GOVERNOR WOLF’S INAUGURAL BUDGET MAKES HISTORIC INVESTMENT IN EDUCATION; TAKES STEPS TO REBUILD THE MIDDLE CLASS

Earlier this month, Governor Tom Wolf unveiled his 2015-2016 budget proposal that makes historic investments in education while taking concrete steps toward rebuilding the middle class. Gov. Wolf’s budget restores cuts to basic education with a four-year commitment to increase funding by $2 billion while cutting school property taxes paid by the average homeowner by 50 percent and reducing the total tax burden on average, middle-class families. Gov. Wolf’s budget also helps grow jobs in Pennsylvania by cutting the corporate net income tax rate by 50 percent and making strategic investments in job creation through programs like the Made in Pennsylvania manufacturing tax credit.

“My budget rebuilds the middle class in Pennsylvania starting with three priorities: jobs that pay, schools that teach, and government that works,” said Gov. Wolf. “Pennsylvania can have a bright future, but we cannot simply do the same things over and over and hope for different results. My plan balances the state budget, cuts taxes to create jobs with good middle-class wages, makes historic investments in education to prepare our kids for the jobs of tomorrow, and reduces the total tax burden on the average middle-class homeowner. We need to think differently and do things differently. It’s time for bold change.”

“We all know the challenges Pennsylvania faces. We are staring at a $2.3 billion budget deficit, we are near the bottom of the country in job growth, our state’s credit ratings have been in decline, and our schools are struggling. These are bipartisan challenges and they require bipartisan solutions. My budget incorporates many Republican and Democratic ideas to move Pennsylvania forward.”

JOBS THAT PAY

Gov. Wolf is a businessperson. He has a plan to create jobs and get the economy back on track.

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This budget makes Pennsylvania’s corporate tax climate competitive by immediately lowering the corporate tax rate by 40 percent to 5.99 percent and cutting it by 50 percent by 2018, finally zeroing out the capital stock and franchise tax, and closing corporate tax loopholes.

Gov. Wolf’s budget will help revive Pennsylvania’s manufacturing economy by providing tax credits and targeted assistance to companies that create middle class jobs.

Pennsylvania As An Energy Leader

Pennsylvania needs to partner with the gas industry and make the commonwealth a leader in energy manufacturing and development. The Governor’s goal is to build new businesses by using our natural gas as a feedstock as well as an energy resource. Pennsylvania can be a leader in industries like biotech, materials, chemicals and life sciences.

Gov. Wolf’s budget will make Pennsylvania a national leader in clean energy like solar and wind, and Gov. Wolf will work to protect coal and continue Pennsylvania’s traditions of harvesting timber and hardwood.

Developing the Workforce

Pennsylvania is a national leader in higher education, and the state must partner businesses with our colleges and universities. Gov. Wolf’s budget will encourage community colleges to improve education and training in high-growth sectors.

SCHOOLS THAT TEACH

Gov. Wolf’s budget makes historic investments in education while eliminating the deficit and ending the commonwealth’s year-after-year fiscal crises. Gov. Wolf’s budget restores cuts to basic education with a four-year commitment to increase funding by $2 billion.

Gov. Wolf has proposed a plan to restore funding for schools and make natural gas companies pay their fair share through a severance tax modelled after West Virginia, a state proving that a reasonable tax and a thriving natural gas industry can coexist.

Gov. Wolf’s budget will increase the state’s share of funding for public education to 50 percent for the first time since the 1970s and cut school district property taxes by more than 50 percent.

This will reduce the burden on the middle class and senior citizens who are already overburdened.

This budget pursues a goal of universal pre-kindergarten instruction for all children.

In two years, Gov. Wolf’s budget restores cuts made to our institutions of higher learning.

Reforming Charter Schools

Gov. Wolf’s budget reforms cyber charter school funding by installing payment limits that will save school districts more than $160 million.

Gov. Wolf’s budget also permanently prohibits pension “double dips,” stopping charter and cyber charter schools from being paid twice for the same employee pension costs.

Tax Relief for the Middle Class

Governor Wolf’s budget delivers historic property tax relief of $3.8 billion.

It includes an average of more than $1,000 of property tax relief to homeowners, reducing homeowner school property taxes by more than 50 percent.

The average Pennsylvania family will receive a net tax cut of about 13 percent.

Click here for more information about property tax relief and school district funding by school district.
GOVERNMENT THAT WORKS

Gov. Wolf’s budget cuts costs and makes government more efficient.

- Gov. Wolf’s Office of Transformation, Innovation, Modernization, and Efficiency (GO TIME), will save taxpayers more than $150 million in the next year.
- By consolidating some of the programs launched by the last administration, Gov. Wolf’s Medicaid changes make the program better and save more.

Pension Reform That Works

- This budget prioritizes returns and cost savings instead of paying extravagant Wall Street fees, saving hundreds of millions each year. Every year Pennsylvania spends nearly $700 million on fees to hedge funds and other Wall Street firms to manage our pension funds, more than most other states. These changes will save hundreds of millions per year.
- By stepping up and paying the state’s bills now, like families must do each month, the commonwealth can reduce its obligations and get its pension system back on track.
- Gov. Wolf will do that by creating a dedicated revenue stream and depositing it in a restricted account so politicians can no longer spend funds needed to make required pension payments.
- Gov. Wolf’s plan will produce savings to reduce the total long term liability by more than $10 billion.

Doing Right by Seniors

- Lowering property taxes will make it easier for seniors to stay in their homes, and Gov. Wolf’s budget will provide more home health care options for seniors so they can live at home for as long as they want to remain there.

PENNSYLVANIA JOINS MULTISTATE TAX COMMISSION’S JOINT AUDIT PROGRAM

Effective November 2014, Pennsylvania joined 23 other states in the Multistate Tax Commission (MTC) joint income tax audit program for corporate net income and capital stock/foreign franchise taxes.

The MTC is an intergovernmental state tax agency working on behalf of states and taxpayers to administer tax laws that apply to multistate and multinational enterprises. The MTC was created in 1967 as a result of the Multistate Tax Compact, and the commission is charged by this law with:

- Facilitating the proper determination of state and local tax liability of multistate taxpayers, including the equitable apportionment of tax bases and settlement of apportionment disputes;
- Promoting uniformity or compatibility in significant components of tax systems;
- Facilitating taxpayer convenience and compliance in the filing of tax returns and in other phases of tax administration; and
- Avoiding duplicative taxation.

States participating in the audit program pool their resources to select candidates for corporate tax audits. The commission’s audit staff will perform the audits as if they were part of Pennsylvania’s own audit staff and forward their findings and recommendations to Pennsylvania for assessment at the completion of each audit. Participating states maintain control of the program through selection of the audit candidates, providing guidance on key issues, and independently

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deciding whether to act upon audit results.

A significant benefit of the joint audit program is that a single MTC audit takes the place of separate and duplicative audits by member states, thereby providing obvious economies of scale to the states. This program will also reveal inconsistent reporting to different states by multistate taxpayers. Taxpayers benefit from a MTC joint audit in that it relieves them of the burden of multiple ongoing audits by individual states.

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The department’s transition to an integrated tax system (ITS) has enabled an improvement in department practices and processes. A key improvement is elimination of billing notices, while ensuring that taxpayers’ due process rights are respected throughout automated adjustments to tax accounts.

**Elimination of Corporation Taxes Billing Notices**

Billing notices for corporation taxes were eliminated March 1. These informational notices that historically preceded assessments by 45 days cannot be the basis for tax appeals, and practitioners argued that elimination of this interim step will prevent taxpayer confusion about their appeals rights.

**Automatic and Immediate Issuance of Assessments in Conjunction with Department Calculations Increasing Tax Liabilities**

The department has automated the issuance of assessments in the case of all department calculations increasing tax liabilities. In coming weeks, any time the department calculates a liability to be higher than what the taxpayer filed on a return, an assessment package will be generated, which will consolidate the assessment, the worksheet providing the basis for assessment, and a statement of account into a single, comprehensive mailing.

Once an assessment has been issued, thereby establishing a taxpayer’s rights to contest the department’s determination through the tax appeals process, the department will apply overpayments or restricted tax credits elsewhere in the account to the outstanding liability until and unless the period/liability is appealed by the taxpayer. Once an appeal is received, account offsets will be blocked as detailed below.

**Preventing Account Offsets for Appealed Liabilities**

In November 2014, ITS programming was modified to ensure available credit in an account does not offset a liability for which an appeal has been filed. Once an appeal contesting the liability for a period is received, the offsetting hold will remain in effect pending the resolution of the appeal at any appeal level.

Department-assessed liabilities for which no appeal has been received, however, will remain subject to offset until and unless an appeal is received. When no appeal is filed, overpayments or restricted tax credits in a taxpayer’s account will be applied automatically to offset the outstanding liability in the following order: collection agency fees, tax, interest, penalty, and legal fees. Requests to reverse offsets after an appeal is filed will be granted in cases where a taxpayer faxes the request on company letterhead signed by an officer of the corporation to the Bureau of Corporation Taxes Accounting Division at 717-705-6227.
GOVERNOR WOLF REVERSES TAX INCREASE ON CLEAN ENERGY ALTERNATIVE TO DIESEL

After thorough consideration of the environmental and economic development benefits derived from use of liquefied natural gas (LNG) as a vehicle fuel alternative to diesel, Acting Secretary of Revenue Eileen McNulty announced earlier this month that Governor Wolf reversed a decision made in late 2014 that increased state tax on LNG.

"One of my goals is to promote and develop a comprehensive energy portfolio for Pennsylvania that supports clean energy alternatives to imported petroleum," said Wolf. "Liquefied natural gas is not only a cleaner alternative to diesel, generating lower pollutant emissions when used to fuel vehicles, but it’s also produced here in Pennsylvania from abundant natural gas reserves.

"Given the immediate environmental benefits of fueling trucks with LNG and the future economic gains that will come from further development of the alternative fuels industry in Pennsylvania, it makes no sense to discourage LNG consumption by taxing it at a higher rate."

For 2015, a gallon of gasoline is subject to state tax of 50.5 cents, while diesel is taxed at 64.2 cents per gallon. LNG is defined in Pennsylvania law as an alternative fuel that should be taxed based on its energy potential as compared to gasoline. The Department of Revenue has historically taxed LNG using a cents-per-gallon basis indexed to gasoline. The policy shift late last year, which followed a Department of Energy change in how LNG is measured at the federal level, applied the higher diesel tax to LNG, effectively increasing the state tax on LNG by 4.3 cents per gallon.

The reversal of the tax change for LNG is effective retroactively to January 1, 2015, the date the increase took effect. As required by law, the new rate of 33.5 cents per gallon equivalent of LNG is reflected in the Pennsylvania Bulletin (March 13 edition).

2014-2015 General Fund Revenues
Estimated versus Actual Revenue Collections (in millions)

Fiscal year-to-date General Fund collections for February totaled $17.4 billion, which is $377.6 million, or 2.2 percent, above estimate.