GOVERNOR RENDELL SIGNS BUDGET THAT RESTRAINS SPENDING IN DIFFICULT ECONOMY, BUT INVESTS MORE IN EDUCATION AND JOB CREATION

No Taxes Will Increase; Vital Public Health and Safety Funding Continues

On July 6, Governor Edward G. Rendell signed a $28 billion General Fund budget for the 2010-11 fiscal year that holds down spending as the state strives to live within its means using existing resources.

While not increasing taxes, the budget makes substantial new investments in education and job creation programs that are critical to Pennsylvania’s ongoing efforts to recover from the national recession. Hampered by a U.S. economy that is still struggling to grow, Governor Rendell had to trim $1 billion from the proposed budget that he presented five months ago. In spite of these cuts, the budget absorbs cost increases mandated by law, over which the state has no control, which total more than $650 million for line items that fund Medical Assistance for the poor, prisons, and school employees’ Social Security.

Reducing Operating Costs

To offset those rising and unavoidable costs, most other agencies of state government had to absorb deep cuts, as budget negotiators fought to contain spending while still covering state government’s core functions. Since the national economic downturn began in the fall of 2008, Governor Rendell and the General Assembly have...
eliminated $3 billion in annual spending. These cuts have touched almost every area of programs and services that the state provides to its citizens.

As just one example, the budget for the Governor’s Office was cut by another 7.5 percent below last year’s reduced sum, bringing it to approximately the funding level of 1996-97. Many other departments’ budgets have also been scaled back to where they stood five, 10 or even 15 years ago.

State government’s overall administrative operating costs in the 2010-11 budget are 14 percent lower than in 2002-03, the year Governor Rendell took office.

“The cuts simply reflect the economic realities that all states now face -- when you have less money, you have to reduce spending,” Governor Rendell said while signing the General Appropriations bill at Elmwood Elementary School in Mechanicsburg. “Everyone dislikes something about this budget. There are many spending cuts that I would much rather have avoided. We had to reduce spending on many programs that are important to me and to millions of other Pennsylvanians, but there is simply no way to balance our budget without pain.”

Boosting Basic Education Subsidy and Economic Development

The state will boost the basic education subsidy to school districts by $250 million, an increase of 4.5 percent, to $5.8 billion. State-related universities, the State System of Higher Education and community colleges will receive the same funding amounts as last year.

Adequate education funding was the Governor’s chief priority in the new budget, the final one of his eight-year tenure in office. He also focused on economic development programs to create jobs by attracting and keeping businesses in Pennsylvania. This funding includes $27 million for Infrastructure and Facilities Improvement Grants, $15 million for the Infrastructure Development Program, $18 million for Opportunity Grants, $6 million for World Trade PA and $18 million for Housing and Redevelopment Assistance projects. Such programs have helped Pennsylvania gain more than 64,200 jobs since the beginning of the year.

The General Assembly also complied with the Governor’s request to boost by $600 million, from $3.45 billion to $4.05 billion, the Redevelopment Assistance Capital Program (RACP) to further enhance employment growth by supporting business development.

“Our expanded capital program will pump money into the economy, creating jobs and leveraging additional private investment,” Governor Rendell said. “It will continue the wise strategic investments we have made over the past several years in economic development, which has allowed Pennsylvania to weather the worst recession of the past 70 years in better financial shape than any other large industrial state in the country.”

The General Assembly and Governor have agreed to consult on any budget shortfall caused by the failure of Congress to enact much-needed supplemental Medical Assistance for the states. Pennsylvania is relying on $850 million in such funding that President Obama included in his proposed budget.

Pursuing Natural Gas Extraction Tax

While the budget does not raise taxes, the General Assembly and the Governor agreed to enact by Oct. 1 a new levy on the extraction of natural gas. It would take effect by Jan. 1, 2011. Details, including rates and structure, will be worked out over the summer.

Revenue that the new natural gas tax produces over the final six months of the fiscal year is not counted in the new budget, but will help guard against a continued weak economy and several looming financial challenges with which the state must cope in the next few years. Among those are sharply rising contributions required to maintain the financial integrity of the state’s...
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two major public pension systems, the expiration next year of federal stimulus aid to states and billions of dollars in critically needed funding for the state’s transportation infrastructure and public transit systems.

The Governor was disappointed that the General Assembly walked away from several other revenue proposals that he had offered to both avoid some of the harshest budget cuts and to prepare the state for the financial concerns of 2011-12 and beyond.

Legislators refused to eliminate the tax break for retailers who forward sales tax to the state on time (a potential 2010-11 revenue gain of $73.6 million) and extend the tobacco products tax to cigars and smokeless tobacco (a potential 2010-11 revenue gain of $41.6 million). They also rejected a number of common-sense business tax reforms, such as closing a loophole that permits nearly 75 percent of the companies doing business in the state to avoid paying the corporate net income tax (a potential 2010-11 revenue gain of $66.6 million).

The Governor also called for a special session on transportation funding, to reconvene on Aug. 23. Review a fact sheet on the 2010-2011 budget for further details.

IMPACT OF THE 2010-11 BUDGET ON THE DEPARTMENT OF REVENUE

- Revenue’s 2010-11 budget is $189.7 million, $8.9 million, or 4.5 percent, less than its 2009-10 budget.
- The budget includes $15.8 million for the modernization project, continuing the effort to improve Revenue’s technology and business processes. Further, Accenture was recently selected to begin contract negotiations with the department for modernization efforts.
- Revenue’s budget includes a $4.3 million augmentation for each of the next two fiscal years, the Enhanced Revenue Collection Account, dedicated to enforcement efforts.
- The budget avoided a scheduled $10 million cut to the Educational Improvement Tax Credit cap for fiscal year 2010-11, maintaining funding at $60 million for the second year in a row.
- The legislation providing for the budget also expressed intent to establish a new agency, the Independent Fiscal Office, this fall.

TAX PROFESSIONAL E-SERVICES CENTER

Tax professionals are encouraged to use the department’s Tax Professional e-Services Center for access to clients’ tax information.

Visit the department’s Online Customer Service Center or call 717-787-1392.
Pennsylvania’s first Tax Amnesty program in 14 years generated $261 million in state back taxes over 54 days, surpassing by $71 million the $190 million goal set for the program.

“Our tax amnesty program was an overwhelming success and brought in a total of $261 million in delinquent taxes,” Governor Rendell said June 21, the Monday following the close of Tax Amnesty at midnight, June 18. “That means we have collected the $190 million already included in the current budget; plus we covered the administrative costs of the program and also generated $55 million in revenue that can be applied to the 2010-11 budget,” he said, noting these are preliminary figures until all payments are cleared.

“About 60,000 tax delinquents took advantage of this rare opportunity offered by the state to settle back taxes without paying penalties and only half the interest due. But, let me be clear: each of them paid more than if they would have had they paid their taxes on time, as nearly all other Pennsylvania taxpayers manage to do.

“Throughout the tax amnesty program, I warned people and businesses that if they didn’t settle their back state taxes now, things would get -- as the ad said -- ‘complicated.’ Now, it’s time to get even tougher on those businesses and individuals who did not pay up.

“Those who duck their tax obligations are breaking the law, and they increase the tax burden for the 97 percent of Pennsylvanians who do the right thing by paying their state taxes fully and on-time.”

Governor Rendell noted that an additional 5-percent penalty applies to all tax delinquencies that remained after midnight on June 18, and the Revenue Department is stepping up other enforcement efforts.

“In coming months, Pennsylvania will get even tougher on tax delinquents,” the Governor said.
Pennsylvania collected $3 billion in General Fund revenue in June, which was $58.3 million, or 2 percent, more than anticipated, Secretary of Revenue C. Daniel Hassell reported in July. Fiscal year 2009-10 General Fund collections totaled $27.6 billion, which is $1.176 billion, or 4.1 percent, below estimate.

Sales tax receipts totaled $776.9 million for June, $7.7 million above estimate. Sales tax collections for the fiscal year totaled $8 billion, which is $362.1 million, or 4.3 percent, less than anticipated.

Personal income tax (PIT) revenue in June was $1.1 billion, $2.8 million above estimate. This brought fiscal year PIT collections to $10 billion, which is $308.3 million, or 3 percent, below estimate.

June corporation tax revenue of $541.8 million was $25.5 million below estimate. Fiscal year corporation tax collections total $4.6 billion, which is $510.1 million, or 10 percent, below estimate.

Other General Fund revenue figures for the month included $77.1 million in inheritance tax, $800,000 below estimate, bringing the fiscal year total to $753.8 million, which is $18.4 million below estimate.

Realty transfer tax was $36.7 million for June, $12.5 million above estimate, bringing the total to $296 million for the fiscal year, which is $23.9 million higher than anticipated.

Other General Fund tax revenue, including cigarette, malt beverage and liquor taxes totaled $130.5 million for the month, $4 million above estimate and bringing the fiscal year total to $1.3 billion, which is $48.8 million above estimate.

Non-tax revenue, including $66 million in table games license fees, totaled $379.2 million in June, $57.6 million above estimate, bringing the fiscal year total to $2.7 billion, which is $50.3 million below estimate.

Also included in the June General Fund collections is $234.3 million that was transferred from the Tax Amnesty program.

In addition to the General Fund collections, the Motor License Fund received $195.3 million for the month, $28.9 million above estimate. Fiscal year collections for the fund total $2.6 billion, which is $5.4 million, or 0.2 percent, above estimate.

NOTE: The 2009-10 fiscal year General Fund revenue collections reported herein are preliminary, pending a final revenue deposit and year-end adjustments.
RATE OF ELECTRONICALLY FILED BUSINESS RETURNS NEARS 100 PERCENT

Ninety-nine percent of monthly and quarterly sales and use tax payers filed and paid online using e-TIDES or by phone using TeleFile in the first quarter of 2010.

Of the 85,785 monthly filers, 68,694 taxpayers, or 80 percent, filed online using e-TIDES and 16,188, about 19 percent, filed over the phone using TeleFile.

Of the 63,703 quarterly sales and use tax filers, 47,254, or 74 percent, filed using e-TIDES, and 15,627, about 25 percent, filed using TeleFile.

Year-to-date, 86 percent of new businesses are registering electronically with the department.

The department’s e-Business Services unit is available to assist taxpayers Monday through Friday from 8 a.m. to 5 p.m. at 717-783-6277.
The deadline to apply for Pennsylvania’s Property Tax/Rent Rebate Program for older adults and residents with disabilities was extended from June 30 to Dec. 31, and more than 499,000 homeowners and renters were issued rebates totaling $232.3 million on July 1.

“Property Tax/Rent Rebates, combined with general property tax relief from slots gaming, will completely eliminate school property taxes for about 120,000 residents this year,” said Secretary of Revenue C. Daniel Hassell. “Governor Rendell is extending the rebate program deadline again this year because he wants to be sure everyone who is eligible has time to apply for the relief they’re owed.”

As of June 28, the Revenue Department had received more than 566,000 rebate applications. Nearly 600,000 seniors are expected to benefit from rebates this year, compared to 310,000 before the program’s expansion in 2006.

An estimated 120,000 senior homeowners will have school property taxes completely eliminated when rebates combine with $772.5 million in slots-gaming funded general property tax relief that all homeowners will see itemized on school property tax bills this summer.

The rebate program benefits eligible Pennsylvanians who are 65 and older; widows and widowers 50 and older; and people with disabilities 18 and older. A 2006 program expansion increased the income limit from $15,000 to $35,000 (which excludes half of Social Security income) for homeowners and raised the maximum standard rebate for homeowners and renters from $500 to $650. The income limit for renters is $15,000.

The program expansion also provides for supplemental property tax rebates of up to $325 – on top of the standard rebates – to homeowners in Philadelphia, Pittsburgh and Scranton; and to those in other parts of the state who pay more than 15 percent of income on property taxes. As a result, the maximum rebate for those homeowners is $975.

As specified by law, rebates were distributed beginning July 1. Rebates that come in after that date are distributed as claims are received and processed.

Property Tax/Rent Rebate forms (PA-1000) and additional information are available at www.PaPropertyTaxRelief.com and by calling 1-888-222-9190. Forms and assistance also are available at Department of Revenue district offices (listed in the government section of phone directories), local Area Agencies on Aging, senior centers and state legislators’ offices.

The Property Tax/Rent Rebate Program is one of five programs supported by the Pennsylvania Lottery. Since the program’s 1971 inception, more than $4.5 billion has been paid to eligible older adults and residents with disabilities. The expanded portion of the rebate program is paid for with revenue from slots gaming.
KEYSTONE OPPORTUNITY ZONE EXIT DATES AND TERMINATION OF TAX BENEFITS

The following scenarios, questions and answers may assist businesses with sales and use tax questions related to exit dates and the expiration of tax benefits under the Keystone Opportunity Zone (KOZ) program. The information pertains to all aspects of the KOZ program, including Keystone Opportunity Expansion Zones and Keystone Opportunity Improvement Zones.

Scenario 1: A business plans to build a new facility in a KOZ, beginning construction in late summer. All of the contracts are signed, and construction is expected to be 50 percent complete on Dec. 31, 2010, the KOZ’s exit date.

Q: How should the contractor/company calculate sales and use tax?
A: All tax benefits for eligible companies within the KOZ expire on Dec. 31, 2010, and the Sales and Use Tax Certificate of Exemption expires on that date. The company and its contractors must inform vendors when KOZ tax benefits expire. Failure to notify vendors of the expiration of tax benefits or continued use of the certificate past the KOZ expiration date may result in a civil penalty up to $10,000, repayment of taxes and a business audit.

Q: How should a contractor bid on a job when it is not sure what may or may not be taxable as of the KOZ’s expiration date?
A: Any contractor bidding on a job within a KOZ should consider the KOZ expiration date when compiling a bid, so costs may be apportioned accordingly. In this scenario, the Sales and Use Tax Certificate of Exemption expires Dec. 31, 2010. Therefore, sales and use tax is imposed after that date. A financial consultant, accountant or professional service firm may be able to assist with the estimate or bid. It is the responsibility of the KOZ-eligible business to inform all contractors and subcontractors that KOZ benefits will expire prior to completion of the project, so that bidders may take such information into account to develop appropriate estimates.

Scenario 2: Construction materials and tangible personal property purchased by a construction contractor for use in a construction contract with a KOZ-qualified entity are exempt from sales and use tax. The zone and its exemption expire prior to the completion of the construction project.

Q: Does signing a contract and paying for construction materials not yet received constitute "purchasing" them for KOZ tax-exempt purposes?
A: No, all purchases must be used or consumed within a KOZ prior to the exit date of the zone, when tax benefits expire.

Q: May the KOZ company sign a contract and pay for items subject to sales and use tax and then store the items for use, tax-free, after the KOZ expiration date?
A: No, all materials must be used or consumed within a KOZ prior to the exit date of the zone to be exempt from sales and use tax. Surplus materials stored on-site in the zone are subject to sales and use tax after the expiration date of the zone. If materials were purchased prior to the expiration date of the zone but used after the expiration date, use tax would be due.

Q: If a contractor was hired for a construction contract prior to the KOZ exit date and the project continued after the expiration of the zone, will a contractor or subcontractor be liable for tax on its purchase of materials for the contract?
A: The department does not provide financial analysis; however it advises that tax may be imposed on material used in the construction contract. If the project is 50 percent complete on Jan. 1, 2011, tax may apply to half of the construction materials purchased for the contract.
Q: What if a business is currently constructing a facility, but will not occupy the facility until after Dec. 31, 2010: Is the business eligible for KOZ benefits?
A: A business can apply for KOZ benefits prior to the expiration of the zone. If the business is approved, the business will receive a Sales and Use Tax Certificate of Exemption for the construction of the facility prior to the exit date of the zone. No other state tax benefits can be utilized since the business will not be operating in the zone. A business that receives an exemption prior to occupation of the zone will be subject to recapture, if the business relocates outside the zone within the first five years after occupancy.

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VOLUNTARY DISCLOSURE PROGRAM REOPENS AUGUST 1

The Voluntary Disclosure Program, which was suspended through PA Tax Amnesty, will be re instituted August 1. Program guidelines will remain as they were, detailed below, however the 5 percent Tax Amnesty nonparticipation penalty will not be waived.

The Voluntary Disclosure Program provides an opportunity for businesses and individuals who recently became aware of Pennsylvania tax obligations to voluntarily come forward. In return for coming forward voluntarily, filing tax returns and clearing tax debts, taxpayers are only responsible for the payment of tax and interest. All penalties, except the 5 percent nonparticipation penalty associated with the 2010 PA Tax Amnesty program, for all taxes administered by the PA Department of Revenue will be waived when the requirements of the Voluntary Disclosure Agreement have been completed.

The program is only available to those taxpayers who are not registered with the department, and for which no investigations or collection actions have begun.

For more information on the Voluntary Disclosure Program, visit www.revenue.state.pa.us