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GOVERNOR CORBETT SIGNS 2014-15 BUDGET AND FISCAL CODE, CALLS FOR ACTION ON PENSION REFORM

Invests Record \$12 Billion in Education, Continues Investments in Healthy PA, but Vetoes Certain Legislative Appropriations

On Thursday, July 10, Governor Tom Corbett signed a state budget for fiscal year 2014-15 that includes no new taxes and invests a record \$12 billion in state funding for students in Pennsylvania's early, basic and post-secondary education systems – an increase of \$323 million over last year. The budget also invests more than \$12.8 billion in health and human services programs that will help increase access to quality, affordable healthcare and preserve the safety net for seniors, children, low-income families and individuals with disabilities.

Concerned with the revenue assumptions used by the House and Senate in crafting their budget, however, the governor chose to use his line-item veto authority to reduce spending and ensure the state was meeting revenue estimates.

Education Investments

"I am pleased with the additional investments that this budget makes into the students of Pennsylvania" Corbett said. "This budget directs funding to areas that will support student achievement and ensure that students are prepared for postsecondary success, whether they choose to enter the workforce, further their education or enlist in the military."

Since taking office, Governor Corbett has increased funding for early, basic and postsecondary education from \$10.8 billion to \$11.9 billion – an increase of more than \$1 billion.

Two of the Governor's landmark initiatives are included in the final budget: the Ready to Learn Block Grant for public schools and the Ready to Succeed Scholarship that provides financial assistance to middle-income students pursuing a postsecondary education.

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FAST FACT:

The integrated tax system enables a more robust and analytical review of corporation tax return data, including prior year data for history of earnings, net operating losses, calculations, valuation deduction and rate changes.

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Combined, both programs invest an additional \$105 million in students.

This budget also includes \$1.6 billion for post-secondary education and \$61.1 million in public libraries.

This budget also increased funding for special education by \$20 million – the first increase in six years.

Total state support of public schools has increased by \$1.5 billion, or 17.3 percent, since Governor Corbett took office.

Investments in Health and Human Services Programs

The budget assumes federal approval of the Healthy Pennsylvania plan to reform Medicaid and increase access to health care for more than 500,000 Pennsylvanians through the private market.

The budget also invests in resources to serve more individuals who have been waiting to access needed services, allowing them to stay in their homes and communities, and it supports the infrastructure and practitioners needed to expand access to primary care services in rural and underserved areas.

Line-Item Vetoes

"While I am pleased the legislature supported my priorities in this budget – investing more money into our children's education, reducing waiting lists for services for people living with disabilities, and increasing access to health care in rural and underserved areas of Pennsylvania – the final budget they sent me, coupled with their failure to address critical challenges facing our state, caused me great concern," Corbett said.

"Facing a \$1.5 billion deficit and struggling to provide adequate funding for essential programs, the General Assembly instead chose to increase their own \$330

million budget by 2 percent. It intended to charge taxpayers an additional \$5 million to pay for its parking. It refuses to use any of its own six-month surplus – \$150 million in taxpayer-funded budgetary reserves – to help with the budget gap. It filled the budget with earmarks driven by high-powered lobbyists. And it refused to deal with the biggest fiscal challenge facing Pennsylvania: our public pensions.

"For this reason, I am forcing mutual sacrifice with the General Assembly through the governor's ability to line-item veto and hold spending in budgetary reserve. Today, I am item vetoing \$65 million in General Assembly spending and an additional \$7.2 million in legislative-designated spending."

Call for Action on Pension Reform

On pension reform, the governor commented, "The General Assembly failed to enact a meaningful plan that would benefit all homeowners, school districts and jobcreators in the commonwealth. Instead, it is forcing more than 163 school districts to raise property taxes on hard-working Pennsylvania families to pay for skyrocketing pension costs.

"I ask the citizens of Pennsylvania to join in this fight and demand that the legislature address the most important fiscal challenge facing Pennsylvania. Today, we spend 63 cents of each and every new tax dollar that comes into the state on pension costs. This is absolutely unsustainable, and it is devouring our state's budget.

"We can protect the pension benefits of retirees and current public school and state government employees, while making reforms to the system for new hires. It is time to enact meaningful reform. Pennsylvania families and taxpayers deserve nothing less."

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.

PREVENTING RCT-101 PROCESSING ERRORS

The integrated tax system enables a more robust and analytical review of corporation tax return data, including prior year data for history of earnings, net operating losses, calculations, valuation deduction and rate changes. To prevent a return from suspending, taxpayers are encouraged to provide a complete and accurate report that will process smoothly, following the following tips.

1. Never input the word "none" in numeric fields.
2. History of earnings for capital stock/foreign franchise tax must be in order, starting with the oldest year on Year 1. If only one year is applicable, the first year should be entered on the Current Year line. There should be no gaps in the history of earnings, and the most recent consecutive five years must be provided.
3. Checkbox indicators on the return:
 - a. If checking "Holding Company," do not use three-factor apportionment.
 - b. If checking "Solicitation Only," "Single-Member LLC," "Multi-Member LLC" or "PA S Corporation," do NOT complete Section C, Corporate Net Income Tax, on Page 3.
4. If taking a deduction for bonus depreciation, Section B1, Current Year Federal Depreciation of 168K Property, must be completed on Page 3. Also, Schedule C-3 (REV-799) must be filled out and included with the RCT-101.
5. Use only generic, non-year specific RCT-101 returns.
6. If an amended return must be filed, taxpayers are encouraged to complete the non-year specific RCT-101, completing all sections of the return. This includes those sections originally filed and those sections being amended. The amended report check box under Step B, Page 1 of the RCT-101 must also be checked.
7. Completing apportionment factors as 0/0, leaving the factor fields blank or typing "none" in these fields will result in apportionment being changed to 100 percent in Pennsylvania, automatically changing the reported tax liabilities. Partnerships' factors also must be provided, per a corporation's ownership percentage and not entered as zeroes.
8. Eligible corporations electing to use three-factor apportionment should complete the RCT-105 or RCT-106, as applicable. Total factors from the RCT-105 or 106 should then be transferred to Schedule A-1 and/or Schedule C-1 on Page 4 of the RCT-101. Amounts differing from information on federal forms 1120, 1120S or 1065 must be reconciled.

The CT-1 PA Corporation Tax Booklet (REV-1200) for the RCT-101 is available on our website at www.revenue.state.pa.us.

Additional Guidance on Apportionment and Partnerships

If a corporation owns underlying partnerships, the partnerships' property, payroll and sales factors must be passed up through to the corporate owner, in relation to the ownership percentage. A corporation's ownership interest in a partnership or other unincorporated entity (hereinafter referred to as a partnership) has to be included in the apportionment fraction as a direct interest of the corporation in the assets of the partnership.

If a change to tax return line-item occurs, a basis worksheet is mailed to a taxpayer, accompanied by a Notice of Adjustment letter that provides instructions to the taxpayer regarding the calculated tax change.

For the property factor, the portion of the partnerships' real and personal property, owned or rented and used during the taxable period, to the extent of the taxpayer's interest in the partnerships, must be included in the numerator and denominator of the taxpayer's property factor. This property should be reflected on the Partner's Share of Property Owned by Partnerships line on Table 1, Page 2 of the RCT-106. Property amounts applicable to an ownership interest in an LLC or business trust that is a partnership or disregarded entity for federal income tax purposes must be included only for Pennsylvania corporate net income tax factors.

For the payroll factor, the portion of the partnerships' payroll has to be included in the numerator and denominator of the corporation's payroll factor to the extent of the taxpayer's interest in the partnerships for

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that period, as appropriate. This payroll calculation should be reflected on the Partner's Share of Payroll from Partnerships line on Table 2, Page 2 of the RCT-106. Payroll amounts applicable to an ownership interest in an LLC or business trust that is a partnership or disregarded entity for federal income tax purposes must be included only for Pennsylvania corporate net income tax factors.

For the sales factor, the portion of the partnerships' gross receipts net of returns and allowances are included in the numerator and denominator of the corporation's sales factor to the extent of the taxpayer's interest in the partnerships for that period, as appropriate. Sales of tangible personal property are considered in-state if the property is delivered or shipped to a purchaser within Pennsylvania. This sales calculation should be reflected on the Partner's Share of Sales from Partnerships line on Table 3, Page 2 of the RCT-106. Payroll amounts applicable to an ownership interest in an LLC or business trust that is a partnership or disregarded entity for federal income tax purposes must be included only for Pennsylvania corporate net income tax factors.

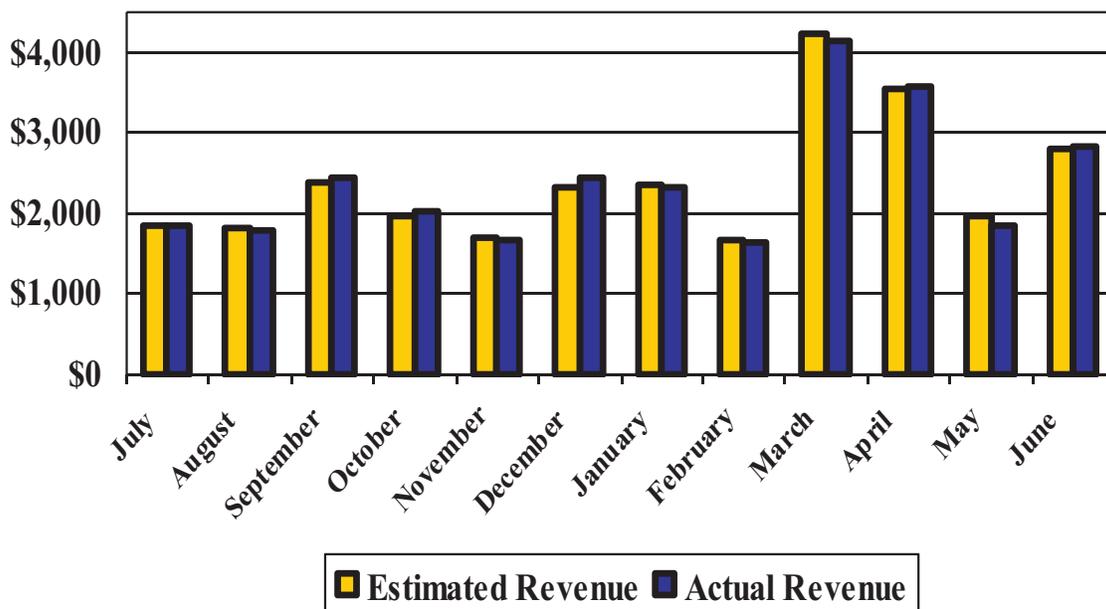
For tax periods beginning on or after Jan. 1, 2013, all business income must be apportioned to the state by multiplying income by the sales factor only for corporate net income tax.

NOTE: A corporation with no property, payroll or sales both inside and outside Pennsylvania, should complete Schedule A-1 and/or C-1 on Page 4 of the RCT-101, using zero as the numerator and one as the denominator.

Reports where the taxpayer is calculating a liability using a method other than the standard calculation, including any position granted as the result of an appeal in a prior year, cannot be filed electronically. In such cases, the RCT-101 report and all required attachments, including the reason the report cannot be e-filed, must be mailed to:

**PA Department of Revenue
Bureau of Corporation Taxes
P.O. Box 280704
Harrisburg, PA 17128-0704.**

Fiscal year 2013-14 General Fund collections totaled \$28.6 billion, which is \$508.8 million, or 1.7 percent, below estimate.



2014 FALL TAX SEMINAR AGENDA

TIME	TOPIC	PRESENTER
8 - 9:30 A.M.	INTRODUCTION & PERSONAL INCOME TAX UPDATES <ul style="list-style-type: none"> ➤ Tax Law Changes Effective in 2014 ➤ PA Forms Changes ➤ Miscellaneous Issues 	David A. Braden, CPA <i>Bureau of Individual Taxes</i>
9:30 - 9:45 A.M.	BREAK	
9:45 - 11 A.M.	PASS-THROUGH BUSINESS UPDATES <ul style="list-style-type: none"> ➤ Federal/Pennsylvania Differences ➤ Common Errors ➤ Legislation Updates ➤ Court Cases - Update 	Jane McCurdy, CPA or Linda Paterson, CPA <i>Pass-Through Business Office</i>
11 A.M. - 12:30 P.M.	CORPORATION TAXES UPDATES <ul style="list-style-type: none"> ➤ Prior Legislative Changes ➤ ITS & Completing Reports ➤ Report Review Timeframes ➤ LLCs: Questions & Answers ➤ Termination/Dissolution of Business ➤ Interactive Reports 	Joseph Clover, Jeffrey A Creveling, Greg Skotnicki Valerie Greene or Glenwood Hoskins <i>Bureau of Corporation Taxes</i>
12:30 - 1:30 P.M.	Lunch	
1:30 - 2:15 P.M.	REVENUE MODERNIZATION PROJECT: INTEGRATED TAX SYSTEM CONVERSION UPDATE <ul style="list-style-type: none"> ➤ ITS Background ➤ Corporation Taxes - Implementation Review ➤ Trust Fund Taxes - Implementation Status ➤ Guidance for Practitioners ➤ e-TIDES, TeleFile and Credit/Debit Card Program Updates 	Donald Sheridan or Thomas L. Van Kirk <i>Integrated Tax System Business Operations Office</i>
2:15 - 3 P.M.	UNEMPLOYMENT COMPENSATION <ul style="list-style-type: none"> ➤ Controlling UC Costs ➤ Avoiding UC Delinquency Rates ➤ Understanding UC Benefit Charge Notifications ➤ Classifying Workers Properly 	Anna Brennan, Patrick Bucci, or Gabriele Roman <i>Department of Labor and Industry</i>
3 - 3:15 P.M.	Break	
3:15 - 4:15 P.M.	BUSINESS USE TAX AND VOLUNTARY COMPLIANCE INITIATIVES <ul style="list-style-type: none"> ➤ Voluntary Compliance Initiatives including Business Use Tax ➤ Discovery Programs Update including Remote Seller ➤ Other Compliance Programs and Enforcement Tools 	James Foster, Kevin Milligan, William Hartman, CPA <i>Bureau of Enforcement Planning, Analysis and Discovery</i>

In compliance with the Americans with Disabilities Act, the department will make every effort to provide seminar content in an alternative format to persons with disabilities.

2014 FALL TAX SEMINAR SCHEDULE

SPONSOR	DAY	DATE	CONTACT PERSON	CONFERENCE LOCATION
Lehigh Valley PSTAP	Wednesday	09-24-2014	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Breinigsville Holiday Inn Conference Center 7736 Adrienne Drive Breinigsville, PA 18013
CPE Forum of Central PA	Friday	09-26-2014	Kelly Park 814-695-1558 kelly.park@wfadvisors.com	The Casino 300 Lakemont Park Blvd Altoona, PA 16602
Harrisburg PSTAP	Wednesday	10-01-2014	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Radisson Penn Harris Hotel & Convention Center Camp Hill Bypass and US 15 Camp Hill, PA 17011
Central Chapter PSTAP	Tuesday	10-21-2014	Alan D. Ross C.P.A. 610-779-9555 aross@rosscpa.com or Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	The Inn at Reading 1040 North Park Road Wyomissing, PA 19610
Philadelphia Tri-County Chapter PSTAP	Thursday	10-23-2014	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Springfield Country Club 400 W. Sproul Road (Route 320) Springfield, PA 19064
Pittsburgh PSTAP	Tuesday	10-28-2014	Sherry DeAgostino 1-800-270-3352 sherry@pstap.org	Four Points Sheraton Cranberry Township 910 Sheraton Drive Mars, PA 1646
Wilkes University Continuing Education Dept.	Thursday	11-06-2014	Margaret Petty 570-408-4460 Margaret.Petty@wilkes.edu	The Woodlands Inn and Resort Highway 315 Wilkes-Barre, PA 18766
Neumann University Division of Business & Information Mgt.	Thursday	11-20-2014	Janet Massey 610-558-5588 jmassey@neumann.edu	Neumann University Thomas A. Bruder, Jr. Life Center Bldg. 1 Neumann Drive Aston, PA 19014
Penn State University	Wednesday	12-17-2014	Theresa Bloom 215-881-7402 tmb17@psu.edu	Penn State University Abington Campus 1600 Woodland Road Abington, PA 19001

Registration for the 2014 Fall Tax Seminar is currently open. For more information, please contact the sponsors noted on the schedule.