareholders by Partnerships, Associations, and PA S Corporations (REV-414P/S); Partnerships and PA S Corporations Withholding Tax Worksheet (REV-413P/S); and Declaration of Estimated or Estimated Withholding Income Tax for Fiduciary & Partnerships (PA-40ESR).

Section 324 of the Tax Reform Code of 1971 requires that partnerships and PA S Corporations with income sources in Pennsylvania and partners and shareholders that are not residents of Pennsylvania pay a withholding tax on the income allocable to the nonresident member.

Each partnership and PA S Corporation must provide nonresident partners and shareholders with a PA Schedule NRK-1 showing the amount of tax withheld on the member's behalf. The Department will credit the nonresident with the amount of tax properly withheld.

The law gives the Department the authority to impose penalties for failure to comply with the nonresident withholding requirements. If a partnership, association or PA S Corporation fails to pay withholding tax as prescribed and thereafter such tax is paid, the partnership, association or PA S Corporation shall not be relieved of the liability for any penalty or interest as a result of failure to properly withhold such tax.

All necessary information can be found in the instructions in the above-mentioned forms or our Web site www.revenue.state.pa.us.



PRE-BUILT HOUSING SALES TAX BULLETIN

The Department of Revenue issued a bulletin that explains the application of the Sales and Use Tax to pre-built housing in the state.

Under this bulletin, the builder of a pre-built house is required to pay tax on the purchase price of pre-built housing sold within the Commonwealth, if the builder has not paid the applicable tax to the manufacturer. Although the law requires the builder to pay tax directly to the Department of Revenue, it also allows the manufacturer the option to collect the tax from the builder at the time of the purchase.

If the manufacturer elects to collect the tax, he/she is required to use one of the following to establish the purchase price: (1) Sixty percent of the manufacturer's selling price; (2) One hundred percent of the manufacturer's cost of materials and equipment incorporated into or as a component of the housing.

Previously, when purchasing a pre-built house, the sales tax was added to the price of the completed product. This change makes the taxation of pre-built houses comparable with that of a house built on a lot, where price applicable to sales tax is determined by the cost of the materials and equipment.

For more detailed information, please visit the Department's Web site at www.revenue.state.pa.us.

DELINQUENT BUSINESS TAXES NOW PAYABLE BY CREDIT CARD

Businesses can now make delinquent tax payments, along with current Sales and Use Tax and Employer Withholding Tax payments via the Internet at www.officialpayments.com or over the telephone at 1-800-2PAY-TAX (1-800-272-9829) with a credit card. Taxpayers can also access this payment option by going to the Department of Revenue's Web site at www.revenue.state.pa.us. Individuals can use a credit card to make current year balance due payments, delinquent payments, quarterly estimated payments and

extension payments. Credit card payments are credited to your account on the day of the transaction, so taxpayers can avoid late payment penalties.

Official Payments Corporation is the vendor responsible for processing credit card payments for the Department of Revenue. A 2.5 percent convenience fee, based on the tax due, is charged by the vendor to process the transaction. Visa, MasterCard, American Express and Discover cards are accepted.



Cards

PRESORTED FIRST
CLASS MAIL
U.S. POSTAGE PAID
DEPARTMENT OF
COMMONWEALTH
OF PENNSYLVANIA
REVENUE

Tax Update
Pennsylvania
DEPARTMENT OF REVENUE
PRESS OFFICE
1131 STRAWBERRY SQUARE
HARRISBURG, PA 17128-1100