

Tax Update

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FAST FACT:

Under Governor Rendell's business tax reform proposal, the CNI Tax rate will drop from 9.99 percent to 7.90 percent, the lowest CNI rate in 36 years.

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www.revenue.state.pa.us

PA CORPORATE TAX RATE TO DROP TO 7.90% UNDER THE GOVERNOR'S BUSINESS TAX REFORM PROPOSAL

Secretary of Revenue Gregory Fajt has recommended an additional reduction to the Corporate Net Income (CNI) Tax rate, which is part of Governor Rendell's business tax reform proposal. The proposal will lower the CNI Tax rate from 9.99 percent to 7.90 percent, the lowest CNI rate in 36 years.

Governor Rendell has submitted legislation to the General Assembly that would implement his business tax reform proposal. The legislation would reduce the CNI Tax rate to 7.90 percent and move Pennsylvania from having the third highest corporate tax rate in the nation to the 18th highest. Compared to surrounding states, Pennsylvania would move from having the highest CNI Tax rate to the third lowest. Overall, the proposed changes would improve the Commonwealth's business tax climate and make it more competitive with other states, especially its surrounding states.

Governor Rendell created the bi-partisan Business Tax Reform Commission to develop a fairer, more competitive business tax system. The Commission recommended a significant cut in the CNI Tax rate, which it said was uncompetitive with other states, along with other business tax changes designed to encourage job creation and retention. The Commission recommended paying for the tax cuts by implementing a combined reporting system for corporate taxes. Combined reporting would eliminate corporate tax loopholes that allow some companies to avoid paying taxes on income earned in Pennsylvania.

In its final report, the Commission recommended using water's edge accounting rules, coupled with a legislative prohibition on the inappropriate tax use of foreign affiliates when defining a "unitary business" for combined reporting purposes. The Com-

mission also recommended that taxpayers be permitted to elect worldwide reporting.

In a letter to legislative leadership and to the chairs of the Finance and Appropriations committees, Secretary Fajt said, "Since the estimates presented to the Commission did not reflect the fiscal impact of these two recommendations, the revenue estimates for the Governor's business tax reform proposals have been adjusted."

The Department of Revenue now estimates that the Governor's business tax reform proposal will cost the General Fund about \$9.7 million. The business tax reform proposal includes:

- Lowering the CNI Tax rate to 7.90 percent;
- Increasing the weight of the sales factor used to calculate the CNI Tax from 60 percent to 100 percent to encourage employers, especially manufacturers, to locate or expand in Pennsylvania;
- Uncapping Net Operating Loss deductions under combined reporting to encourage growth in biotechnology and start-up companies and cyclical manufacturing companies;
- Maintaining the current Capital Stock and Foreign Franchise Tax phase-out schedule;
- Reforming the tax appeal process to provide for review by an independent panel before going to court; and
- Moving from a separate company reporting state to a mandatory combined reporting state to substantially broaden the CNI Tax base and therefore eliminate aggressive tax planning opportunities such as "Delaware holding companies."

On April 14, Secretary Greg Fajt, Deputy Secretary for Tax Policy C. Daniel Hassell, and Revenue Chief Counsel Christopher Zettlemoyer testified before the House Finance Committee on the combined reporting proposal included in Governor Rendell's business tax reform package. During the testimony, Secretary Fajt addressed three common myths regarding combined reporting.

[Click here to read the testimony.](#)

REVENUE DEPARTMENT WINS NATIONAL AWARD FOR COMBINED REPORTING ESTIMATE

Pennsylvania Department of Revenue won the 2005 Federation of Tax Administrators (FTA) Award for Outstanding Research and Analysis in State Tax Administration.

The Pennsylvania Department of Revenue was recognized for its work in analyzing the effects of combined reporting on state tax revenues. The analysis was done to support the Pennsylvania Business Tax Reform Commission, which examined business taxation and sought ways to improve the business climate and fairness. As a result of the Department's analysis, the Commission recommended that the state adopt mandatory unitary combined reporting as a means of broadening the corporate tax base and significantly lowering the tax rate.

Entries were judged by an independent panel consisting of Irs Lav, Center on Budget and Policy Priorities; Alan Plumley, IRS Research Division; and Ron Snell, National Conference of State Legislatures. Judges noted that the analysis would be very useful to other states that may be looking to move to combined reporting.

Presentation of the award will take place during the FTA Annual Meeting, June 13-15 in San Antonio, Texas.

The Federation of Tax Administrators is a nonprofit organization comprised of the tax and revenue departments of the 50 states, the District of Columbia and New York City. Its mission is to improve the standards and methods of tax administration.

RECORD NUMBER OF TAXPAYERS FILED STATE INCOME TAX RETURNS ELECTRONICALLY

More than 2.4 million taxpayers, about 43 percent of all individual taxpayers, filed their 2004 Personal Income Tax returns electronically. This was an all-time record for electronic filing, exceeding last year's total by 10 percent.

"Every year, more and more taxpayers file their tax returns electronically," said Secretary Fajt. "It is the most cost-effective method of filing a tax return and gives taxpayers more options and advantages compared to filing a traditional paper return."

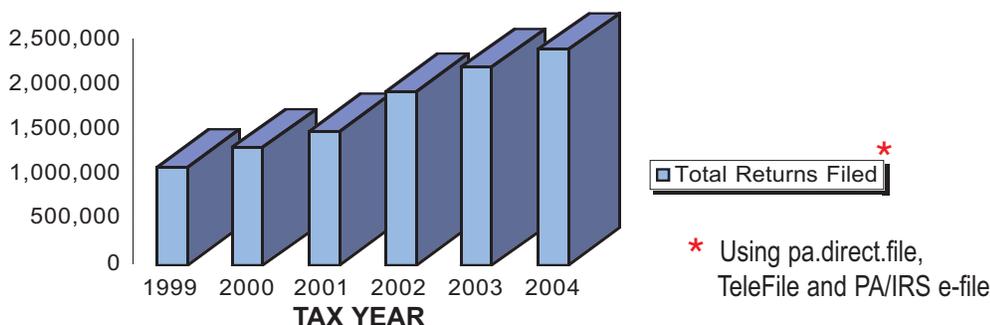
Taxpayers who file using an electronic method can have their refund deposited directly into their bank account or pay any balance due electronically. This tax season, more than 420,000 taxpayers chose to directly deposit their refund; more than 168,000

chose to pay their taxes using the ACH debit/credit option; and more than 24,000 chose to pay their taxes by credit card.

The Department's Web site continues to be an increasingly popular source for tax information as more than 168 million hits were recorded this tax season, a five percent increase from last year. The site allows taxpayers to download forms, receive answers to their most commonly asked questions through the Online Customer Service Center, and file their returns electronically.

Taxpayers can check the status of a return or refund by visiting the Department's e-Services Center at: www.revenue.state.pa.us, calling the FACT and Information Line at 1-888-PATAxes (728-2937) or the Taxpayer Service and Information Center at (717) 787-8201.

PERSONAL INCOME TAX ELECTRONIC FILING



CONTINUED SUCCESS WITH PAPERLESS BUSINESS SALES & USE TAX FILING

Quarterly Sales Tax filers have just completed their first paperless filing period of 2005, and like the monthly filers, most have successfully transitioned into the new electronic filing process. The Department of Revenue would like to thank the 85,000 quarterly Sales & Use Tax filers who filed their returns and payments electronically.

As of April 21, about 75 percent of the quarterly Sales and Use Tax returns were filed electronically. More than 51,000 taxpayers, or about 60 percent, filed over the Internet using e-TIDES and approximately 34,000, or about 40 percent, filed over the telephone using TeleFile.

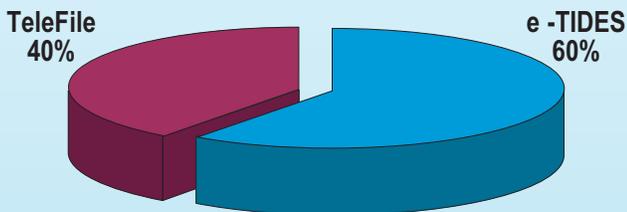
Among monthly filers, the compliance rate continues to increase as taxpayers become more familiar with the elec-

tronic filing systems. Currently, more than 92 percent of monthly taxpayers file their Sales & Use Tax returns electronically using one of the three methods offered by the Revenue Department. This is up 12 percent since the beginning of the year.

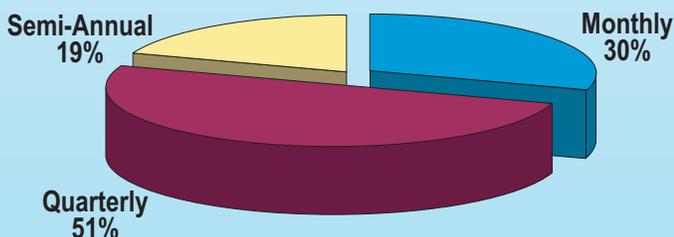
Paying electronically also remains very popular among taxpayers. About 63 percent of April's Sales & Use Tax filers submitted an electronic payment using debit cards, credit cards or electronic funds withdrawal.

The Department's e-Business Services Unit is available to assist taxpayers Monday through Friday from 8 a.m. to 5 p.m. by calling (717) 783-6277.

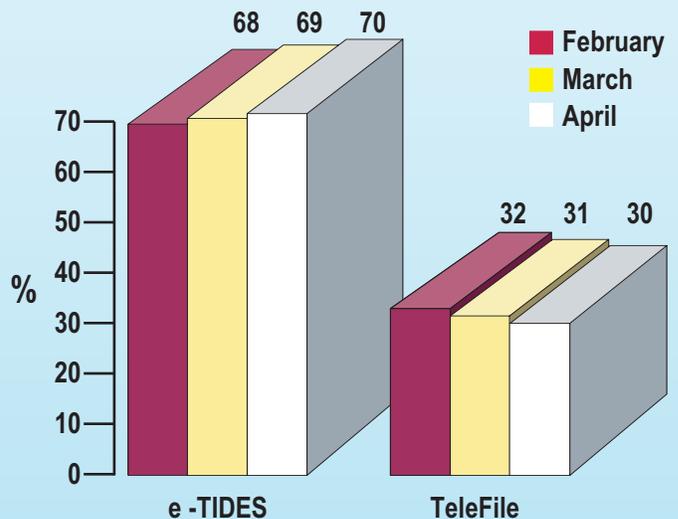
Active Quarterly Filers - April 2005



Filing Frequency - Active Accounts



Active Monthly Filers (2005)



DON'T LET PROPERTY TAX RELIEF SLIP AWAY

The Homeowner Tax Relief Act will reduce school property taxes in Pennsylvania by an average of \$330 for every homeowner. More than 80 percent of Pennsylvanians have already signed up to receive their share of tax relief. **Homeowners will only benefit if their school board agrees to participate by May 30, 2005.**

To find out how much your property tax is estimated to go down, [click here](#).

WHAT YOU CAN DO:

- **Contact your school board** and urge them to vote for property tax relief. School boards have until May 30 to decide to participate in the property tax relief law, known as Act 72.
- **Write a letter** to the editor of your local newspaper about how your community will benefit from property tax relief.
- **Attend a school board meeting** to learn more about the property tax relief law and to ask your school board whether it will deliver on the promise of property tax relief.

GOVERNOR RENDELL TALKS ABOUT PROPERTY TAX RELIEF:

- **Windows Media (Broadband)**
- **Windows Media (Dialup)**
- **RealPlayer**

ADDITIONAL INFORMATION:

- **Department of Education**
- **Referendum Exceptions Submitted to PDE**
- **General Information on Act 72 of 2004**
- **Information for Taxpayers**