

THE TAX COMPENDIUM

OCTOBER 2012

Tom Corbett, Governor

Daniel Meuser, Secretary of Revenue





COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
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THE SECRETARY

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Taxpayers of Pennsylvania:

On behalf of the Pennsylvania Department of Revenue, I am pleased to present a new edition of the Pennsylvania Tax Compendium.

The Department of Revenue administers and enforces the state tax codes, while performing fiscal analysis and budget planning for the Governor. In fiscal year 2011-12, the Department collected \$27.7 billion in revenue for the General Fund, \$2.4 billion for the Motor License Fund and \$838.5 million for the Gaming Fund.

The Tax Compendium describes the basis, rate and history of Pennsylvania taxes and is intended for research and background information. It is a general guide to Pennsylvania taxes, not a tax manual. The Statistical Supplement for the Tax Compendium contains tax collections data, including historical data for comparison purposes. Both reports are available on the Department's Web site at www.revenue.state.pa.us, under News and Reports.

I encourage you to visit the Revenue Department's Web site to explore the many e-services offered. Taxpayers can file returns and reports, make payments, register businesses, ask questions and file appeals electronically for Pennsylvania personal income and business taxes.

You can also stay on top of recent developments in the Department by visiting the Web site and by signing-up to receive the *Pennsylvania Tax Update*, a bi-monthly electronic newsletter.

Sincerely,

A handwritten signature in black ink, appearing to read 'D Meuser', written over a white background.

Daniel Meuser
Secretary of Revenue

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General Fund

The General Fund is the major operating fund of the Commonwealth. It receives most tax revenue and other receipts not assigned by law to special funds. Special funds receive monies set aside for particular purposes. The General Fund is the primary funding source for most Commonwealth agencies.

General Fund revenues are appropriated by the General Assembly and approved by the Governor. Funding for basic and higher education, health and human services, and protection of persons and property account for the majority of General Fund expenditures.

Several programs generate tax credits for businesses and individuals to apply against various General Fund taxes:

The Neighborhood Assistance Program

Any business firm or private company or pass-through entity which engages in certain assistance programs in impoverished areas or makes qualified investments in designated enterprise zones may claim the Neighborhood Assistance Tax Credit. The amount of credit that may be awarded to a taxpayer is 55 percent of the amount contributed by a business firm, or 75 percent of the amount contributed to special program priorities defined by the Department of Community and Economic Development in regulations. For private companies, the amount is 25 percent of the amount of qualified investment, or 35 percent of the amount invested in special program priorities. Also, a credit equal to 75 percent of the contributions made by a business firm during a taxable year for comprehensive service projects with a five-year commitment may be awarded. A credit equal to 80 percent of the contributions made by a business firm during a taxable year for comprehensive service projects with a six-year commitment may be awarded. The amount of the credits awarded annually cannot exceed \$500,000 for contributions or investments for single projects or \$1,250,000 for contributions or investments for four projects.

If the tax credit is not used in the period the investment was made, it may be carried over for five succeeding calendar or fiscal years. With the passage of Act 55-2007, taxpayers can also sell or assign unused tax credits. Total amount of credits taken by taxpayers cannot exceed the statutory limit of \$18 million in a fiscal year, with \$2 million allocated exclusively to pass-through entities. However, if the pass-through entities do not claim the \$2 million, the unused portion is available for other taxpayers.

Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 and 2010-11 by 50 percent and 55 percent respectively. For FY 11-12 and forward, the total amount of credit that can be awarded returns to \$18 million.

Act 85-2012 provided direction to the Department of Community and Economic Development to credit applications involving charitable food programs.

Job Creation Tax Credit

Any employer creating at least 25 new full-time equivalent jobs or increasing their workforce by 10 percent or more within three years from a given start date may receive a tax credit of \$1,000 for each job created. If the newly created job is filled by an individual who has been unemployed for at least 60 days, the maximum credit per job created is increased to \$2,500. To qualify as a new full-time job, the employee must earn at least 150 percent of the federal minimum hourly wage rate, excluding benefits. Twenty-five percent of the tax credits are allocated to companies with fewer than 100 employees. Act 26-2011 permanently reduced the total credits that can be awarded to \$10.1 million beginning in FY 2011-12. To be eligible for the credit, an employer must enter into an agreement with the Department of Community and Economic Development.

The Employment Incentive Payments Program

A corporation, bank, savings institution, insurance company, or mutual thrift institution subject to major corporation taxes or individual subject to the personal income tax, employing persons formerly receiving welfare benefits may qualify for employment incentive payment credits. The credit is also available to pass-through entities. The credit is for a portion of wages paid to a qualifying employee in the first three years of employment. Additional credit is available for financing associated day care costs. Total employment incentive payment credits authorized cannot exceed \$25 million in any fiscal year. Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 by 50 percent.

Employment incentive payment credits are available (as provided by Act 116-2004) for employees hired up to December 31, 2009.

Special Tax Provisions for Poverty Credits

Personal income tax - A credit against personal income tax liability is available for individuals who meet eligibility income limits. The most recent legislative change increased the dependent allowance from \$9,000 to \$9,500 per dependent. More detail is available in the Personal Income Tax section.

Research and Development Tax Credits

A research and development tax credit is available for qualified research performed in Pennsylvania. Prior to Act 46-2003, the credit had an annual cap of \$15 million, with \$3 million earmarked exclusively for small businesses. Act 46-2003 raised the annual cap to \$30 million and the amount of credit available to small businesses to \$6 million. Act 116-2006 raised the annual cap to \$40 million and the amount of credit available to small businesses to \$8 million. Before the passage of Act 116 the credit for all businesses was equal to 10 percent of the increase in research activities in Pennsylvania over a base period. Act 116 increased the small business credit from 10 percent to 20 percent of research activities.

Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 and FY 2010-11 to \$20 million and \$18 million respectively. Act 26-2011 increased the total amount of credit that can be awarded to \$55 million and the amount of credit available to small businesses to \$11 million beginning in FY 201-12. Act 85-2012 reestablished these limits and removed the sunset date of the tax credit.

The credit may be applied against the corporate net income tax, capital stock and franchise tax, personal income tax, or any combination thereof, but may not exceed 50 percent of such qualified tax liability for tax years 2004 and earlier. Act 46-2003 eliminated the 50 percent limitation for tax years 2005 and forward. Unused credits may be carried forward fifteen taxable years.

With the passage of Act 46-2003, taxpayers could apply to the Department of Community and Economic Development to sell or assign an unused credit after one year from the date that the department approved the credit. The purchaser or assignee must use the credit in the taxable year in which the purchase or assignment is made and the credit cannot exceed 75 percent of the tax liability for the taxable year. The purchaser may not carry credits forward or back or obtain a refund of any unused credit. This change applied to credits awarded in December 2003 and after. The Department of Revenue is required to report to the General Assembly the names of all taxpayers using the credit for credits awarded in December 2004 and after.

Keystone Opportunity Zone

The Keystone Opportunity Zone (KOZ) program was established in 1999 to spur the development of underutilized or deteriorated properties across the Commonwealth. In defined, parcel-specific areas, the program allows businesses and residents to receive tax relief from various local and state taxes. By waiving these taxes for a series of years, the program hopes to stimulate development of the selected sites. The Department of Community and Economic Development administers the program for the Commonwealth.

Among the state taxes waived by the program are corporate net income, capital stock and foreign franchise, personal income, bank shares, and mutual thrift institutions taxes. Insurance companies and certain regulated transportation companies may earn tax credits based on the number of jobs created in a zone. Businesses operating in a zone are exempted from paying sales and use taxes on items purchased for consumption in a zone. At the local level, property, earned income, and various other taxes are waived for zone businesses and residents.

Twelve Keystone Opportunity Zones, each containing as many as twenty sub-zones, have been designated throughout the Commonwealth. The program was enlarged in scope and length by the creation of Keystone Opportunity Expansion Zones (KOEZ). Act 217-2002 allowed for the enhancement of KOZ or KOEZ subzones. As amended, each zone may contain no more than 6,500 acres and expire no later than January 1, 2014. Act 217 also created Keystone Opportunity Improvement Zones (KOIZ).

Act 51-2003 permitted KOZ and KOEZ subzones to enhance their size up to previously legislated limits and extended the application period for KOIZ subzones until June 1, 2004. Benefits in the additional KOZ and KOEZ acreage began January 1, 2004 and were set to expire with the rest of the subzone, either December 31, 2010 or December 31, 2013. Approved KOIZ subzones were set to expire December 31, 2018. Act 51-2003 also changed the relocation provisions governing businesses moving into a subzone.

Act 79-2008 granted KOZs that were set to expire within the next five to ten years the option of extending their associated benefits for seven to ten years. Act 79-2008 also allowed the Department of Community and Economic Development to designate up to 15 additional KOEZs beginning in January 1, 2010. Under this legislation, contractors, pursuant to a contract with a qualified business, landowner or

lessee, may purchase, exempt from sales and use tax, any tangible personal property or services for use in the zone by the qualified business.

Furthermore, under Act 79-2008, the formula for calculating the taxable income of a corporation in a zone is now based only on the payroll and property factors. The sales factor was eliminated from the calculation.

Act 16-2012 granted KOZs located in unoccupied parcels the option of extending their associated benefits for seven to ten years. Additionally, the Department of Community and Economic Development is allowed to designate up to 19 additional KOEZs. Act 16-2012 also permits the expansion of an existing KOZ and KOEZ zone if the expansion is expected to increase job creation or capital investment. Benefits for expanded parcels are limited to 15 acres for a period of 10 years.

Coal Waste Removal and Ultraclean Fuels

A tax credit is available for qualifying capital expenditures on facilities producing fuels from coal, culm, or silt. The credit can be used against sales and use tax, corporate net income tax, and capital stock and franchise tax. The total cost of the credit is capped at \$18 million per year.

Educational Improvement Tax Credit

This tax credit is granted to business firms providing proof of a contribution to a scholarship organization or an educational improvement organization. The actual credit is equal to 75 percent of the total amount contributed during the taxable year. A credit equal to 90 percent of the total amount contributed will be granted if the business provides a written commitment to the Department of Community and Economic Development (DCED) to contribute the same amount for two consecutive years. The tax credit shall not exceed the tax liability of a business for any given taxable year. Prior to 2004, the credit could not exceed \$100,000 per business per taxable year. Act 48-2003 increased the limit to \$200,000 per business per taxable year beginning in 2004. Act 85-2012 increased the limit to \$400,000 for fiscal year 2012-13 and \$750,000 for fiscal year 2013-14 and each year thereafter.

Prior to 2004, the total amount of tax credits approved for all taxpayers could not exceed \$30 million in a fiscal year, including \$20 million for contributions to scholarship organizations, and \$10 million for contributions to educational improvement organizations. Act 48-2003 increased the total amount of tax credits available for all taxpayers to \$40 million in a fiscal year, including \$26.7 million for contributions to scholarship organizations, and

\$13.3 million for contributions to educational improvement organizations. Act 48-2003 also created a \$5.0 million credit program for contributions to pre-kindergarten scholarship organizations beginning in fiscal year 2004-05.

Act 46-2005 increased the total amount of tax credits approved for all taxpayers from \$40 million to \$44 million in a fiscal year including \$29.3 million for contributions to scholarship organizations, and \$14.7 million for contributions to educational improvement organizations beginning in fiscal year 2005-06. Act 114-2006 raised the annual cap on credits from \$44 million to \$54 million, including \$36 million for contributions to scholarship organizations and \$18 million for contributions to educational improvement organizations beginning in fiscal year 2006-07.

Act 45-2007 increased the total aggregate amount of Educational Improvement Tax Credits available for a fiscal year by \$16 million, from \$59 million to \$75 million. The amount of credits available for scholarship organizations was increased by \$8.7 million to \$44.7 million per year. The amount available for contributions to educational improvements was increased by \$4.3 million to \$22.3 million per year. The total amount of credits available for kindergarten organizations increased to \$8 million per year, an increase of \$3 million.

Act 61-2008 increased the annual limit per taxpayer from \$200,000 to \$300,000 for scholarship and education improvement organizations, and increased the annual credit limit for contributions to pre-kindergarten scholarship organizations from \$100,000 to \$150,000. Act 85-2012 increased the annual limit for contributions to pre-kindergarten scholarship organizations from to \$200,000.

Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 and FY 2010-11 to \$60 million and \$50 million respectively. Act 46-2010 increased the credit to \$60 million for 2010-11.

Act 85-2012 increased the total amount of tax credits approved for all taxpayers to \$100 million in a fiscal year, including \$60 million for contributions to scholarship organizations, \$30 million for contributions to educational improvement organizations, and \$10 million to kindergarten organizations.

Keystone Innovation Zone

Act 12-2004 created the Keystone Innovation Zone (KIZ) program to foster growth in targeted industry segments, namely research and development and other high technology businesses. The zones are defined parcels and are operated by a partnership of business groups and institutions of higher education. Qualified businesses operating in a zone are entitled

to priority consideration for assistance under a number of State programs, as well as a tax credit. A KIZ company may apply to the Department of Community and Economic Development for a tax credit equal to 50 percent of the increase in its gross revenues from the previous year attributable to its activities in a zone. A KIZ company may not claim in excess of \$100,000 in tax credit per year. No more than \$25 million in tax credits may be awarded in any taxable year.

KIZ companies may apply KIZ tax credits against personal income tax, corporate net income tax, or capital stock and franchise tax liabilities. KIZ companies may apply for KIZ tax credits beginning September 15, 2006 based on expenses from the prior taxable year. The Department of Community and Economic Development began awarding credits during fiscal year 2006-07.

Act 16-2012 permits the expansion of an existing KIZ zone if the expansion is expected to increase job creation or capital investment. Benefits for expanded parcels are limited to 15 acres for a period of 10 years.

Film Production Tax Credit

A Film Production Tax Credit in the amount of 20 percent of qualified film production expenses incurred in Pennsylvania was originally created by Act 95-2004. The tax credit could be used to offset capital stock and franchise tax, corporate net income tax, and personal income tax. To qualify, the expenses must have been incurred in the production of a film or television show of at least 15 minutes in length that was intended for a national audience. At least 60 percent of total production expenses must have been incurred in Pennsylvania.

The total amount of tax credit that could be awarded in any fiscal year was \$10 million. Initially, the Department of Revenue awarded the tax credit on August 15 for qualified expenses incurred during July through December of the prior calendar year. Beginning in fiscal year 2006-07, the credit program was replaced with a grant program.

Beginning in fiscal year 2007-08, the Film Production Tax Credit was reestablished as part of Act 55-2007. DCED is responsible for administering the program. DCED will administer the award of the credits by the order of the date that the applications are received. Tax credit certificates will be issued by the Department upon review and approval of an audit, economic impact report, and any other information requested by the Pennsylvania Film Office. Provided the information supplied to the Film Office meets the financial reporting requirements of the program, a tax credit certificate will be issued within 45 days of receipt of the information. DCED

may, upon its discretion, award 30 percent of the dollar amount of Film Production tax credits available to be awarded in the next succeeding fiscal year, 20 percent in the second successive fiscal year, and 10 percent in the third successive fiscal year.

This credit will be available for certain production expenses of the producers of feature films and certain television commercials or shows intended for a national audience. Production expenses include compensation paid to individuals or payments made to entities representing individuals for their services, the costs of construction, operations, editing, photography, sound synchronization, lighting, wardrobe and accessories, the cost of transportation; the cost of insurance coverage, the costs of food and lodging, the purchase of music or story rights; and the cost of rental of facilities and equipment. Production expenses will not include certain items such as deferred compensation or profit sharing, development costs, marketing or advertising expenses or expenses related to the selling of the credit.

A tax credit equal to 25 percent of qualified film production expense may be taken against personal income tax, corporate net income tax, capital stock/franchise tax, bank shares tax, and the insurance premiums tax. A taxpayer is eligible for an additional tax credit of 5 percent if the taxpayer films a feature film, television film, or television series intended for a national audience that is filmed in a qualified production facility that meets all minimum stage requirements.

Qualified film production expenses are Pennsylvania production expenses if at least 60 percent of the total production expenses are incurred in Pennsylvania except that compensation paid to individuals or payments made to entities representing individuals for services provided in the film cannot exceed \$15 million. The Department of Community and Economic Development may waive the 60 percent requirement in certain circumstances.

Credits granted may be carried forward; however, they may not be carried back or refunded. Credits may be sold or assigned with the approval of Department of Community and Economic Development and the Department of Revenue pursuant to regulations jointly promulgated. There are procedures for the transfer of unused credits by pass-through entities (Subchapter S corporation, Limited Liability Companies and Partnerships) to a shareholder, member or partner. Those films that receive a film production grant are not eligible for this credit for the same film. The total amount of credits that can be granted in any fiscal year cannot exceed \$75 million.

Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 and FY 2010-11 to \$42 million and \$60 million respectively. Act 26-2011 permanently reduced that amount to \$60 million for FY 2011-12 and after.

Organ Bone Marrow Donor Tax Credit

The Organ and Bone Marrow Donor Act provides for a tax credit for expenses incurred when a business firm grants to any of its employees a paid leave of absence for the purpose of donating an organ or bone marrow. Credits can be used against personal income tax, corporate net income tax, capital stock and franchise tax, bank and trust company shares tax, title insurance companies shares tax, insurance premiums tax or mutual thrift institutions tax.

Alternative Energy Production Tax Credit

Act 1 of the Special Section of 2008 created the Alternative Energy Production Tax Credit. Taxpayers that develop or construct energy production projects located within the Commonwealth, which have a useful life of at least four years, may apply to the Department of Environmental Protection for a tax credit beginning in September 2009. The amount of the tax credit may be up to 15 percent of the amount paid for the development and construction of alternative energy production project but may not exceed \$1 million per taxpayer. Unused portions of the tax credit may be carried forward for up to five taxable years from the year in which the credit is awarded. Credits may not be carried back. Additionally, taxpayers may sell or assign unused portions of the tax credit upon approval by the Department of Revenue and the Department of Environmental Protection. The total amount of tax credit that can be awarded is anywhere from \$2 million to \$10 million per fiscal year depending on the fiscal year. Act 48-2009 prohibits that any amount of tax credit can be awarded in FY 2009-10 and FY 2010-11. Beginning in FY 2011-12, the total amount of tax credits that can be awarded is \$5 million.

Strategic Development Areas

The Strategic Development Areas (SDA) program was established in 2006 to provide incentives for economic development in designated areas. Act 151 of 2006 created the program to provide tax relief and tax credits to qualified companies within the SDA. The designation is in effect for fifteen years and must be approved by the political subdivision in which the SDA is located.

Businesses located within the SDA are eligible to receive tax relief from various local and state taxes, including the corporate net income tax, the capital

stock and foreign franchise tax, and the personal income tax. In addition, businesses operating within the SDA are exempt from paying sales and use tax on purchases for consumption within the SDA. Insurance companies and certain regulated transportation companies may earn tax credits based on the number of jobs created in a zone. At the local level, property taxes, earned income and net profit taxes, mercantile license tax, and the local sales and use tax are waived for area businesses. By waiving these taxes and creating tax credits for a series of years, the program hopes to foster growth within the SDA.

The program is administered by the Department of Community and Economic Development. Tax benefits may not extend beyond December 31, 2022.

Volunteer Responder Retention and Recruitment Tax Credit

Act 66-2008 created the Volunteer Responder Retention and Recruitment Tax Credit, a one-time credit awardable for the 2008 taxable year and available to a volunteer for a volunteer ambulance service, volunteer fire company, or volunteer rescue company. Eligibility and credit amount for the credit is determined by a points system and the number of months as an active volunteer. The maximum credit per volunteer is \$100, which will be awarded by the order of the date that the application was received until the \$4.5 million credit cap is met. Any unused credits may be carried forward for up to three years; however they may not be sold, reassigned, carried back, or refunded.

Resource Enhancement and Protection Tax Credit

The Resource Enhancement and Protection (REAP) Tax Credit was created as part of Act 55-2007. The REAP tax credit is available to business entities or individuals that engage in certain agricultural programs that manage nutrients and sediment and protect surface water and groundwater. An eligible applicant applies to the State Conservation Commission of the Department of Agriculture for authorization that a project is eligible for a tax credit under this program. Tax credits will be awarded by the order of the date that the application was received. Once the Commission has authorized a credit, the Commission shall provide notice to the Department of the credit. The credit may be carried forward for 16 years.

The REAP tax credit may be used against personal income tax, corporate net income tax, capital stock and franchise tax, bank shares tax, title insurance company premiums tax, insurance premiums tax and mutual thrift institutions tax. These credits can be

awarded to eligible projects, applicants or sponsors of eligible projects. Dependent on the type of project, a tax credit in the amount of 75 percent of the eligible project or 50 percent of the project costs may be awarded up to a maximum amount of \$150,000 for each eligible applicant or project. There is no limitation on the amount of credit that can be awarded to a sponsor of the project.

There are procedures for the sale and assignment of the credit as well as for pass-through entities to transfer tax credits to their shareholders, partners or members. The total amount of credits that can be awarded in one fiscal year is \$10 million. If the Commission determines that a best management practice is not maintained, then the amount of the tax credit originally awarded shall be returned to the Department of Revenue. The credit took effect in fiscal year 2007-08 except that credits for legacy sediment could not be issued prior to July 1, 2008.

Act 48-2009 reduced the amount of tax credit that could be awarded in FY 2009-10 and 2010-11 by 50 percent and 55 percent respectively. For FY 11-12 and forward, the total amount of credit that can be awarded returns to \$10 million.

Keystone Special Development Zones Tax Credit

The Keystone Special Development Zones (KSDZ) Tax Credit was created as part of Act 26–2011. The KSDZ tax credit is available to taxpayers with operations located on parcels of real property certified as Brownfields pursuant to the Land Recycling and Environmental Remediation Standards Act. The tax credit is equal to \$2,100 for each full-time equivalent employee working in the zone beginning in tax year 2012. The tax credit is available for ten consecutive tax years during the fifteen year period the tax credit will be in existence, ending June 30, 2026.

The KSDZ tax credit may be used against personal income tax, corporate net income tax, capital stock and franchise tax, bank shares tax, title insurance tax, insurance premiums tax, and gross receipts tax. The tax credit may not exceed the qualified tax liability and may be carried forward for up to ten years. Jobs used to claim this tax credit may not be used to claim the Keystone Opportunity Zone Tax Credit or the Job Creation Tax Credit.

Unused KSDZ credits may be sold or assigned to reduce a taxpayer’s liability up to 75 percent. The purchaser or assignee of an unused KSDZ credit must use it in the year it was purchased or assigned; there is no carry forward, carry back or refund of a KSDZ credit.

Pennsylvania Resource Manufacturing Tax Credit

The Pennsylvania Resource Manufacturing (PRM) Tax Credit was created as part of Act 85–2012. The PRM tax credit is available to business entities purchasing ethane for use in manufacturing ethylene at a facility in the Commonwealth that has made a capital investment of at least \$1 billion and created at least 2,500 full-time equivalent jobs during the construction phase.

The PRM tax credit is equal to \$0.05 per gallon of ethane purchased (\$2.10/barrel) for the period from January 1, 2017 to December 31, 2042. The credit may be used to offset 20 percent of a taxpayer’s liabilities for personal income tax, corporate net income tax, capital stock and foreign franchise tax, bank shares tax, title insurance company shares tax, gross premiums tax, and mutual thrift institutions tax.

Within one year after the PRM credit is approved, a taxpayer can apply to DCED for approval to assign or sell eligible credits to another taxpayer. The eligible buyer of the credit may use the purchased credits to offset up to 50 percent of its Pennsylvania tax liabilities. The PRM tax credit may not be carried back, carried forward, or be used to obtain a refund.

Educational Opportunity Scholarship Tax Credit

The Educational Opportunity Scholarship (EOS) Tax Credit was created as part of Act 85–2012. The EOS tax credit is available to eligible businesses contributing to an Opportunity Scholarship Organization. Business contributions are then used by Opportunity Scholarship Organizations to provide tuition assistance in the form of scholarships to eligible students residing within the boundaries of a low-achieving school to attend another public school outside of their district or nonpublic school.

The EOS tax credit is equal to 75 percent of contribution to an approved scholarship organization, up to a maximum of \$400,000 per taxable year. The tax credit may be increased to 90 percent of the contribution made, up to a maximum of \$400,000 per taxable year, if the business agrees at the time of application to provide the same amount of contribution for two consecutive tax years. To ensure the receipt and retention of the 90 percent tax credit, the business must make the same amount of contribution in each of the two consecutive tax years.

The EOS tax credit may be applied to the personal income tax, corporate net income tax, capital stock & foreign franchise tax, bank shares tax, title insurance company shares tax, gross premiums tax, and mutual thrift institutions tax. An EOS tax credit not used in the taxable year in which the contribution was made

may not be carried forward or carried back and it is not refundable. The total amount of credits that can be granted in any fiscal year cannot exceed \$50 million.

Historic Preservation Incentive Tax Credit

The Historic Preservation Incentive (HPI) Tax Credit was created as part of Act 85–2012. Beginning July 1, 2013, a HPI tax credit is available to qualified taxpayers owning a PA commercial building that qualifies as a certified historical structure according to the Internal Revenue Code (IRC). The HPI tax credit is equal to 25 percent of the costs and expenses associated with a rehabilitation of a historic structure approved by the Pennsylvania Historical and Museum Commission or costs and expenses defined as qualified rehabilitation expenditures under the IRC. The HPI tax credit may be applied to the personal income tax, corporate net income tax, capital stock & foreign franchise tax, bank shares tax, title insurance company shares tax, gross premiums tax, gross receipts tax, and mutual thrift institutions tax.

A taxpayer without a qualified tax liability may assign or sell credits to another taxpayer. Purchasers and assignees of a tax credit must immediately claim the credit in the taxable year in which the purchase or assignment is made. The HPI tax credit may not be carried back or used to obtain a refund, but it may be

carried forward for up to seven taxable years following the first taxable year for which the taxpayer was entitled to claim the credit.

The maximum amount of HPI tax credits awarded is \$3 million and \$500,000 per taxpayer annually. No HIP credits may be awarded after June 30, 2020.

Community-Based Services Tax Credit

The Community-Based Services (CBS) Tax Credit was created as part of Act 85–2012. Beginning July 1, 2013, a CBS tax credit is available for contributions made by business firms to providers of community-based services for individuals with intellectual disabilities, mental illness, or drug and alcohol addiction. The CBS tax credit is equal to 50 percent of contributions made to a provider. This amount may be increased to 75 percent for business firms that contribute to a provider in two or more successive years.

The CBS tax credit may be applied to the personal income tax, corporate net income tax, capital stock/foreign franchise tax, bank shares tax, title insurance company shares tax, gross premiums tax, and mutual thrift institutions tax. Tax credits may not be carried forward, carried back, and are not refundable or transferable

The maximum amount of CBS tax credits awarded is \$3 million and \$100,000 per taxpayer annually. No CBS credits may be awarded after the June 30, 2020.

Corporation Taxes

Domestic (incorporated in Pennsylvania) and foreign (incorporated outside Pennsylvania) corporations doing business in Pennsylvania are subject to corporate net income tax and corporate loans tax. In addition, Pennsylvania corporations must pay capital stock tax, and foreign corporations must remit foreign franchise tax. Special classes of domestic and foreign corporations are subject to various selective business taxes including a gross receipts tax levied on electric, telecommunications, and transportation companies; a gross premiums tax imposed on domestic and foreign insurance companies; a public utility realty tax levied on regulated utilities; and the bank and trust company shares tax, title insurance company shares tax, or mutual thrift institutions tax levied on financial institutions.

Corporate Net Income Tax

Domestic and foreign corporations are subject to the corporate net income tax for the privilege of doing business, carrying on activities, having capital or property employed or used in Pennsylvania, or owning property in Pennsylvania. Limited liability companies and business trusts that are classified as corporations for Federal income tax purposes are also subject to tax. Building and loan associations, banks, saving institutions, trust companies, insurance and surety companies, and nonprofit corporations are exempt from the tax.

This tax is levied on federal taxable income, without the federal net operating loss deduction and special deductions, and modified by certain additions and subtractions. To arrive at Pennsylvania taxable income, all taxes imposed on or measured by net income which are expensed on the federal corporate income tax return are added back, while the foreign dividend gross-up and net interest income and gains on United States government securities are deducted.

A Pennsylvania net loss carryforward is permitted for taxable years beginning on or after January 1, 1981, according to the schedule listed below. Losses carried forward to a tax year may be deducted from taxable income in that tax year to arrive at the tax liability. Net loss deductions for tax years 1982 through 1990 were uncapped. For tax years 1991 through 1994, the net loss deduction was suspended and no net loss deduction was allowed. Act 48–1994 reinstated the net loss provisions. For the tax year beginning in 1995, the net loss deduction allowed each taxpayer is capped at \$500,000. Act 21–1995 raised the net loss deduction allowed each taxpayer to \$1,000,000 per tax year for tax years beginning in 1996 and thereafter. Act 45–1998 increased the three year carryforward period to ten years starting with

losses realized in tax year 1995. Tax year 2005 is the first tax year in which 10 years of tax losses are fully available. Act 4–1999 increased to \$2,000,000 the annual cap on deductions in each of the ten years following the loss, effective January 1, 1999. Act 89–2002 increased the carryforward period to 20 years starting with losses realized in tax year 1998. Tax year 2018 is the first year in which 20 years of losses are fully available. Act 116–2006 increased the annual cap on deductions to the greater of \$3,000,000 or 12.5 percent of taxable income, effective January 1, 2007. Act 48-2009 retroactively increased the annual cap on deductions for 2009 to the greater of \$3,000,000 or 15 percent of taxable income, effective January 1, 2009. Effective January 1, 2010, the annual cap on deductions is increased to the greater of \$3,000,000 or 20 percent of taxable income

Net Loss Carryforward Schedule

<u>Taxable Year</u>	<u>Loss Carry forward</u>
1981	1 taxable year
1982	2 taxable years
1983 – 1987	3 taxable years
1988	2 taxable years, plus the 1995 taxable year
1989	1 taxable year, plus the 1995 and 1996 taxable years
1990 – 1993	1995 through 1997 taxable years
1994	1995 taxable year
1995 – 1997	10 taxable years
1998 and thereafter	20 taxable years

Corporations are taxed on a separate company basis for Pennsylvania purposes; therefore, corporations which file a consolidated federal return must start with the taxable income which would have been shown on separate federal returns in order to arrive at the Pennsylvania base. For corporations whose entire business is not transacted within Pennsylvania, the income base may be allocated and apportioned to determine income subject to taxation in Pennsylvania. Nonbusiness income is directly allocated within or without Pennsylvania. Business income is usually apportioned on the basis of property, payroll, and sales factors within and without Pennsylvania. Act 4–1999 increased the weighting of the sales factor in the apportionment formula from 50 percent to 60 percent beginning in tax year 1999. In the numerator of the formula, the sales factor is multiplied by three instead of two as was done prior to Act 4–1999; the payroll and property factors remain multiplied by one. The sum of the numerator is then divided by five instead of four. Act 116–2006 increased the weighting of the

sales factor in the apportionment formula from 60 percent to 70 percent beginning in the tax year 2007. In the numerator of the formula, the sales factor is multiplied by 70 and the property and payroll factors are each multiplied by 15. The sum of the numerator is then divided by 100. Act 48-2009 increased the weighting of the sales factor in the apportionment formula from 70 percent to 83 percent for tax year 2009, and to 90 percent beginning in tax year 2010. For tax year 2009, in the numerator of the formula, the sales factor is multiplied by 83 and the property and sales factors are each multiplied by 8.5. For tax year 2010, in the numerator of the formula, the sales factor is multiplied by 90 and the property and sales factors are each multiplied by 5. The sum of the numerator in both instances is divided by 100. Act 85-2012 increased the weighting of the sales factor in the apportionment formula to 100 percent beginning in tax year 2013. Other apportionment methods are available for special industries. The effect of this provision is to lower the apportionment formula for corporations with relatively more payroll and property than sales in Pennsylvania.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
1935	6.00%	1972 ¹	11.00%
1936	10.00%	1974	9.50%
1937	7.00%	1977 ²	10.50%
1943	4.00%	1985 ³	9.50%
1951	5.00%	1987 ⁴	8.50%
1956	6.00%	1991 ⁵	12.25%
1967	7.00%	1994 ⁶	11.99%
1969	12.00%	1995 ⁷	9.99%

¹ The rate was 12 percent for the first half of 1972 and 11 percent for the second half of that year.

² Act 98–1977 temporarily raised the rate to 10.5 percent, and Act 246–1982 made this rate permanent.

³ Authorized by Act 94–1984.

⁴ Authorized by Act 77–1986.

⁵ Authorized by Act 22–1991.

⁶ Authorized by Act 48–1994.

⁷ Authorized by Act 21–1995.

The tax is paid on an estimated tax payment system. Under this system, prepayments are considered deposits as opposed to tentative liabilities. Cumulative prepayments must exceed 90 percent of reported annual liability, or 100 percent of the liability two year’s prior subject to the current rate and, after 1990, the current tax base definition. The adequacy of these payments is judged retrospectively based on the final return.

Quarterly payments are due on the 15th day of the 3rd, 6th, 9th, and 12th months of the tax year. Final

reports and payments are due 105 days after the close of the taxable year. Extensions are available for filing annual reports, but not for remitting payments.

The corporate net income tax originated as an emergency tax during the Civil War but later was declared unconstitutional by the Pennsylvania Supreme Court. It was enacted as an emergency tax again in 1923 and in 1935. In 1957 the tax was made permanent and was later codified into the Tax Reform Code of 1971.

The enabling legislation is Article IV of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Capital Stock and Foreign Franchise Taxes

These taxes are imposed on corporations with capital stock, joint-stock associations, limited liability companies, business trusts, and other companies doing business within Pennsylvania. Nonprofit and family farm corporations are exempt. Domestic corporations are subject to the capital stock tax while foreign corporations are subject to the foreign franchise tax on capital stock apportioned to Pennsylvania.

The capital stock tax for domestic firms is imposed on the corporation's capital stock value, as derived by the application of a formula. The courts have construed this tax to be a property tax.

The foreign franchise tax is a tax on the privilege of doing business in Pennsylvania, rather than on property, and is imposed on the capital stock value attributable to Pennsylvania.

Capital stock valuations are derived by application of the following formula:

$$\left\{ 0.5 \times \left[\frac{\text{AveNetIncome}}{0.095} + (0.75 \times \text{NetWorth}) \right] \right\} - \$160,000$$

<u>Tax Year</u>	<u>Valuation Deduction</u>
1987	\$50,000
1988-1990	\$100,000
1991-1993	\$50,000
1994	\$75,000
1995-1996	\$100,000
1997-2006	\$125,000
2007-2009	\$150,000
2010 and beyond	\$160,000

Net worth is defined as consolidated net stockholders' equity as of the close of the tax year unless at that time net worth is greater than twice or less than half of the net worth as calculated at the beginning of the year. In that case, net worth is an average of the two amounts. Average net income is defined as a five-

year average of unconsolidated net income as shown in the stockholders' annual report.

Corporations are permitted to choose between a single exempt assets factor and a three-factor apportionment to determine the portion of capital stock value attributable to Pennsylvania and thus subject to Commonwealth taxation. Corporations may use the exempt assets factor to exclude certain nontaxable assets. The single fraction consists of the book value of taxable assets divided by the book value of total assets. The three-factor apportionment is composed of property, payroll, and sales fractions.

Certain assets are exempt from tax, and these exemptions are reflected in the apportionment fractions used to compute the percentage of the capital stock value actually subject to tax. A statutory exemption is provided for assets engaged in producing a manufactured article within Pennsylvania, specified processing operations, including computer software development, research or development activities, and air or water pollution control efforts. A corporation receives an exemption for intangible assets to the extent that they are directly used in an exempt activity. Holding companies, as defined by law, may elect a special 10 percent apportionment formula in lieu of a standard apportionment formula. Regulated investment companies apportion their special valuation based on the share of income distributed to resident shareholders.

The taxes are imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1844	3.00 mills
1891	5.00 mills
1967	6.00 mills
1969	7.00 mills
1971	10.00 mills
1987 ¹	9.00 mills
1988 ²	9.50 mills
1991 ³	13.00 mills
1992	12.75 mills
1998 ⁴	11.99 mills
1999 ⁵	10.99 mills
2000 ⁶	8.99 mills
2001 ⁶	7.49 mills
2002 ⁷	7.24 mills
2003 ⁸	7.24 mills
2004 ⁸	6.99 mills
2005	5.99 mills
2006 ⁹	4.89 mills
2007	3.89 mills
2008 ¹⁰	2.89 mills
2009 ¹¹	2.89 mills

2012 1.89 mills

¹ Act 58–1987 retroactively reduced the rate from 10.0 mills to 9.0 mills effective for tax years beginning in 1987 and increased the rate to 9.5 mills starting with tax year 1988.

² Beginning in 1988, the revenue raised from 0.5 mills of the tax is transferred to the Hazardous Sites Cleanup Fund (HSCF).

³ Act 22–1991 retroactively increased the rate to 13 mills. For tax years beginning in 1991 only, 0.25 mills of the tax was earmarked for the State Lottery Fund.

⁴ Act 45–1998 retroactively lowered the rate to 11.99 mills.

⁵ Act 4–1999 retroactively lowered the rate to 10.99 mills and reduced the HSCF portion to 0.25 mill.

⁶ Act 23–2000 retroactively lowered the rate to 8.99 mills for tax year 2000. In addition, the Act phases out the tax rate by 1.5 mills for tax year 2001 and by 1 mill per year thereafter until the tax is eliminated.

⁷ Act 89–2002 modified the CSFT phaseout schedule by setting the 2002 rate at 7.24 mills. In addition, the Act set the rate at 6.99 mills for 2003. Act 89 also lowered the rate by 1 mill per year thereafter until the tax is eliminated. The semi-annual transfer to the HSCF is suspended unless the fund balance is expected to be less than \$5 million.

⁸ Act 46–2003 modified the CSFT phaseout schedule by setting the 2003 rate at 7.24 mills. In addition, the Act set the 2004 rate at 6.99 mills. The rate is reduced by 1 mill per year thereafter until the tax is eliminated.

⁹ Act 67–2006 retroactively lowered the rate to 4.89 mills for tax year 2006. In addition, the act phases out the tax rate by 1 mill per year thereafter until the tax is eliminated.

¹⁰ Beginning in fiscal year 2008-09, the transfer to HSCF is \$40 million.

¹¹ Act 48 of 2009 retroactively froze the rate at 2.89 mills for tax year 2009. The rate will remain 2.89 mills through 2011; thereafter the original phase out of 1 mill per year will resume until the tax is eliminated.

A minimum tax of \$75 was established for tax years beginning in 1983, and the minimum tax was increased to \$300 for tax years beginning in 1991 through 1998. Act 4–1999 decreased the minimum tax payment to \$200 effective January 1, 1999. Act 23–2000 eliminated the minimum payment for tax years beginning in 2000 and thereafter.

A corporation must pay the tax due in quarterly installments computed under the estimated payment system in place for corporate net income tax. The remaining tax due must be remitted when the report is due without regard to extension. The final tax report is due 105 days after the close of the taxable year.

These taxes were first enacted in 1840 and amended in 1844.

The enabling legislation is Article VI of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Gross Receipts Tax

This tax is levied on pipeline, conduit, steamboat, canal, slack water navigation, and transportation companies; telephone, telegraph, and mobile telecommunications companies; electric light, water power, and hydroelectric companies; managed care organizations; express companies; palace car and sleeping car companies; and freight and oil transportation companies.

The tax is based on gross receipts from passengers, baggage, and freight transported within Pennsylvania; telegraph and telephone messages transmitted within Pennsylvania as well as mobile telecommunications services and interstate landline calls either originating or terminating in Pennsylvania and billed to a service address in Pennsylvania; sales of electric energy; intrastate shipment of freight and oil; and payments pursuant to a Medicaid managed care contract with the Department of Public Welfare.

Municipally owned or operated public utilities may exclude gross receipts derived from business done inside the limits of the municipality. Companies selling electric energy for resale are entitled to exclude those gross receipts. Electric cooperative corporations are exempt from gross receipts tax on electric companies for sales within their service territory. Act 21–1995 exempted railroads from this tax, effective January 1, 1995. A credit for expenditures on maintenance and improvements of railroad rights-of-way was enacted in 1980 and repealed by Act 21–1995. Act 45–1998 repealed the motor carriers gross receipts tax, effective January 1, 1998. Act 4–1999 exempted the sale of natural gas pending passage of a law deregulating the natural gas industry. Act 21–1999, which deregulated the natural gas industry, effectively exempted the sale of natural gas from the tax beginning January 1, 2000. Act 23–2000 exempted the sale for resale of telecommunications services from the tax beginning January 1, 2000. Act 46–2003 extended the gross receipts tax to mobile and interstate telecommunications services. Act 48-2009 extended the gross receipts tax to managed care organizations.

Firms are required to file reports and remit tax payments annually by March 15th for taxable gross receipts in the prior year. Act 7–1997 changed the gross receipts tax from a tentative to an estimated prepayment system effective for tax years beginning on or after January 1, 1998. Under this system, prepayments are considered deposits as opposed to tentative liabilities. Estimated payments are due March 15th for the current taxable year and must exceed 90 percent of reported annual liability, or 100

percent of the liability two years prior, subject to the current rate. The adequacy of these payments is judged retrospectively based on the final return.

The tax on gross receipts originated in 1864. In 1889 a revised gross receipts tax was enacted and was eventually codified into the Tax Reform Code of 1971.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1889	8 mills
1935	14 mills
1936	20 mills
1944	14 mills
1967 ¹	20 mills
1970	45 mills
1988	44 mills
1991 ²	50 mills

¹ The 20 mills rate became effective July 1, 1967.

² The 50 mills rate became effective July 1, 1991 on gross receipts other than from electric utilities, which continued to be taxed at 44 mills.

Act 138–1996 provided the Revenue Neutral Reconciliation (RNR) mechanism for adjusting the base rate on sales of electric energy. The RNR was calculated at -2 mills for tax year 1999, +6 mills for tax year 2000, -1 mill for tax year 2001, and +15 mills for tax year 2002. Act 89–2002 set the permanent RNR tax rate paid by electric companies at 15 mills for tax year 2003 and thereafter; the actual GRT rate applied to the sales of electric energy is 59 mills for tax year 2003 and forward.

Beginning July 1, 1993, the revenue raised from 0.25 mill of the tax collected during the fiscal year is transferred to the Alternative Fuels Incentive Grant Fund pursuant to Act 166–1992.

Act 89–2002 created a gross receipts tax surcharge in the event refunds for PURTA appeals exceed \$5 million in any fiscal year. The surcharge is calculated based on the amount of PURTA refunds during the prior fiscal year. Act 46–2003 excludes from the surcharge gross receipts derived from providing mobile telecommunications services and telegraph or telephone messages transmitted in interstate commerce.

There has not been a GRT surcharge in every year: For tax years 2004, 2006, 2009, and 2010 there was no surcharge. For tax years 2005, 2007, 2008, and 2011 the surcharge was 0.6 mills, 1.2 mills, 2.8 mills, and 1.6 mills respectively.

Prior to Act 46–2003, 0.18 percent of the gross receipts tax base for electric suppliers was transferred

to the Public Transportation Assistance Fund. Act 46–2003 repealed this transfer.

The enabling legislation is Article XI of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Public Utility Realty Tax

An amendment to the Constitution of Pennsylvania in 1968 provided for the state taxation of public utility realty. The Public Utility Realty Tax (PURTA) is levied against certain entities furnishing utility services that are regulated by the Pennsylvania Public Utility Commission or a similar regulatory body. Public utilities furnishing sewage services and municipal authorities furnishing public utility service are exempt from tax. The Commonwealth imposes this tax on public utility realty in lieu of local real estate taxes and distributes the local realty tax equivalent to local taxing authorities.

Act 4–1999 fundamentally revised the PURTA statute. Beginning with tax year 1998, the PURTA tax base is the fair market value of utility realty, which is defined as the assessed value of the realty as adjusted by the common level ratio of the county in which the realty is located. The previous base had been the depreciated book value of the utility realty. Exempt from the tax are easements, rights-of-way, pipe, rail or other lines, machinery or equipment not affixed to the land, and certain property subject to local taxation.

The Department will annually calculate a variable tax rate in order to raise an amount of revenue equal to the distribution of the realty tax equivalent to the local taxing authorities. An additional tax rate of 7.6 mills is applied to the tax base. Up until June 30, 2003, the 7.6 mills of revenue was transferred to the Public Transportation Assistance Fund. Act 46–2003 eliminated this transfer as of June 30, 2003. As a result, the 7.6 mills of PURTA revenue will remain in the General Fund beginning in FY 2003-04.

For tax year 1999 and for each tax year thereafter, the local taxing authorities must file reports with the Department separately listing the utility realty in each jurisdiction and the realty tax equivalent by April 1st of the succeeding year.

Public utilities had until July 30, 1999 to file retroactive appeals on the assessment of their utility realty for 1998 and 1999. As of December 31, 1999, land and improvement indispensable to the generation of electricity is subject to local real estate tax and excluded from the PURTA tax base and the realty tax equivalent.

For taxable year 2000 and for each year thereafter, a tentative payment and the utility realty report are due on May 1st of the taxable year and a final payment is due on September 15th of the following year.

Act 89–2002 created a gross receipts tax surcharge in the event refunds for PURTA appeals exceed \$5 million in any fiscal year. The surcharge will be calculated based on the amount of PURTA refunds during the prior fiscal year. Act 46–2003 excludes from the surcharge gross receipts derived from providing mobile telecommunications services and telegraph or telephone messages transmitted in interstate commerce.

The enabling legislation is Article XI-A of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Gross Premiums Tax

Domestic and foreign insurance companies, except purely mutual beneficial associations and nonprofit hospital and medical associations, are subject to this tax. A retaliatory tax also is imposed on taxable companies incorporated in other states which impose a higher burden upon Pennsylvania companies doing business there.

The yearly gross premiums received from doing business form the tax base. Gross premiums are premiums, premium deposits, or assessments. Exclusions include canceled policies, premiums for reinsurance, annuity considerations and dividends, and earnings of participating members of mutual or stock insurance companies. Act 4–1989 exempted premiums written by automobile insurance companies for extraordinary medical benefit coverage from \$100,000 to \$1,100,000. Act 21–1995 exempted all sums paid or otherwise received by insurance companies as consideration for annuity contracts from the gross premiums tax base effective January 1, 1996.

A credit is available to companies that are members of the Life and Health Insurance Guaranty Association for assessments paid to the Association for the purpose of continuation of coverage for policyholders and claimants in the event of insolvency.

Act 23–2000 created a credit for the amount of assessments paid to the Pennsylvania Property and Casualty Insurance Guaranty Association (PP & CIGA) in excess of 1 percent of gross premiums collected from policyholders. The credit is to be taken equally over five years, beginning the year after the assessment is paid. This credit applies to assessments paid after December 31, 1998 and to taxes paid for calendar year 2000 and thereafter.

The basic rate of tax is 2 percent of gross premiums, plus any retaliatory tax. However, a 3 percent surplus lines tax rate is imposed on policies written with surplus lines insurers or other nonadmitted insurers when the insured's home state is Pennsylvania.

Companies transacting marine insurance business within the Commonwealth are subject to a 5 percent tax on their underwriting profits in lieu of a tax on their premiums.

Act 7–1997 changed the gross premiums tax from a tentative to an estimated payment system effective for tax years beginning on or after January 1, 1998. Under this system, prepayments are considered deposits as opposed to tentative liabilities. Estimated payments are due March 15th for the current taxable year and must exceed 90 percent of reported annual liability, or 100 percent of the liability two years prior, subject to the current rate. The adequacy of these payments is judged retrospectively based on the final return. Final payments and reports must be remitted together by April 15th of each year for the previous tax year.

The miscellaneous insurance taxes have the following due dates for payments and reports. The marine insurance underwriting profits tax is due by June 1st. The 3 percent surplus lines tax on premiums placed with an unlicensed insurance company is due January 31st from the surplus lines agent if such agent was involved in the placement. However, in the case of a policy placed without a surplus lines agent, the insured must remit a report and payment of tax within 30 days of the date the insurance was procured. The insurance premiums tax on life insurance entered with unauthorized insurance companies is due from the insured at the same time as each premium payment.

The enabling legislation is Article IX of the Act of March 4, 1971 (P.L. 6, No. 2), the Act of July 6, 1921 (P.L. 723), the Act of May 17, 1921 (P.L. 682), and the Act of May 13, 1927 (P.L. 998).

Financial Institutions Taxes

The various classes of financial institutions are subject to three different taxes. The bank and trust company shares tax is imposed on every bank and trust company having capital stock which is conducting business in Pennsylvania. Domestic title insurance companies are subject to the title insurance company shares tax. The mutual thrifts institutions tax is imposed on savings institutions, savings banks, savings and loan associations, and building and loan associations conducting business in Pennsylvania. Credit unions are not subject to tax.

The bank and trust company shares tax and the title insurance company shares tax are imposed annually on the book value of shares as of January 1st. Shares exempt from taxation include the taxpayer's shares of stock of national banks and the shares held by exempt holders (i.e., charitable, religious or educational institutions). Additionally, a deduction is permitted

for exempt federal obligations as a proportion of all assets.

The tax base is the value of shares as of each January 1st. The value of shares is calculated by a six-year moving average using the total number of shares divided into the book values of capital stock paid in, surplus and undivided profits, with a proportional exemption for United States obligations. For each year in the average, book values and deductions for United States obligations are determined by averaging book values as shown in the Report of Condition for each quarter of the preceding calendar year.

A report and payment of 100 percent of the tax on the value of shares on the preceding January 1st are due on March 15th of each year.

The bank and trust company shares tax and title insurance shares tax are imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1959	0.800%
1967	1.000%
1969	1.300%
1971	1.500%
1984	1.075%
1989 ¹	10.770%
1990	1.250%

¹ The rate was retroactively changed by Act 21–1989.

Act 48–1994 established apportionment and expanded the nexus of the bank and trust company shares tax to all banks operating in the Commonwealth effective January 1, 1995. Apportionment was also established for domestic title insurance companies.

Act 55–2007 allowed for goodwill generated by a merger or acquisition to be subtracted from a bank's book value of total equity capital when calculating its shares history.

The mutual thrift institutions tax applies to the net earnings or income received or accrued from all sources during the tax year. Income earned from United States obligations or Pennsylvania state and local obligations is excluded from the computation of net earnings on income. The deduction of the portion of interest expense associated with tax-exempt income is disallowed. Apportionment of income to Pennsylvania is permitted through payroll, receipts, and deposits factors. Mutual thrift institutions are permitted to carry forward net operating losses a maximum of three years.

Mutual thrift institutions make quarterly estimated payments by applying the current tax rate to 100

percent of the tax base for the second preceding year, or by paying at least 90 percent of the reported annual liability for the current year. Final reports are due 105 days after the close of the fiscal year. Extensions are available for filing reports; however, no extensions are granted for payment of the tax.

The Commonwealth began taxing financial institutions in 1861. Since then, laws have been revised to subject building and loan associations, title insurance companies, trust companies, and other financial institutions to the taxes.

The mutual thrift institutions tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1969	11.50%
1987 ¹	20.00%
1991	12.50%
1992	11.50%

¹ The rate was retroactively changed by Act 106–1988, and was extended to tax years 1989 and 1990 by Act 21–1989.

The enabling legislation is found in Articles VII, VIII and XV of the Tax Reform Code of 1971 (P.L. 6, No. 2) (Bank Shares, Title Insurance and Trust Companies Shares and Mutual Thrift Institutions).

Other Corporation Taxes

This group of revenues, composed primarily of the corporate loans tax, also includes the cooperative agricultural association and electric cooperative corporation taxes. Imposition of these taxes is in lieu of other corporation taxes and certain excise taxes. Electric cooperatives are exempt from gross receipts tax on electric companies for sales within their service territory.

All domestic and foreign corporations doing business in and having fiscal officers in Pennsylvania are subject to the corporate loans tax.

The tax base is taxable indebtedness which is determined by dividing the interest rate into the interest actually paid to or for Pennsylvania individual residents.

The tax is imposed at the rate of 4 mills on each dollar of the nominal value of all scrip, bonds, certificates, and evidences of indebtedness.

Payments and reports are due 105 days after the end of the taxable year. Extensions are available for filing reports but not for remitting monies.

This tax was first enacted in 1889 and reenacted in 1919.

The enabling legislation is the Act of June 22, 1935 (P.L. 414) and the Act of July 15, 1919 (P.L. 954), as amended.

Consumption Taxes

Consumption taxes are levied on the purchase of certain types of tangible personal property and selected services. They are imposed on the ultimate consumer, but collected and remitted to the Commonwealth by others such as manufacturers, retail vendors, or licensed agents of the Commonwealth. The consumption taxes are: sales, use and hotel occupancy, cigarette, malt beverage, and liquor.

Sales, Use, and Hotel Occupancy Taxes

The sales and use tax is imposed on the retail sale, consumption, rental, or use of tangible personal property in Pennsylvania. The tax is also imposed on certain services relating to such property and on the charge for specific business services. Major items exempt from the tax include food (not ready-to-eat), candy and gum, most wearing apparel, textbooks, computer services, prescription and non-prescription drugs, sales for resale, and residential heating fuels such as oil, electricity, gas, coal, and firewood. Purchases which are not otherwise exempt from sales and use tax are exempt when paid for with food stamps.

Exemptions are allowed for purchases or use by the United States Government, the Commonwealth and its political subdivisions, ambassadors, ministers and consular officers of foreign governments, volunteer firemen's organizations, and certain institutions of purely public charity. There are also exemptions for certain business activities: manufacturing, processing, farming, dairying, agriculture, horticulture, floriculture or aquaculture, and public utilities.

A use tax, at the same rate as sales tax, is due on taxable purchases of tangible personal property or specified services used or consumed in Pennsylvania where no sales tax is paid to a vendor. For example, the purchase may have been made out-of-state. Licensees must report and pay use tax at the time their regular sales tax return is due. Non-licensees must report and pay use tax on or before the end of the month following the month during which the tax was incurred.

The hotel occupancy tax, imposed at the same rate as sales tax, applies to room rental charges for periods of less than 30 days by the same person.

The sales, use, and hotel occupancy taxes are required to be collected by those engaged in making taxable sales of tangible personal property or services; leasing, renting, or using tangible personal property; or renting hotel rooms within the Commonwealth.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1954	1.0%
1956	3.0%
1959	3.5%
1959	4.0%
1963	5.0%
1968	6.0%

Under the Pennsylvania Intergovernmental Cooperation Authority Act for cities of the first class (Act 6–1991), Philadelphia City Council levies sales, use, and hotel occupancy taxes at the rate of 1 percent effective October 1, 1991. The provisions of Act 6 parallel those under the sales, use, and hotel occupancy tax except that it is a point-of-sale tax. In addition, Act 44 of 2009 increased the Philadelphia sales and use tax rate from 1 percent to 2 percent from October 8, 2009 to June 30, 2014.

Under the Second Class County Code, Allegheny County is authorized (Act 77–1993) to levy sales, use, and hotel occupancy taxes at the rate of 1 percent to be administered in the same manner as provided in Act 6 of 1991 (the Philadelphia 1 percent local sales, use, and hotel occupancy tax). The implementation date for the Allegheny County tax was July 1, 1994.

Vendor licenses are renewable on a five-year cycle and may be suspended or revoked. Payments and reports are due from vendors as follows:

1. Monthly returns - Taxpayers must file monthly reports when total tax liability for the third calendar quarter equals or is greater than \$600. Payments and reports are due on the 20th day of the following month.
 - a. Sales tax licensees reporting an actual tax liability of at least \$25,000 and less than \$100,000 for the third calendar quarter of the preceding year are provided an option for their tax payment.
 - i. 50 percent of the tax liability for the same month of the previous year or
 - ii. Greater than 50 percent of the actual tax liability for the same month in the current year. This option will be effective for tax returns due after September 30, 2012.
 - b. Sales tax licensees reporting an actual tax liability equal to or greater than \$100,000 for the third calendar quarter of the preceding

year must make a payment of 50 percent of the tax liability for the same month of the previous year.

2. Quarterly returns - When total tax liability does not exceed \$600 in the third calendar quarter the taxpayer must file quarterly (unless liability was less than \$75 in the previous calendar year). The reports are due on the 20th day of April, July, October, and January for the preceding calendar quarter.
3. Semi-annual returns - When total tax collected is \$75 a year or less, a taxpayer must file tax reports twice a year. The report for the period of January to June is due on August 20th, and the report for the period of July to December is due February 20th.

As of July 1, 2003, 0.947 percent of total sales and use tax receipts are transferred monthly to the Public Transportation Assistance Fund.

Act 44–2007 provided that 4.4 percent of sales and use tax receipts be transferred monthly to the Public Transportation Transfer Fund effective July 1, 2007.

The sales, use, and hotel occupancy taxes were enacted in 1953 and later codified into the Tax Reform Code of 1971. The enabling legislation is Article II of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Cigarette Tax

The cigarette tax is an excise tax levied on the sale or possession of cigarettes in Pennsylvania. The tax is based on a rate per cigarette. The current rate of 8 cents per cigarette has been in effect since November 1, 2009. In addition, Act 48 of 2009 expanded the definition of cigarette to include little cigars, weighing less than four pounds per thousand.

Only one sale of cigarettes, whether individual cigarettes, packages, cartons, or cases, is taxable. Cigarette stamping agents, wholesalers, retailers, and vendors must be licensed. The tax is imposed on the ultimate consumer, but cigarette-stamping agents apply tax stamps to cigarette packs which indicate payment of the tax and are responsible for remitting payment to the Commonwealth.

Payments are due at the time of purchase of the stamps or, if the cigarette stamping agency is bonded, by the 15th of the following month. Reports are due on the 10th day after the end of the month for which they are prepared.

Beginning in FY 2002-03, fixed annual amounts of \$30.73 million and \$20.485 million of cigarette tax receipts are transferred to the Children’s Health Insurance Program (CHIP) and the Agricultural

Conservation Easement Purchase (ACEP) Fund, respectively.

From January 2004 through October 2009, 18.52 percent of cigarette tax receipts were transferred to the Health Care Provider Retention Account.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u> ¹ (per cigarette)
1935	0.10 ¢
1947	0.20 ¢
1955	0.25 ¢
1959	0.30 ¢
1963	0.40 ¢
1967	0.65 ¢
1970	0.90 ¢
1991	1.55 ¢
2002	5.00 ¢
2004	6.75 ¢
2009 ²	8.00 ¢

¹ Combined rate for the General Fund and special funds.

² Effective November 1, 2009.

The tax was first enacted in 1935 as a temporary emergency tax and was made permanent in 1951. The enabling legislation is Article XII of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Malt Beverage Tax

The malt beverage tax is levied on malt or brewed beverages manufactured and sold for use in Pennsylvania, or manufactured outside of Pennsylvania but sold for importation and use in Pennsylvania. The tax is borne by the consumer, but manufacturers, distributors, and importers remit the tax to the Commonwealth.

Manufacturers must file reports and submit payments by the 15th day of each month for the preceding month. For the purpose of verifying tax payments, every transporter for hire, bailee for hire, warehouseman, and distributor also must submit reports by the 15th of the month for the preceding month.

Certain manufacturers of malt or brewed beverages are permitted a credit for qualifying capital expenditures, defined as purchases of plant, machinery, or equipment for use in the Commonwealth. The annual credit per manufacturer is equal to the amount of qualifying capital expenditures in the reporting year or \$200,000, whichever is less. This credit applies to purchases made through December 31, 2008. The credit is limited to taxpayers whose annual production of malt or brewed beverages does not exceed 1.5 million barrels.

The malt beverage tax rates are as follows:

<u>Standard Fraction</u>	<u>Rate</u>
1 barrel	\$ 2.48
1/2 barrel	\$ 1.24
50 liter	\$ 1.06
12 gallon	\$ 0.96
1/4 barrel	\$ 0.62
1/6 barrel	\$ 0.42
1/8 barrel	\$ 0.32
160 ounce	\$ 0.10
4 liter	\$ 0.09
1 gallon	\$ 0.08
2 liter	\$ 0.05
40 ounce	\$ 0.03
1 quart	\$ 0.02
25 ounce	\$ 0.02
1 pint	\$ 0.01
1/2 pint	\$ 0.0066

These rates have remained unchanged since 1947. Prior to 1947, malt beverage tax rates were one-half the current rate.

The enabling legislation is Article XX of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Liquor Tax

The distribution of liquor is a state enterprise under the auspices of the Pennsylvania Liquor Control Board (LCB).

The Commonwealth assumed the liquor control responsibility following the repeal of Prohibition in 1933.

All liquors sold by the LCB are subject to this tax which is computed on the actual price paid by the consumer including mark-up, handling charge, and federal tax. The first sale of liquor is also subject to the sales and use tax at the time of purchase.

The LCB periodically transmits reports and payments to the Department of Revenue.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1936	10.0%
1963	15.0%
1968	18.0%

Enabling legislation is the Liquor Code, Act of June 29, 1987 (P.L. 32) 47 P.S. §§ 1-101 et seq. and the Emergency Liquor Sales Tax Act, Act of June 9, 1936 (Special Session, P.L. 13) 47 P.S. §§ 794 et seq.

Other Taxes

Other taxes consist of those General Fund taxes on individuals and transactions not elsewhere classified in this document. Other taxes include the personal income tax, realty transfer tax, inheritance and estate tax, table game taxes, and various minor and repealed taxes.

Personal Income Tax

The personal income tax is levied against the taxable income of resident and nonresident individuals, estates and trusts, partnerships, S corporations, business trusts, and limited liability companies that are not taxed as corporations for federal purposes.

Pennsylvania taxes eight classes of income: (1) compensation; (2) net profits from the operation of a business, profession or farm; (3) net gains or income less net losses from dispositions of property; (4) net gains or income from rents, royalties, patents and copyrights; (5) dividends; (6) interest; (7) gambling and lottery winnings (except Pennsylvania Lottery winnings won on or after July 21, 1983); and (8) net gains or income derived through estates or trusts. A loss in one class of income may not be offset against income in another class, nor may gains or losses be carried backward or forward from year to year.

Act 40–2005 changed the treatment of nonqualified deferred compensation plans. The definition of compensation now includes distributions from nonqualified plans attributable to an elective deferral of income, regardless of whether the distribution is paid during employment or retirement.

With certain exceptions, Pennsylvania’s constructive receipt rules are now the same as the federal constructive receipt rules to determine when compensation is received by a cash basis taxpayer. The exceptions include contributions to retirement plans like the public employee retirement system, contributions to 401(k) plans, contributions by self employed persons to retirement plans, and contributions to Roth IRAs and regular IRAs. This change applies to appeals which arise prior to or after the effective date of this act and applies to taxable years beginning after December 31, 2004.

Following the federal constructive receipt rule, deferrals to nonqualified deferred compensation plans are not includible in compensation. This change applies to appeals which arise prior to or after the effective date of this act and applies to taxable years beginning after December 31, 2002.

Act 67–2006 provides that if a small corporation elects to be an S corporation for federal purposes, it will be recognized as a Pennsylvania S corporation unless it opts out of Pennsylvania S status. This is a change from prior law which required a federal S

corporation affirmatively to elect Pa-S status. If a small corporation opts out of S status, then its choice will remain in effect for 5 years. The requirements to become an S corporation are consistent with the federal requirements enacted as part of the American Jobs Creation Act of 2004, which permits S corporations of up to 100 shareholders and members of the same family to be counted as one shareholder. These changes apply to taxable years beginning after December 31, 2005.

The Pennsylvania personal income tax does not provide for a standard deduction or personal exemption. However, individuals are able to reduce their tax liabilities through allowable deductions, credits, and exclusions.

Deductions:

- Taxpayers may reduce taxable compensation for allowable unreimbursed expenses that are ordinary, actual, reasonable, necessary, and directly related to the taxpayer’s occupation or employment.
- Act 48–2005 provided special tax provisions for health savings accounts. Excluded from Pennsylvania personal income tax is any income from a health savings account, as well as any amount paid out or distributed from a health savings account that is used exclusively for the qualified medical expenses of the beneficiary or for the reimbursement of those expenses. The act specifies that distributions paid out that do not go toward the qualified medical expenses of the beneficiary, as well as any excess contributions, shall be taxable. These provisions apply to tax years beginning after December 31, 2004.
- Act 67–2006 allows taxpayers with federally qualified Health Savings Accounts and Archer MSAs to generally follow federal rules. Under the federal rules, employer contributions are excluded from tax and employee contributions are deducted from income if they meet the criteria outlined in the Internal Revenue Code. Distributions that are not used for qualified medical expenses will be taxable as interest income. These changes apply to tax years beginning after December 31, 2005.
- Act 114–2006 allows taxpayers to deduct from taxable income contributions to a qualified tuition program as defined in section 529 of the Internal Revenue Code. The amount deducted for each designated beneficiary cannot exceed the annual limitation on gifts permitted by the Internal Revenue Code for purposes of federal estate and gift tax, which is \$13,000 for 2011

and 2012. The deduction cannot result in taxable income being less than zero.

- Distributions used for qualified higher education expenses, as well as undistributed earnings in the accounts, will not be taxable. Federally qualified rollovers between accounts and beneficiary changes will also not be taxable events for Pennsylvania purposes. Distributions that are not used for qualified higher education expenses will be subject to tax. These changes apply to tax years beginning after December 31, 2005.

Credits:

- Act 66 of 2008 created the Volunteer Responder Retention and Recruitment Tax Credit, a one-time credit of up to \$100, awardable for the 2008 taxable year and available to a volunteer for a volunteer ambulance service, volunteer fire company, or volunteer rescue company.
- A credit against tax is allowed for gross or net income taxes paid to other states or foreign countries by Pennsylvania residents.
- Enacted in 1974, a credit is available to those individuals receiving tax forgiveness under the Special Provisions (SP) for Poverty. For tax year 2012, the eligibility income limits for 100 percent tax forgiveness are \$6,500 for single claimants and \$13,000 for married claimants with no dependents. The eligibility income limits increase by \$9,500 for each dependent. Partial tax forgiveness is available to claimants for eligibility incomes of up to \$2,250 above the limit for 100 percent forgiveness.
- Qualified taxpayers may use employment incentive payment credits, job creation tax credits, research and development credits, or Keystone Opportunity Zone tax credits to offset personal income tax liabilities.
- Act 65–2006 provides for an organ or bone marrow donor tax credit to be claimed by a business firm against the taxes imposed under Articles III, IV, VI, VII, VIII or XV of the Tax Reform Code, effective January 1, 2006.

Exclusions:

- Act 7–1997 allows taxpayers to exclude from compensation qualified payments made under a cafeteria plan, qualifying under Section 125 of the Internal Revenue Code, for programs covering hospitalization, sickness, disability, or death.
- Effective January 1, 1998, Act 45–1998 exempts the capital gain from the sale of a principal residence for all taxpayers who satisfy ownership

and use requirements. Previously, a one-time exclusion of up to \$100,000 of gain from the sale of a taxpayer’s principal residence was allowed for persons 55 years of age or older who satisfied ownership and use requirements, for sales made after July 1, 1987.

- Act 45–1998 provides an exclusion for personal use of employer-provided property or services.

The Commonwealth employs three primary methods for collecting personal income taxes:

- 1) estimated and final payments from individuals;
- 2) employer withholding; and
- 3) withholding from nonresident partners or shareholders by partnerships and S corporations.

1. Individuals, estates, and trusts must file annual returns on or before April 15th for the previous year's income. Individuals, estates, and trusts with non-withheld income in excess of \$8,000 annually must file and remit estimated payments by the 15th day of April, June, September, and January for the preceding calendar quarter. For tax years beginning before January 1, 2000, the income threshold for estimated tax payments was \$2,500. There are special estimated tax provisions for farm income and trusts.

2. Employers withhold and remit employees' taxes on wage and salary income according to the following schedule:

- a. Quarterly - If total withholding tax is expected to be under \$1,200 per calendar year, due the last day of April, July, October, and January for the preceding calendar quarter.
- b. Monthly - If \$1,200 or more but less than \$4,000 of tax is expected to be withheld per calendar year, due the 15th day of the following month.
- c. Semi-Monthly - If \$4,000 or more but less than \$20,000 in tax is expected to be withheld per calendar year, due within three banking days of the close of the semi-monthly period.
- d. Semi-Weekly – If \$20,000 or more in tax is expected to be withheld per calendar year, due Wednesday after the payday if the payday falls on a Wednesday, Thursday, or Friday, and on the Friday after payday if the payday falls on a Saturday, Sunday, Monday, or Tuesday.

An employer reconciliation statement must be filed by January 31st following the calendar year for which taxes were withheld or within 30 days after the termination of a business.

3. Partnerships and S corporations with nonresident partners or shareholders must remit tax on income from sources within this Commonwealth

which is allocable to a nonresident. The nonresident partner or shareholder may take a credit on their annual return for the tax remitted by the partnership or S corporation.

The income tax was first imposed in 1971 but was declared unconstitutional because it violated the uniformity clause. The tax was modified to a flat rate tax on the eight separate classes of income described above, effective June 1, 1971.

The tax is imposed at the following rates:

<u>Year</u>	<u>Rate</u>
1971	2.30%
1974	2.00%
1978	2.20%
1983	2.45%
1984 ¹	2.40%
1985	2.35%
1986 ²	2.16%
1987	2.10%
1991 ³	2.60%
1992 ⁴	2.95%
1993	2.80%
2004	3.07%

¹ Effective tax rate after midyear rate change. Rate was 2.45 percent for the first half of the year and 2.35 percent for the second half of the year.

² Effective tax rate after midyear rate change. The rate for the first eight months of the tax year commencing on or after January 1, 1986 was 2.2 percent and for the final four months was 2.1 percent, for an effective rate of 2.16 percent.

³ Effective tax rate after midyear rate change. Rate was 2.1 percent for first half of the year and 3.1 percent for second half of the year.

⁴ Effective tax rate after midyear rate change. Rate was 3.1 percent for first half of the year and 2.8 percent for second half of the year.

The enabling legislation is Article III of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Realty Transfer Tax

The realty transfer tax is a documentary stamp tax imposed on the value of real property, including contracted-for improvements to the property, transferred by deed, instrument, long-term lease, or other writing. The stamps or meter impressions, indicating payment of the tax, are affixed to the document when presented for recording.

Exempt classes of transfers include wills; mortgages; deeds of trust or similar instruments given as security for debts; deeds to release such debt; land contracts where legal title passes only upon completion of payment; short-term leases; and instruments which

solely grant, vest, or confirm a public utility easement. These items are excluded from the definition of document.

The United States, the Commonwealth or their instrumentalities, agencies, or subdivisions are exempt from payment of the tax. However, the exempt status of a party does not relieve the other parties to a transaction from the entire tax due.

Other specific transactions exist which are given statutory or regulatory exemptions from payment of the tax. Some of these excluded transactions include certain transfers among family members; certain transfers to governmental units; certain transfers between religious organizations; certain transfers to shareholders or partners; certain transfers to or from a non-profit industrial development agency; certain transfers of ownership interest in a real estate company or family farm; leases for the production or extraction of coal, oil, natural gas, or minerals; certain partitions of realty held by cotenants, when the property was passed by testate or intestate succession; and deeds to burial sites.

Since enactment, the realty transfer tax has been imposed at the rate of 1 percent of the actual consideration or price of the property represented in the deed. When the document has no consideration stated or the transaction is not arm's-length, the tax rate is 1 percent of the property's actual monetary worth computed through use of assessed value adjusted to market value.

The tax is payable upon the presentation of any document for recording or 30 days after acceptance of the document, whichever occurs first. Both grantor and grantee are held jointly and severally liable for payment of the tax. The County Recorder of Deeds collects the tax and remits it to the Commonwealth.

Beginning July 1994, 15 percent of the state levied realty transfer tax revenues are earmarked for the Keystone Recreation, Park, and Conservation Fund as mandated by Act 50–1993.

Act 89–2002 reduced the transfer rate from 15 percent to 10 percent for January 2002 through June 2002 and to 7.5 percent for July 2002 through June 2003. The transfer percent then increased to 15 percent for July 2003 through June 2006. Act 67–2006 reduced the transfer to 2.1 percent for July 2006 through June 2007. The transfer percent is established at 15 percent for July 2007 and thereafter.

The tax was enacted as a temporary tax in 1951 and was made permanent in 1961.

The enabling legislation is Article XI-C of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended.

Inheritance and Estate Taxes

The personal representative of the decedent's estate or the transferee pays inheritance and estate taxes using proceeds from the estate. The local Register of Wills acts as the Commonwealth's agent in the collection of these taxes.

The inheritance tax is imposed on the value of the decedent's estate transferred to beneficiaries by will or intestacy. Certain inter vivos transfers are also subject to inheritance tax. A fractional portion of property held by the decedent and one or more other persons jointly with the right of survivorship is taxable in the decedent's estate. Specified deductions may be taken in determining taxable estate value.

Inheritance tax is not levied on transfers of assets to certain types of entities. Transfers to governmental entities are exempt. Also exempt are transfers of property to charitable and fraternal organizations when the property is used exclusively for religious, charitable, scientific, literary, or educational purposes. Transfers to qualified veteran organizations are not subject to inheritance tax.

The tax rates levied against estates are based on to whom property is bequeathed. Inheritance tax on the transfer of non-jointly held property to spouses is levied at 0 percent. The transfer of property from children 21 years of age or younger to their parent (either natural, step, or adoptive) is taxed at a rate of 0 percent. All other transfers to lineal heirs are taxed at the rate of 4.5 percent. Transfers to siblings (defined as those having at least one parent in common with the decedent, related by blood or adoption) are subject to a tax rate of 12 percent. Transfers to all other persons are taxed at a rate of 15 percent.

The estate tax is a pick-up tax imposed to absorb the maximum amount of credit allowed by federal estate tax law toward state death taxes. For residents, the estate tax represents the difference between the Pennsylvania inheritance tax plus death taxes paid to other states and the maximum federal credit for state taxes allowed by federal estate tax law. If a resident owned or had an interest in real property or tangible personal property located in another state, the estate tax is reduced by the amount of death taxes paid to the other state or by a proportional amount of the federal credit, whichever is greater. For nonresidents who owned or had an interest in property located in this Commonwealth, the estate tax is the difference between the Pennsylvania inheritance tax and a proportionate share of the federal credit in the same ratio that the property located in this Commonwealth subject to federal estate tax bears to the decedent's gross federal estate. The federal credit upon which the Pennsylvania estate tax is based is phased out between 2002 and 2005. Once the credit is

completely phased out, the Pennsylvania estate tax is eliminated. However, estate tax collections will rebound when the federal credit is fully reinstated in 2013.

Inheritance and estate tax payments are due upon the death of the decedent and become delinquent nine months after the individual's death. If inheritance taxes are paid within three months of the decedent's death, a 5 percent discount is allowed. No discount is permitted for estate tax paid within three months of the death of the decedent.

The enabling legislation is Article XXI of the Tax Reform Code of 1971 (P.L. 6, No. 2), as amended, and Chapter 17 of Title 72 (Taxation and Fiscal Affairs), as amended.

Table Game Taxes

Act 1-2010 established a 12 percent table game tax imposed on gross table game revenue; however, for 2 years following commencement of table game operations at the facility, the rate is 14 percent. Fully automated electronic gaming tables are subject to a 34 percent tax, in addition to the percentages above. Gross table game revenue is defined as total cash or cash equivalents received in the playing of table games, contest or tournament fees or payments, and total amount of rakes collected minus cash or cash equivalents paid out, paid to purchase annuities to fund prizes, and paid for personal property distributed to patrons as a result of playing a table game. The revenue from these taxes is deposited to the General Fund until such time as, on the last day of the fiscal year, the balance in the Budget Stabilization Reserve Fund is certified by the Secretary of the Budget to exceed \$750,000,000. Thereafter, the funds from these taxes are deposited to the Property Tax Relief Fund.

Enabling legislation is Act 1 of January 7, 2010 (P.L. 1, No. 1).

Minor and Repealed Taxes

Minor taxes produce comparatively small annual yields and primarily consist of the tax on legal documents and excess vehicle rental tax. Payments received as Electronic Funds Transfers (EFT) which cannot be immediately attributed to a specific tax category are placed in a temporary clearing account within this category. The spirituous and vinous liquors tax was placed in this category until its repeal effective July 1, 2001.

The vehicle rental tax is a 2 percent tax imposed on the rental of private passenger cars, trucks, and trailers used in the transportation of non-commercial property for periods of less than 30 days. The tax was originally named the passenger car rental tax when it was created by Act 48-1994, as it was levied

only on the rental of private passenger vehicles for periods of less than thirty days. However, Act 7–1997 expanded the tax to include the rental of trucks, trailers, and semi-trailers used in the transportation of non-commercial property. Revenues from the vehicle rental tax are used to refund the cost of

licensing and title fees to vehicle rental companies. Any excess funds are transferred to the General Fund.

Enabling legislation of the vehicle rental tax is Article XVI-A of the Tax Reform Code of 1971 (P.L. 6, No. 2).

Non-Tax Revenue

This category of General Fund revenue includes items such as licenses, fines, penalties, interest income, miscellaneous revenues, escheated accounts, profits from the operation of Pennsylvania liquor stores, and transfers from the Pennsylvania Race Horse Development Fund.

The profits of Pennsylvania liquor stores are transferred by the Liquor Control Board (LCB) to the General Fund. The amount is annually determined by the LCB, subject to the approval of the Governor.

Enabling legislation is the Liquor Code, Act of June 29, 1987 (P.L. 32) 47 P.S. §§ 8-802 et seq.

Beginning January 1, 2010 and continuing through fiscal year 2012-13, revenue from the Race Horse Development Fund is transferred by the Department of Revenue (DOR) to the General Fund. The amount is weekly determined by DOR in accordance with prescribed formulas.

Enabling legislation is Act 1 of January 7, 2010 (P.L. 1 No. 1).

Motor License Fund

The Motor License Fund receives monies from liquid fuels taxes, motor vehicle licenses and fees, aviation revenues, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects, fines, and other miscellaneous highway revenues.

The fund provides revenues for highway and bridge improvement, design and maintenance, purchase of rights-of-way, aviation activities, administration costs, and the Department of Transportation licensing and safety activities. It also finances State Police highway patrol operations, pays subsidies to local subdivisions for the construction and maintenance of roads, and funds other operations.

Liquid Fuels Taxes

There are four taxes pertaining to the use or purchase of motor fuel in the Commonwealth which comprise the liquid fuels taxes: the liquid fuels and fuels tax, the motor carriers road tax / IFTA, the alternative fuels tax, and the oil company franchise tax.

Liquid Fuels and Fuels Tax

Under the provisions of Act 3–1997, a permanent trust fund tax of 12 cents per gallon or fractional part is imposed on all liquid fuels and fuels used or sold and delivered by distributors in the Commonwealth beginning October 1, 1997. Prior to this date, liquid fuels were taxed under the provisions of the Act of May 21, 1931 (P.L. 149, No. 105), as amended, known as the Liquid Fuels Tax Act and fuels were taxed under the Act of January 14, 1952 (P.L. 1965, No. 550), as amended, known as the Fuels Use Tax Act. Both of these acts were repealed effective October 1, 1997.

Liquid fuels, which is comprised primarily of gasoline, specifically excludes kerosene, fuel oil, gas oil, diesel fuels, and tractor fuel. Fuels includes diesel fuel and all other special fuels except dyed diesel fuel, liquid fuels, and alternative fuels.

Aviation gasoline and jet fuel are also taxed under the liquid fuels and fuels tax. However, separate tax rates are set for these fuels (please refer to the tables below).

The tax is imposed on the ultimate consumer, but the distributor is liable for collecting and remitting the tax. Exempt from the tax are fuels sold and delivered to the United States Government, the Commonwealth and any of its political subdivisions, volunteer fire companies, ambulance services and rescue squads, second class county port authorities, and nonpublic nonprofit schools. In addition to these exemptions, reimbursements are made for certain agricultural purposes.

Payments and reports are due on or before the 20th day of the month following the month of tax collection.

The enabling legislation is Chapter 90 of Title 75 (the Vehicle Code) of the Pennsylvania Consolidated Statutes.

Tax rate histories of aviation gasoline and jet fuel as well as those for the repealed Liquid Fuels Tax Act and Fuels Use Tax Act are shown on the tables below:

Aviation Gasoline Rates ¹			
<u>Cents Per Gallon</u>			
7/1/35	4.0	1/1/97	3.7
6/1/49	5.0	1/1/98	3.5
9/13/55	6.0	1/1/99	3.3
6/1/56	1.5	1/1/00	3.7
11/1/84	3.0	1/1/01	4.3
1/1/88	3.3	1/1/02	4.1
1/1/89	3.2	1/1/05	4.7
1/1/90	3.3	1/1/06	5.3
1/1/91	3.8	1/1/09	5.8
1/1/92	3.6	1/1/10	5.4
1/1/94	3.5	1/1/11	5.5
		1/1/12	5.9

¹ Adjusted annually each January 1st beginning in 1985 based on the change in the producer price index for jet fuel. Minimum and maximum rates are 3.0 and 6.0 cents per gallon respectively.

Jet Fuel Tax Rates ¹

Cents Per Gallon

6/1/56	1.5	1/1/94	1.7
6/1/60	1.0	1/1/97	1.9
11/1/84	1.1	1/1/98	1.7
1/1/85	1.3	1/1/99	1.5
7/1/85	1.5	1/1/00	1.9
1/1/88	1.8	1/1/01	2.0
1/1/89	1.7	1/1/02	1.8
1/1/90	1.8	1/1/05	2.0
1/1/91	2.0	1/1/10	1.6
1/1/92	1.8	1/1/11	1.7
		1/1/12	2.0

¹ Adjusted annually each January 1st beginning in 1986 based on the change in producer price index for jet fuel. Minimum and maximum rates are 1.5 and 2.0 cents per gallon respectively.

Liquid Fuels Tax Act Rates

Cents Per Gallon

6/1/31	3.0	4/1/70	8.0
7/1/35	4.0	9/1/74	9.0
6/1/49	5.0	7/4/79	11.0
9/13/55	6.0	8/8/83	12.0
6/1/57	5.0	10/1/97	NA ¹
4/1/61	7.0		

¹ The Act of April 7, 1997 (P.L. 6, No. 3) combined these taxes into the liquid fuels and fuels tax which has a rate of 12.0 cents per gallon.

Fuel Use Tax Act Rates

Cents Per Gallon

9/1/47	4.0	4/1/70	8.0
6/1/49	5.0	9/1/74	9.0
2/1/52	5.0	7/4/79	11.0
9/13/55	6.0	8/8/83	12.0
6/1/57	5.0	10/1/97	NA ¹
4/1/61	7.0		

¹ The Act of April 7, 1997 (P.L. 6, No. 3) combined these taxes into the liquid fuels and fuels tax which has a rate of 12.0 cents per gallon.

Motor Carriers Road Tax / IFTA

Under the provisions of Act 75 of 1995, Pennsylvania joined the International Fuel Tax Agreement (IFTA) effective January 1, 1996. This agreement provides for base state reporting of fuel taxes for operators of qualified motor vehicles used in interstate operations. Qualified motor vehicles include those used,

designed, or maintained for the transportation of persons or property which: (1) have two axles and a registered or gross weight greater than 26,000 pounds, or (2) have three or more axles regardless of weight, or (3) are operated as a vehicle combination exceeding 26,000 pounds. Qualified motor vehicles operated in Pennsylvania intrastate activities only are subject to fuel taxation under the motor carriers road tax.

The motor carriers road tax/IFTA is imposed on fuel consumed by qualified motor vehicle operators within Pennsylvania. Credit is granted for tax paid at the pump or directly remitted. Credit is also granted for fuel purchased in Pennsylvania but consumed elsewhere.

The tax rate is equivalent to the rate per gallon currently in effect on liquid fuels, fuels, or alternative fuels, plus an oil company franchise tax component. Annual decal fees indicating vehicle registration in Pennsylvania are also included in these taxes. The cost is \$5 per calendar year, and the decals must be displayed on each qualified vehicle operated in Pennsylvania. Through September 30, 1997, the motor carriers road tax/IFTA accounts served as the reporting mechanism for an additional 6 cents per gallon surtax on fuel used by qualified motor vehicles. Surtax revenue funded, in part, the restricted highway bridge improvement account and was not considered to be part of motor carriers road tax/IFTA collections. Act 3–1997 repealed the surtax effective October 1, 1997.

The motorbus road tax, imposed on the motor fuel used by bus companies in their operations on highways within Pennsylvania, was repealed effective January 1, 1996 under the provisions of Act 75 of 1995. If a bus meets the definition of a qualified motor vehicle, its fuel consumption is subject to taxation under motor carrier road tax/IFTA.

IFTA payments and reports are due on or before the last day of April, July, October, and January for the quarter ending the last day of the preceding month. Motor carriers road tax reports are filed annually.

The enabling legislation is Chapter 21 and Chapter 96 of Title 75 (the Vehicle Code) of the Pennsylvania Consolidated Statutes.

Alternative Fuels Tax

Under the provisions of Act 3–1997, alternative fuels used to propel vehicles on the public highways are subject to the alternative fuels tax effective October 1, 1997. Alternative fuels include natural gas, compressed natural gas, liquid propane gas and

liquefied petroleum gas, alcohols, gasoline-alcohol mixtures containing at least 85 percent alcohol by volume, hydrogen, hythane, electricity, and any other fuel not taxable as liquid fuels or fuels.

Each alternative fuel is converted to a gasoline gallon equivalent. The basis of this conversion is statutorily set at 114,500 Btu. The tax rate applied to the gasoline gallon equivalent equals the current liquid fuels tax and oil company franchise tax applicable to one gallon of gasoline.

Alternative fuels dealer-users are required to remit this tax. Reports and payments are due on or before the 20th day of each month for fuel sold or used in the preceding month. The Department of Revenue may permit dealer-users to report the tax due for reporting periods greater than one month, up to an annual basis, provided the tax is prepaid on an estimated basis.

Enabling legislation is Chapter 90 of Title 75 (the Vehicle Code) of the Pennsylvania Consolidated Statutes.

Oil Company Franchise Tax

Prior to October 1, 1997, all oil companies conducting business in Pennsylvania were subject to an excise tax for the privilege of exercising their corporate franchise, doing business, employing capital, owning or leasing property, maintaining an office, or having employees in the Commonwealth. Effective October 1, 1997, Act 3–1997 imposed an oil company franchise tax on all taxable liquid fuels and fuels. The tax is imposed on a cents-per-gallon equivalent basis and is remitted by distributors of liquid fuels and fuels.

Entities exempt from the liquid fuels and fuels tax are also exempt from the oil company franchise tax.

Prior to October 1, 1997, the tax rate was 153.5 mills on the revenue received from the first sale of petroleum products in Pennsylvania used to fuel motor vehicles for public highway use. Petroleum revenue was derived by multiplying total gallons of petroleum products by the average wholesale price as established monthly by the Department of Revenue. Minimum and maximum average wholesale prices are statutorily set at \$0.90 and \$1.25 per gallon, respectively.

As of October 1, 1997, the tax rate is 153.5 mills for liquid fuels and 208.5 mills for fuels expressed on a cents-per-gallon basis. Beginning January 1, 1999, under the provisions of Act 151–1998, a bus company may apply for reimbursement of 55 mills of the levy on fuels.

Receipts from 57 mills of the tax are deposited as unrestricted Motor License Fund revenues. The remaining monies are deposited to various restricted accounts within the fund. For example, revenues received from 55 mills of the levy on fuels are deposited in the highway bridge restricted account as replacement revenues for the repealed surtax.

Payments and reports are due from distributors on or before the 20th day of the month for liquid fuels and fuels sales in the preceding month.

Enabling legislation is Chapter 95 of Title 75 (the Vehicle Code) of the Pennsylvania Consolidated Statutes.

Motor Vehicle Licenses and Fees

The Commonwealth receives revenue from fees levied for registering and titling motor vehicles, from the issuance of learner's permits, operator's licenses, transfers of registration, special hauling permits, and from other states for Pennsylvania's share of registration fees based on proportionate travel on Pennsylvania highways (IRP).

Other Revenue

Other Motor License Fund revenues are primarily derived from three sources:

Fines - This category consists of fines collected under the various fuel tax laws and certain Vehicle Code fines. Act 64–1987 established a restricted receipt account known as the Judicial Computer System Augmentation Account. Beginning July 1, 1987, the total of certain fines, fees, and costs collected by any division of the unified judicial system which are in excess of the amount collected from such sources in fiscal year 1986-87 are to be deposited into this account. This transfer was to continue until a statutory cap of \$80 million was transferred but subsequent legislation eliminated this cap. Fines, fees, or costs that are allocated by law to counties and municipalities are not affected by this Act.

Miscellaneous revenue - The Commonwealth receives revenue from interest on deposits of Motor License Fund monies; investments and securities; and the sale and rental of properties, maps, plans, and inspection stickers.

Beginning in FY 2007-08, in accordance with Act 44–2007 the Department of Transportation is to deposit a portion of the scheduled annual payments from the Pennsylvania Turnpike Commission into the Motor License Fund. For the fiscal year 2007-08,

\$450 million is to be deposited. For the fiscal year 2008-09 and 2009-10 the amount deposited was \$500 million. For fiscal year 2010-11 the amount deposited was \$200 million. The amount deposited

will remain at the \$200 million amount for the duration of these leases as stated in Act 44-2007.

Public Transportation Assistance Fund Taxes and Fees

Act 26–1991 established a special fund known as the Public Transportation Assistance (PTA) Fund effective October 1, 1991. The Act imposed fees and taxes to be deposited into that fund and dedicated for funding mass transportation.

Generally, the provisions of Article II (Sales and Use Tax) of the Tax Reform Code of 1971 apply to PTA Fund taxes and fees. The taxes and fees are in addition to the sales and use tax (SUT) and require any person making sales, rentals, or leases subject to taxes or fees to obtain a Public Transportation Assistance Tax License from the Department of Revenue. The rules and procedures for filing returns are the same as for SUT.

If a transaction is taxable and the purchaser does not pay the tax to the vendor for any reason, then the purchaser must pay the tax directly to the Department of Revenue. Specific entities receive exemption for specified purchases.

New Tire Fee

A \$1.00 per tire fee is imposed on the sale of new tires for highway use in Pennsylvania. Tires placed on vehicles or equipment licensed for highway use are deemed to be for highway use regardless of the actual usage. The purchase of new tires in conjunction with the purchase of other property, for example a motor vehicle, is subject to the fee. The sale of used tires or tires which are for other than highway use are not subject to the fee.

Motor Vehicle Lease Tax

The motor vehicle lease tax, imposed at 3 percent of the total lease price, applies to leases taxable under Article II (Sales and Use Tax) of the Tax Reform Code. The term lease means a contract for the use of a motor vehicle for a period of 30 days or more. The 6 percent sales tax and the 3 percent lease tax are not included in the lease price used to calculate the other tax.

Motor Vehicle Rental Fee

The motor vehicle rental fee is imposed on the rental of any motor vehicle, taxable under Article II (Sales

and Use Tax) of the Tax Reform Code, at the rate of \$2.00 for each day or part of a day for which a vehicle is rented. The term rental means a contract for the use of a motor vehicle for a period of less than 30 days.

Sales and Use Tax

Effective for revenues collected on or after July 1, 1992, Act 40–1991 requires 0.44 percent of SUT to be transferred to the PTA Fund within 30 days of the close of each calendar month. This transfer represents the amount of tax collected pursuant to the imposition of the tax on periodicals under Act 26–1991. Effective for revenues collected on or after April 1, 1995, Act 48–1994 requires an additional transfer of 0.09 percent of SUT revenues from the General Fund to the PTA Fund for the exemption of vehicles class 4 and above from the lease tax. Effective for transfers after June 30, 2003, Act 46–2003 requires an additional amount of 0.417 percent of SUT to be transferred each month from the General Fund to the PTA Fund. As a result, the current monthly transfer totals 0.947 percent.

Public Utility Realty Additional Tax

Effective January 1, 1998, Act 4–1999 requires that every entity liable for the public utility realty tax (PURTA) imposed under Article XI-A of the Tax Reform Code pay an additional tax of 7.6 mills on each dollar of state taxable value of its utility realty. Act 46–2003 repealed the transfer of 7.6 mills of PURTA revenue from the General Fund to the PTA Fund effective for transfers after June 30, 2003. Beginning in FY 2003-04, revenues associated with the 7.6 mills of PURTA will remain in the General Fund.

Utility Gross Receipts Tax

Act 138–1996 provided that beginning June 15, 1999, and each year thereafter, 0.18 percent of the gross receipts tax base for electric suppliers is deposited into the Public Transportation Assistance Fund. Act 46–2003 repealed this transfer effective for FY 2003-04 and forward.

Public Transportation Trust Fund

Act 44–2007 established a special fund known as the Public Transportation Trust Fund to provide for dedicated funding for public transportation in the Commonwealth. Beginning July 1, 2007, 4.4 percent of the money collected from the tax imposed under

Article II of the Tax Reform Code (Sales and Use Tax) is deposited into the Public Transportation Trust Fund. This fund replaces the Supplemental Public Transportation Assistance Fund.

Lottery Fund

The Lottery Fund is a special fund comprised of monies received from the sale of lottery tickets and from fees. It provides funds for payment of prizes to lottery winners and for various programs benefiting older Pennsylvanians and others.

In 1971, legislation was enacted creating a state lottery with a General Assembly mandate that net proceeds were to fund senior citizen benefit programs. Lottery sales originated on March 7, 1972 when the first 50-cent ticket went on sale. In November 1972 the first \$1 game was introduced establishing a product mix of different games. The product mix has undergone numerous revisions culminating in the current game structure of various computer terminal games and instant ticket games.

Sale proceeds from the various games, less retailer-paid prizes and retailer commissions, are deposited in the Lottery Fund. This fund is used to pay prizes and authorized programs. Benefit programs currently offered include:

1. Property Tax or Rent Rebate (PTRR) – Households with claimants or spouses 65 years of age or older, widows or widowers 50 years of age or older, and the permanently disabled 18 years of age or older meeting income eligibility requirements may qualify for this program. Rebates of paid property tax or rent, up to a maximum of \$650 per year, are available. Act 30–1999 expanded the PTRR program by excluding 50 percent of Social Security payments and 50 percent of Railroad Retirement benefit payments from eligibility income. The Taxpayer Relief Act (Act 1–2006) expanded the PTRR program for homeowners by increasing the income limit from \$15,000 to \$35,000 and the maximum rebate from \$500 to \$650. The income limit for renters remained at \$15,000; however, the maximum rebate for renters increased from \$500 to \$650. In addition, the Act created an automatic supplemental property tax rebate for seniors living in Philadelphia, Pittsburgh, and Scranton, as well as a supplemental rebate for homeowners with incomes of \$30,000 or less and a property tax bill that exceeds 15 percent of that income. The supplemental rebates are funded by transfers from the Gaming Fund.

2. Pharmaceutical Assistance (PACE and PACENET) – The PACE program was expanded by

Act 134–1996 which increased income eligibility requirements and established the PACE Needs Enhancement Tier (PACENET). Those qualifying for these programs must be at least 65 years of age and meet income eligibility requirements. Currently, individuals and married couples with annual incomes not exceeding \$14,500 and \$17,700 respectively qualify for PACE. The PACE co-payment is \$6 for generic drugs and \$9 for brand-name prescriptions. Additionally, individuals with an annual income greater than \$14,500 but not exceeding \$23,500 and married couples with annual incomes greater than \$17,700 but not exceeding \$31,500 qualify for benefits under PACENET. The program pays for the entire cost of prescription drugs and insulin supplies, subject to co-payments, after the individual pays the first \$40 of prescription costs each month. Previously, benefits would not begin until a participant already spent \$500 in a given year. The PACENET co-payment is \$8 for generic drugs and \$15 for brand-name prescriptions.

3. Transportation Programs - Under the Free Transit Program older Pennsylvanians are eligible for free rides on participating local fixed route operations during off-peak hours on weekdays and all day on weekends and holidays. This program also applies to commuter rail lines. The Shared Ride Program for Older Pennsylvanians, as amended by Act 36–1991, permits citizens aged 65 or older to shared-ride services at a cost of only 15 percent of the fare. The State Lottery Fund reimburses shared-ride transit operators the remaining 85 percent of the shared-ride fare.

4. PennCARE – The State Lottery Fund provides funding to 52 Area Agencies on Aging serving all 67 counties. These Area Agencies on Aging provide aging services at the local level. Lottery funded services include, for example, in-home care, senior center activities, and home delivered meals for people unable to prepare adequate meals for themselves (meals-on-wheels).

Enabling legislation is the State Lottery Law of 1971 (P.L. 351, No. 91), as amended.

Gaming Fund

Act 71–2004 established the State Gaming Fund and authorized slots gaming at 14 locations throughout Pennsylvania. Act 1-2010 authorized table games and increased the number of slot machine licenses by 1. Under current law, a total of fifteen slot machine licenses within three categories have been established; however, the final Category 3 license will not be effective until after July 20, 2017, or after the first two Category 3 licensed facilities are operational, whichever is later.

A slot machine tax, local share assessments, and various license and fee revenue are deposited into the Gaming Fund. In addition, the escrow accounts established by each licensed gaming entity and used to pay the Commonwealth's administrative expenses related to the Act, are also deposited in the Fund. Each Category 1 and 2 slot machine licensee must provide and maintain a deposit of \$1,500,000. Each Category 3 licensee must provide and maintain a deposit of \$1,000,000.

An amount equal to \$2 million, or 0.2 percent of gross terminal revenue, whichever is greater, is transferred annually from the Gaming Fund to the Compulsive and Problem Gambling Treatment Fund. Additional transfers from the Gaming Fund include \$2 million to the Pennsylvania Gaming Control Board (PGCB) for law enforcement grants, \$3 million to the Department of Health for drug and alcohol addiction treatment services, \$25 million to the General Fund for the Volunteer Fire Company Grant Program, \$0.80 per acre to local jurisdictions hosting specified forest reserves, and repayments to the Lottery Fund for property tax relief enacted under Act 1–2006 of the Special Session on Property Tax Relief.

All remaining revenue is transferred to the Property Tax Relief Fund and used for general property tax relief as provided in the statute.

Slot Machine Tax and Assessment

A 34 percent state tax and a 4 percent local share assessment are imposed on gross terminal revenue and are deposited into the Gaming Fund. For purposes of this calculation, Gross terminal revenue is defined as total cash or cash equivalents received by a slot machine or received as entry fees for slot

machine contests or tournaments less cash or cash equivalents paid out, cash or cash equivalents paid to purchase annuities to fund prizes, and personal property distributed to patrons as a result of playing a slot machine.

The local share assessment is deposited into the Gaming Fund and, quarterly, is distributed to local jurisdictions hosting a licensed gaming entity. The exact distribution and uses are prescribed by the legislation and are based upon the classification of the county and municipality in which the facility resides. This funding supports various services and projects at the county and municipal level.

Table Game Assessment

A 2 percent local share assessment is imposed on gross table game revenue. Gross table game revenue is defined as total cash or cash equivalents received in the playing of table games, contest or tournament fees or payments, and total amount of rakes collected minus cash or cash equivalents paid out, paid to purchase annuities to fund prizes, and paid for personal property distributed to patrons as a result of playing a table game.

The local share assessment is deposited into the Gaming Fund and, quarterly, is distributed to local jurisdictions hosting a licensed gaming entity. The exact distribution and uses are prescribed by the legislation and are based upon the classification of the county and municipality in which the facility resides. This funding supports various services and projects at the county and municipal level.

Licenses and Fees

License and fee revenue related to slots gaming is deposited into the Gaming Fund. These fees include the one-time fee paid by licensed gaming entities (\$50 million for a category 1 or 2 license and \$5 million for category 3 license), as well as licenses and annual renewals for manufacturers and suppliers of slots gaming equipment, and a multitude of other gaming related permits issued by the PGCB.

Enabling legislation is the Pennsylvania Race Horse Development and Gaming Act of July 5, 2004 (P.L. 572, No. 71).

Recent Changes in Tax Law

Significant pieces of legislation affecting revenues for the General Fund, Motor License Fund and certain special funds are outlined below.

ACT #87 of July 2, 2012 made the following changes:

To Procedure and Administration

- Permits the Department of Revenue to change, by regulation, the method of payment for payments greater than \$10,000. Previous law allowed changes for payments greater than \$20,000.
- Allows the Department of Revenue to enter into contracts to identify savings from refunds and to collect taxes, interest, penalties or fees paid pursuant to a contingency fee. The contracts must ensure compliance with all laws and procedures regulating the collection of taxes, interest, penalties and fees.
- Allows replacement checks to be issued for checks that are between 180 days and 1 year old. After 1 year, all reportable checks issued by the Commonwealth that have not been presented for payment shall be delivered to the State Treasurer as abandoned/unclaimed property.
- Provides that any money received by an agency as a result of a settlement, litigation or an enforcement action shall be deemed funds of the Commonwealth, and shall, upon receipt, be deposited in the General Fund. Agencies shall be reimbursed from settlement proceeds for any costs incurred to pursue a settlement, litigation or enforcement action.

To The Neighborhood Improvement Zone Fund

- Defines “city” as a city of the third class with a population of at least 106,000 based on the most recent US Census.
- Defines “earned income tax” to ensure that the monies retained by the city as part of the Neighborhood Improvement Zone are only those earned income tax monies which are levied by a city or a school district entirely contained in the zone.
- Provides that an entity collecting a local tax that is in possession of money attributable to a local tax not included in the amount to be certified shall promptly remit the money to the local taxing authority entitled to receive the money.

- Provides that within 4 months of the designation of a Neighborhood Improvement Zone, a city may apply to the Department of Community and Economic Development to decertify all or part of the Keystone Opportunity Zone on behalf of all political subdivisions.

To Keystone Special Development Zones

- Amends the definition of “Keystone Special Development Zone” to include properties that have no permanent vertical structures affixed to them or which had a permanent vertical structure affixed to it which has been deteriorated or abandoned for at least 20 years.

To Tax Credits

- Limits on Research & Development, Film, and Job Creation tax credits are deleted from the Fiscal Code for placement in the Tax Code

To the Enhanced Revenue Collection Account

- Extends the Enhanced Revenue Collections Account through 2016-17.
- Increases the appropriation to fund the costs associated with the enhanced revenue collection program to up to \$10,000,000 annually.

ACT #85 of July 2, 2012 made the following changes:

To the Sales and Use Tax

- Provides a sales and use tax exemption for the collection, washing, sorting, inspecting and packaging of eggs. Tangible personal property and services used directly and predominantly in the processing of eggs are exempt from sales and use tax. Effective July 2, 2012.
- Provides exclusion for wrapping or packaging supplies. Clarifies that any charge for wrapping or packaging is exempt from sales and use tax if the property wrapped or packaged will be resold by the purchaser of the wrapping or packaging services. Effective July 2, 2012.
- Provides for a permanent exempt status for volunteer firefighters’ organizations and volunteer firefighters’ relief associations. Excludes the sale at retail or use of tangible personal property or services by a volunteer firefighters’ organization and volunteer firefighters’ relief association from tax. Effective July 2, 2012.

- Provides sales and use tax licensees whose actual tax liability for the third calendar quarter of the preceding year is at least \$25,000 but less than \$100,000 with an alternative payment option to the requirement of paying 50 percent of the tax liability for the same month of the preceding calendar year. The licensee may remit an amount that is equal to or greater than 50 percent of the actual tax liability required to be reported for the same month in the current year. Effective Oct. 1, 2012.

To the Personal Income Tax

- Provides that a surviving spouse may file a joint return for the year in which his or her spouse died, if the joint return could have been filed if both spouses were living for the entire taxable year. If both taxpayers die during the same tax year, a joint final return may be filed if a joint return could have been filed had both spouses lived for the entire taxable year. Effective for tax years beginning on or after Jan. 1, 2013.
- Eliminates a penalty for underpayment of estimated taxes for taxpayers who make estimated tax payments equal to the amount of the taxpayer's tax liability for the preceding tax year by taking into account a calculation for the special provisions for poverty. Effective for tax years beginning on or after January 1, 2013.

To the Corporate Net Income Tax

- Adopts a 100 percent single sales factor for corporate net income tax for tax years beginning on or after January 1, 2013.

To the Realty Transfer Tax

- Extends exclusions from the realty transfer tax to general, limited or limited liability partnerships related to a family-owned business of agriculture. Applies retroactively to transfers occurring on or after July 1, 2010.
- Broadens the definition of “real estate company” and provides for instances in which a real estate company shall become an “acquired company”. This provision is effective Jan. 1, 2013, and shall not apply to a transaction or a series of transactions occurring in part or entirely before Jan. 1, 2013.
- Excludes transfers between a stepparent and a stepchild or the spouse of the stepchild from the tax. Effective July 2, 2012.

To the Cigarette Tax

- Amends the definition of "wholesaler," so that any person owning three or more retail outlets now qualifies as a cigarette wholesaler. Effective Aug. 31, 2012.

To the Inheritance Tax

- Provides an exemption from the inheritance tax for the transfer of real estate devoted to the business of agriculture to members of the same family. The transfer of real estate must continue to be devoted to the business of agriculture for a period of seven years beyond the transferor's date of death and the real estate derives a yearly gross income of at least \$2,000.
- Specifies that any tract of land no longer devoted to the business of agriculture within seven years shall be subject to the inheritance tax in the amount that would have been paid for nonexempt transfers of property, plus interest.
- Provides that a transfer of an agricultural commodity, agricultural conservation easement, agricultural reserve, agricultural use property or a forest reserve to lineal descendants or siblings is exempt from inheritance tax.
- Applies to the estates of decedents dying after June 30, 2012.

To the Research and Development Tax Credit

- Reestablishes a credit cap of \$55 million per year in the Tax Code (previously in the Fiscal Code).
- Removes the sunset date of the tax credit.

To the Film Production Tax Credit

- Provides that a taxpayer is eligible for an additional tax credit of 5 percent of “qualified film production expenses” if a taxpayer films a feature film, television film or television series that is intended as programming for a national audience and is filmed in a “qualified production facility” that meets all “minimum stage filming requirements” .
- Defines "qualified production facility" as a film production facility located in Pennsylvania containing at least one sound stage with column-free, unobstructed floor space and meets specific criteria.
- Adds the bank shares tax and insurance premiums tax to the list of taxes that may be offset by the Film Production Tax Credit.

- Applications will be reviewed by the Department of Community and Economic Development in 90-day periods on a competitive basis and will be evaluated on several criteria.
- A portion of tax credits may be accelerated into the current fiscal year for the three succeeding fiscal years.
- Permits carry forward of a tax credit purchased or assigned in 2010 to tax years 2011 and 2012.
- Allows the Department of Community and Economic Development to waive the requirement that 60 percent of the film's total expenses be incurred in the commonwealth.

To the Educational Improvement Tax Credit

- The maximum credit for contributions to scholarship or educational improvement organizations is increased from \$300,000 to \$400,000. Beginning in fiscal year 2013-14, the maximum credit will be \$750,000.
- The maximum credit for contributions to pre-kindergarten scholarship organizations is increased from \$150,000 to \$200,000.
- The total aggregate amount of all tax credits shall not exceed \$100 million in a fiscal year.
- Adds surplus lines tax to the list of taxes that may be offset by the Educational Improvement Tax Credit.

To the Pennsylvania Resource Manufacturing Tax Credit

- Establishes a tax credit for any entity purchasing ethane for use in a manufacturing ethylene at a facility in the Commonwealth that has made a capital investment of at least \$1 billion and created 2,500 full-time jobs during the construction phase. Effective for ethane purchased between Jan. 1, 2017 and Dec. 31, 2042.
- The tax credit is generated based on 5 cents for every gallon of ethane purchased (\$2.10/barrel) and may be used to offset 20 percent of the taxpayer's qualified Pennsylvania tax liabilities.
- After the end of the calendar year in which the credit is approved, a taxpayer can apply to the Department of Community and Economic Development for approval to assign or sell eligible credits to another taxpayer. The eligible buyer of the credit would be able to use the purchased credits to offset up to 50 percent of its qualified Pennsylvania tax liabilities.

- Requires an annual report by the Department of Revenue beginning in 2018 to include names of all qualified taxpayers utilizing the tax credit and the amount of tax credits approved, utilized or sold or assigned by each qualified taxpayer.
- Requires that a reconciliation report be filed by the Department of Community and Economic Development beginning in 2028 to include the total number of jobs created, the amount of tax revenue generated from qualified taxpayers and upstream or downstream companies and any other information pertaining to the economic impact of the tax credit program.

To the Educational Opportunity Scholarship Tax Credit

- Establishes a new credit for businesses contributing to organizations awarding scholarships for students in "low-achieving schools" to attend participating public or non-public schools. Effective July 2, 2012.
- Defines a "low-achieving school" as a public school ranked in the lowest 15 percent based on annual assessments.
- The limitations on business contribution and business application procedures are similar to those under the Educational Improvement Tax Credit.
- A total of \$50 million in credits may be granted annually.

To the Historic Preservation Tax Credit

- Establishes a \$3 million per year tax credit program to encourage the restoration of qualified historic structures. Effective July 2, 2013.
- Credit is equal to 25 percent of the costs and expenses associate with the rehabilitation of a historic structure.
- Defines a "qualified historic structure" as a commercial building located in the commonwealth that qualifies as a certified historic structure under the federal Internal Revenue Code.
- Defines "qualified expenditures" as the costs and expenses (1) incurred by a qualified taxpayer in the restoration of a qualified historic structure pursuant to a "qualified rehabilitation plan," and (2) defined as qualified rehabilitation expenditures under the Internal Revenue Code.

To the Community-Based Services Tax Credit

- Establishes a \$3 million per year tax credit program for contributions made by business firms to providers of community-based services to individuals with intellectual disabilities or mental illness. Effective July 1, 2013. No credits may be awarded after July 1, 2018.
- Credit is equal to 50 percent of contributions made to a qualified provider.
- Credits may not be carried forward, carried back, and are not refundable or transferable.
- Requires a provider to be a nonprofit entity that provides community-based services to individuals exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

To the Job Creation Tax Credit

- Adds definition of "small business" for companies with fewer than 100 employees and "unemployed individual" as someone who has been unemployed for at least 60 days.
- Provides that a small business must agree to increase employment by at least 10 percent.
- Allows tax credits to be authorized as single-year or multiple-year credits.
- Increases the per-job tax credit from \$1,000 to \$2,500 if the new job created is filled by an unemployed individual.

To the Neighborhood Assistance Tax Credit

- Provides direction for the Department of Community and Economic Development to credit applications involving charitable food programs.

To Procedure and Administration

- Repeals provisions requiring the Department of Revenue to send assessments over \$300 via certified mail. Effective July 2, 2012.
- Requires companies making payments of Pennsylvania source income representing nonemployee compensation or payments under an oil or gas lease to send a copy of the 1099-MISC form to the Department of Revenue. Effective July 2, 2012, and will apply to 1099-MISC forms issued for the 2012 tax year.
- Provides that the Department of Revenue shall automatically grant an extension of time for filing the corporate net income tax annual report if the Internal Revenue Service (IRS) grants an extension of time for filing federal corporate

income tax reports. Effective for tax years beginning on or after January 1, 2013.

- Allows the Department of Revenue to levy bank accounts of delinquent taxpayers where the delinquency is greater than \$1,000. Effective January 1, 2013.
- Allows the Secretary of Revenue compromise authority for a taxpayer who has filed a petition to the Board of Appeals of the amount due to the department. Once the Request for Compromise is submitted, an informal conference (either by phone or in person) may be conducted by the board. Any compromise offer will be reviewed by the board and if approved, the board will issue a Compromise Order. The Compromise Order will represent the full and final settlement of the appeal. Petitions resulting from the denial of a property tax or rent rebate claim, a denial of a charitable tax exemption, the revocation of a sales tax license, appealing a jeopardy assessment, or arising under the Gaming Law are not eligible for compromise.
- Allows for the acceptance of refund petitions after an audit assessment up to the latter of six months after the mailing date of the notice of assessment or three years from the date of actual payment of the tax. Effective for petitions filed after July 1, 2012.
- Allows for the acceptance of refund petitions for amounts paid as a result of any other assessment within six months of the actual payment of the tax. Effective for petitions filed after July 1, 2012.
- Extends the time period for filing a federal report of change with the department from 30 to 180 days, so that companies audited by the Internal Revenue Service have sufficient time to accurately update state filings. Effective for tax years beginning on or after Jan. 1, 2013.
- Allows petitioners to contest changes that do not affect tax in the current year but may affect tax liabilities in future years. Applies to petitions filed on or after July 2, 2012, and to appeals pending as of that date.

ACT #16 of February 14, 2012 made the following changes:

To Keystone Opportunity Zones and Keystone Innovation Zones

- Permits the extension of KOZ benefits to unoccupied parcels for 7 to 10 years.

- Expands 4 KOEZ zones previously not designated and permits the creation of 15 new zones.
- Permits the expansion of parcels within and existing KOZ, KOEZ, or KOIZ zone if the expansion is expected to increase job creation or capital investment. Benefits for expanded parcels are limited to 15 acres for a period of 10 years.

ACT #29 of June 30, 2011 made the following changes:

To the Surplus Lines Tax

- Requires the premium tax to be paid on policies of insurance placed with an insurance company or association of another state or a foreign country be made in the same manner as an eligible surplus lines insurer or non-admitted carrier (at 3 percent on all premiums charged based on the gross premiums charged, less any return premiums).
- For policies placed after June 30, 2011, the collecting, reporting and remittance of tax apply when the Commonwealth is the home state of the insured. Additionally, the imposition of tax and penalties apply when the Commonwealth is the home state of the insured.

ACT #28 of June 30, 2011 made the following changes:

To the Surplus Lines Tax

- Provides that no state other than the home state of the insured may require premium taxes on non-admitted insurance.
- Changes the taxation for multi-state surplus lines policies and independently procured insurance placed after June 30, 2011, from an allocation method (taxing only that risk which is in the Commonwealth) to a gross premiums method (taxing the entire premium regardless of where the risk is located).
- In the case of independently procured insurance, the insured must report the transaction and pay the 3 percent tax to the Department of Revenue within 30 days after the last day of the month the insurance was procured.

ACT #26 of June 30, 2011 made the following changes:

To the Sales and Use Tax

- Sales tax licensees reporting a total tax liability of \$25,000 or more for the third calendar quarter of the preceding year are required to file a return and make a payment by the 20th of the month which shall include the following:
 - Fifty percent of the licensee’s sales and use tax liability for the same month in the prior calendar year (55 percent from the return due June 20, 2011).
 - The amount of tax due for the prior calendar month.
 - Less any amount paid under the first bullet in the prior month.
- This change will be effective for reporting periods beginning after May 31, 2011.
- This procedure replaces language enacted in the Tax Reform Code by Act 48 of 2009 that required two sales tax returns per month from the same sales tax vendors.

To the Film Production Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be reduced to \$60 million.
- Allows a purchaser or assignee of a film tax credit in 2011 to carry over the credit for use in the next taxable year.

To the Research and Development Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be increased to \$55 million, while also increasing the small business set aside to \$11 million.

To the Job Creation Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be reduced to \$10.1 million.

To Neighborhood Improvement Zones:

- Extends the window for the decertification of a Keystone Opportunity Zone to September 1, 2011.
- Limits debt issuance, including any refunding, to a maximum term of 30 years.
- Clarifies the flow of monies from the state and local taxing authorities and provides for an annual settlement with the contracting authority.

- Provides that any excess monies shall first be returned to the General Fund and then to the local taxing authorities who collected the taxes.

Creation of Keystone Special Development Zones:

- Creates a new program for the designation of Keystone Special Development Zones for parcels of real property certified as Special Industrial Areas by the Department of Environmental Protection pursuant to the Land Recycling and Environmental Remediation Standards Act, and which as of July 1, 2011 had no permanent vertical structures affixed to it. The Keystone Special Development Zone designation shall exist for 15 years and provide tax credits to employers for new full time jobs created in the zone.

ACT #46 of July 6, 2010 made the following changes:

To the Educational Improvement Tax Credit

- For fiscal year 2010-11, the cap will be \$60 million.

To the Enhanced Revenue Collection Account

- Revenues collected and the amount of refunds avoided as a result of expanded tax return review and tax collection activities shall be deposited into the account.

ACT #1 of January 7, 2010 made the following changes:

To Table Game Taxes and Assessments:

- Table Game Taxes – Established a 12 percent table game tax imposed on gross table game revenue; however, for 2 years following commencement of table game operations at a facility, the rate is 14 percent. In addition, a 34 percent table game tax is imposed on gross table game revenue from table games played on fully automated electronic gaming tables. The funds from these taxes are deposited to the General Fund until such time as, on the last day of the fiscal year, the balance in the Budget Stabilization Reserve Fund is certified by the Secretary of the Budget to exceed \$750,000,000. Thereafter, the funds from these taxes are deposited to the Property Tax Relief Fund.
- Local Share Assessment – Established a 2 percent local share assessment imposed on gross table game revenue. These funds are deposited to the State Gaming Fund. Quarterly, the

Department of Revenue distributes the local share assessment to counties and municipalities hosting a licensed facility authorized to conduct table games. The exact distribution and uses are prescribed by the Act and are based upon the classification of the county and municipality in which the facility resides.

To Non-Tax Revenues:

- Licenses, Fees & Miscellaneous – Established various fees related to table games, including a table games certificate fee and supplier and manufacturer license fees. The table games certificate fee for Category 1 and 2 facilities is a one-time fee of \$16,500,000 if paid on or before June 1, 2010, or \$24,750,000 if paid after June 1, 2010. The table games certificate fee for Category 3 facilities is a one-time fee of \$7,500,000 if paid on or before June 1, 2010, or \$11,250,000 if paid after June 1, 2010. However, the certificate fee for any Category 1 or 3 facility that holds a slot machine license issued after June 1, 2010, is \$16,500,000 or \$7,500,000, respectively. The supplier license fee is \$25,000 upon issuance of a license to supply table games or associated equipment and \$15,000 for the annual renewal. The Act allows for a 3-year renewal for a fee of \$45,000. The manufacturer license fee is \$50,000 upon issuance of a license to manufacture table games or associated equipment and \$30,000 for the annual renewal. The Act allows for a 3-year renewal for a fee of \$90,000
- Transfers – Amounts from the Pennsylvania Race Horse Development Fund will be transferred to the General Fund, beginning January 1, 2010, and continuing through fiscal year 2012-13. Beginning January 1, 2010, through the end of fiscal year 2009-10, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 34 percent to General Fund and 66 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula. In fiscal years 2010-11 through 2012-13, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 17 percent to the General Fund and 83 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula.
- Transfer – A one-time transfer will be made to the General Fund in fiscal year 2009-10 from amounts previously appropriated to the Pennsylvania Gaming Control Board.

Act #10A of October 9, 2009 made the following changes:

To Non-Tax Revenues:

- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10: Higher Education Assistance Fund; Keystone Recreation, Park and Conservation Fund; Dog Law Restricted Revenue Account; Oil & Gas Lease Fund.

Act #48 of October, 2009 made the following changes:

To the Tax Amnesty Program:

- Established a tax amnesty program to be administered April 26, 2010 through June 18, 2010.
- Provides for a no penalty, reduced interest payment on those tax liabilities delinquent as of June 30, 2009 and unknown tax liabilities owed by the taxpayer for the five years prior to June 30, 2009.
- Those liabilities not paid during the tax amnesty period will incur an additional 5 percent penalty on any delinquent accounts that did not come forward.
- Eligible liabilities included all taxes administered by the Department of Revenue. For taxes owed under the International Fuel Tax Agreement (i.e. Liquid Fuels Tax), only those taxes, interest and penalties owed to the Commonwealth were eligible for this program.

To the Sales and Use Tax:

- The sale at retail of helicopters and similar rotorcraft are excluded from sales and use tax. In addition, repairs to and the sale of replacement parts for helicopters and similar rotorcraft are exempt from sales and use tax. This change is effective immediately.
- Sales tax licensees reporting a total tax liability of \$25,000 or more for the third calendar quarter of the preceding year are required to report and remit payment to the department on a semi-monthly basis. For the period of the first day of the month through the 15th day of the month, the return and remittance are due on or before the 25th day of the month. For the period from the 16th day of the month to the last day of the month, the return and remittance are due on or before the 10th day of the following month. This

change will be effective for reporting periods beginning after May 31, 2011.

To the Personal Income Tax:

- The sunset dates for the following check-offs on the Personal Income Tax return have been extended to January 1, 2014: Wild Resource Conservation, Organ and Tissue Donation Awareness, and Military and Family Relief Assistance. The sunset dates for the check-offs for Breast and Cervical Cancer Research and Juvenile Diabetes Cure Research Funds have been extended indefinitely.
- An employer that can reasonably anticipate that its employer withholding will be \$20,000 or more in a calendar year will be required to report and remit the tax on a semi-weekly schedule. This change requires the largest employers to submit withheld taxes to the department on a schedule similar to the one used by the IRS. This change is effective for collections beginning after May 31, 2010.

To the Corporate Net Income Tax:

- For tax years beginning after December 31, 2008, the sales factor used in calculating the Corporate Net Income Tax is increased from 70 percent to 83 percent. The sales factor weight is further increased from 83 percent to 90 percent for tax years beginning after December 31, 2009.
- The cap on the net operating loss is increased to the greater of \$3 million or 15 percent for tax years beginning after December 31, 2008, and \$3 million or 20 percent for tax years beginning after December 31, 2009.

To the Capital Stock and Franchise Tax:

- The standard deduction used in calculating the Capital Stock and Franchise Tax will increase from \$150,000 to \$160,000 for tax years beginning after December 31, 2009.
- The tax rate has been set as 2.89 mills for tax years beginning in 2009 through 2011, and then declines by one mill per year until eliminated for tax years beginning after December 31, 2013.

To the Gross Receipts Tax:

- A tax of 59 mills is imposed upon each dollar of gross receipts received by Managed Care Organizations pursuant to a contract with the PA Department of Public Welfare.

To the Cigarette Tax:

- Increases the excise tax from \$1.35 on a pack of twenty cigarettes (6.75 cents per stick) to \$1.60 per pack (8 cents per stick). (Effective November 1, 2009)
- A floor tax will be due on inventories of previously-stamped cigarette packs for the difference of the tax. The floor tax return and payment is due January 29, 2010.
- Reduces the commission paid to cigarette stamping agents for services and expenses incurred in affixing cigarette stamps from 0.98 percent to 0.87 percent. (Effective November 1, 2009)
- Repeals the 18.52 percent transfer of proceeds from cigarette tax receipts to the Health Care Provider Retention Account. (Effective immediately)
- Little Cigars – The definition of cigarettes was expanded to include little cigars, weighing less than four pounds per thousand. Beginning November 1, 2009, little cigars in packages of 20 or 25 per pack are required to be tax stamped like cigarettes. Little cigars in packages other than 20 or 25, which are determined to be “unstampable”, become taxable at the same rate of 8 cents per stick on January 4, 2010.
- Retailers will be required to calculate a floor tax on “unstampable” little cigars in inventory on January 4, 2010. The floor tax return and payment will be due by January 29, 2010.
- Taxpayers who have not sold cigarettes prior to November 1, 2009, but sell little cigars, will be required to obtain a cigarette dealers license. Shippers are required to report to the department the weight, brand name, number per package and to whom the little cigars were shipped.

To the Research and Development Tax Credit:

- The current one-year holding period for the transfer or assignment of the R&D tax credit has been removed. For fiscal year 2009-10, the annual credit cap will be \$20 million. For fiscal year 2010-11, the cap will be \$18 million.

To the Educational Improvement Tax Credit:

- This credit has been relocated from the Public School Code to the Tax Reform Code. The maximum annual household income to qualify will be \$50,000 until July 1, 2011, and \$60,000 thereafter. For fiscal year 2009-10, the annual

credit cap will be \$60 million. For fiscal year 2010-11, the cap will be \$50 million.

To the Film Production Tax Credit:

- For fiscal year 2009-10, the annual cap will be \$42 million. For fiscal year 2010-11, the cap will be \$60 million.

To the Alternative Energy Production Tax Credit:

- For fiscal years 2009-10 and 2010-11, the annual credits available have been reduced to \$0.

To the Other Tax Credits:

- For the following tax credits, the total amount available for award to eligible taxpayers will be 50 percent of the total amount otherwise available for award in fiscal year 2009-10, and 45 percent of the total amount otherwise available for award in fiscal year 2010-11. This applies to the Call Center Credit, Employment Incentive Payments, Job Creation Tax Credit, Neighborhood Assistance Tax Credit, Resource Enhancement and Protection Tax Credit, and the First Class Cities Economic Development District Credit.

ACT #79 of July 10, 2008 made the following changes:

To the Keystone Opportunity Zones:

- Expands the Keystone Opportunity Zone (KOZ) program. Under this legislation, KOZs that are set to expire within the next five to ten years will have the option of extending benefits for seven to ten years. Zones that expire in January of 2008 will be given until June 2009 to apply for the extension.
- The Department of Community and Economic Development (DCED) may designate up to 15 additional zones beginning on January 1, 2010. These newly designated zones must be sponsored by a political subdivision. Moreover, a political subdivision may be able to swap underutilized zones for new locations within the political subdivision. Applications must be received by DCED by December 31, 2008.
- Under this legislation, contractors, pursuant to a contract with a qualified business, landowner or lessee, may purchase, exempt from Sales and Use Tax, any tangible personal property or services for use in the zone by the qualified business.

- The formula for calculating the taxable income of a corporation is only based upon the payroll and property factors. The sales factor has been eliminated from the calculation.
- The bill further prohibits a person or business from knowingly employing an illegal alien. Those found to be in violation may be required to repay all tax benefits received for a two-year period while being located within the zone.

ACT #1 of the Special Session of July 9, 2008 made the following changes:

To the Alternative Energy Production Tax Credit:

- Taxpayers that develop or construct alternative energy production projects located within the Commonwealth, which have a useful life of at least four-years, may apply to the Department of Environmental Protection (DEP) for a credit beginning in September 2009. The amount of the credit may be up to 15 percent of the amount paid for the development and construction of alternative energy production project but may not exceed \$1,000,000 per taxpayer. Unused portions of the credit may be carried forward for up to five taxable years from the year in which the credit is awarded. Credits may not be applied to previous tax years. Additionally taxpayers may, upon approval by DEP, sell or assign an unused credit after one year from the date that the credit was approved. The total amount of credits that may be awarded annually is as follows:
 - \$5 million for Fiscal Years 2008-09 through 2011-12;
 - \$7 million in Fiscal Year 2012-13;
 - \$10 million in Fiscal Years 2013-14 through 2014-15; and
 - \$2 million in Fiscal Year 2015-16.

ACT #66 of July 9, 2008 made the following changes:

To the Volunteer Responder Retention and Recruitment Tax Credit:

- Qualified active volunteer ambulance, fire and rescue personnel are eligible for a credit of up to \$100 to be used against their Pennsylvania Personal Income Tax liability. The credit is available for Tax Years beginning after December 31, 2007 and ending before January 1, 2009. Eligibility of volunteers for the credit will be determined based upon certification by their

designated supervisor or chief under a point system approved by the State Fire Commissioner and State EMS Director. If the entire credit cannot be used against the volunteer's tax liability for the year in which it was awarded, it may be carried forward to succeeding tax years. The amount of credits awarded cannot exceed \$4,500,000.

To the Personal Income Tax:

- Monies from the check-offs for breast and cervical cancer research will now be transferred to the Pennsylvania Breast Cancer Coalition, rather than the Department of Health.

ACT #61 of July 9, 2008 made the following changes:

To the Educational Improvement Tax Credit:

- Makes Subchapter S corporations and other pass-through entities eligible for the Education Improvement Tax Credit (EITC) program, which allows business firms to receive tax credits for certain contributions made to non-profit, scholarship and education improvement organizations. Business firms applying for tax credits for a second year of a two-year commitment may apply beginning on May 15. Other business firms applying for tax credits may apply beginning on July 1. Pass through entities may apply beginning on July 7. The bill also increases the annual credit limit per taxpayer from \$200,000 to \$300,000 for scholarship and education improvement organizations, and increases the annual credit limit for contributions to pre-kindergarten scholarship organizations from \$100,000 to \$150,000.

ACT #42 of July 4, 2008 made the following changes:

To the Cigarette Fire Safety and Firefighter Protection Act:

- Beginning July 1, 2009, only self-extinguishing cigarettes that have been tested, certified and stamped may be sold in Pennsylvania. Cigarette manufacturers must submit certifications to the Department, with a \$1,000 fee per brand, stating that the cigarettes offered have been tested pursuant to the standards set forth in the Act. The Department, the State Fire Commissioner and the Attorney General are charged with enforcing the Act. Manufacturers, wholesalers and stamping agents found in violation may be subject to a penalty not to exceed \$10,000 per

sale; \$25,000 for subsequent offenses. Retailers found to be in violation may be subject to fines of up to \$500; \$5,000 for subsequent offenses.

- Certification fees collected will be deposited into the Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund to support the processing, testing, enforcement and oversight duties under the Act. Monies received from penalties will be deposited into the Fire Prevention and Public Safety Fund to support fire safety and prevention programs administered by the State Fire Commissioner.

ACT #32 of July 2, 2008 made the following changes:

To the Local Earned Income and Net Profits Tax:

- Consolidates on a county-wide basis the collection of the local earned income and net profits taxes. Each tax collection district will have one appointed tax collector. The number of local collectors will be reduced from 560 to 69 beginning January 1, 2010. Municipalities are included in the tax collection district in which its school district is located. Local taxing districts may enter into an agreement with the Department for the exchange of information necessary for the administration and enforcement of local tax collection. Furthermore, the DCED, in consultation with the Department shall develop forms and regulations for local tax collection.

ACT #55 of July 25, 2007 made the following changes:

To the Personal Income Tax:

- The check-off for breast and cervical cancer research will no longer have an expiration date. The expiration date for the check-offs for wild resource conservation and organ and tissue donation awareness has been extended to December 31, 2009.

To the Bank Shares Tax:

- Banks involved in mergers or acquisitions will now be permitted to deduct goodwill from the book value of total equity capital generated as a result of combinations. This change will apply to combinations occurring after June 30, 2001 and to the returns due on March 15, 2008.

To the Film Tax Credit:

- Creates a new article entitled the Film Production Tax Credit. This credit will be available for

certain production expenses of the producers of feature films and certain television commercials or shows intended for a national audience. Production expenses include compensation paid to individuals or payments made to entities representing individuals for their services, the costs of construction, operations, editing, photography, sound synchronization, lighting, wardrobe and accessories, the cost of transportation; the cost of insurance coverage, the costs of food and lodging, the purchase of music or story rights; and the cost of rental of facilities and equipment. Production expenses will not include certain items such as deferred compensation or profit sharing, development costs, marketing or advertising expenses or expenses related to the selling of the credit.

- A tax credit equal to 25 percent of qualified film production expense may be taken against PIT (except employer withholding tax), CNIT or CSFT. Qualified film production expenses are Pennsylvania production expenses if at least 60 percent of the total production expenses are incurred in Pennsylvania except that compensation paid to individuals or payments made to entities representing individuals for services provided in the film cannot exceed \$15 million.
- The Department of Community and Economic Development (DCED) will administer the award of the credits using the date on which the application for credits are received. DCED will certify the amount of the credit to Revenue upon execution of a contract outlining the production and Pennsylvania production expenses. Any taxpayer who is awarded this credit and fails to incur qualified production expenses as outlined in the contract shall repay the amount of the credit claimed to the Commonwealth.
- Credits granted may be carried forward; however, they may not be carried back or refunded. Credits may be sold or assigned with the approval of Department of Community and Economic Development and the Department of Revenue pursuant to regulations jointly promulgated.
- There are procedures for the transfer of unused credits by pass-through entities (Subchapter S corporation, Limited Liability Companies and Partnerships) to a shareholder, member or partner.
- Those films that receive a film production grant are not eligible for this credit for the same film.

- The total amount of credits that can be granted in any fiscal year cannot exceed \$75 million.

To the Neighborhood Assistance Tax Credit:

- Pass-through entities will now be eligible for this credit. If the entity cannot use this credit, the entity may elect, in writing, to transfer the credit to its shareholders, members or partners in proportion to the share of the entity’s distributive income to which the shareholder, member or partner is entitled. The shareholder, member or partner who receives the credit must immediately claim the credit in the taxable year in which the credit is transferred and may not carry it forward or backward, obtain a refund or sell the credit.
- This credit may now be sold or assigned. The taxpayer must apply to DCED for approval of the sale or assignment. DCED and Revenue shall jointly promulgate guidelines for the approval of these applications.
- The amount of credit that may be awarded to a taxpayer is 55 percent (increased from 50 percent) of the amount contributed by a business firm, or 75 percent (increased from 70 percent) of the amount contributed to special program priorities defined by the Department of Community and Economic Development in regulations. For private companies, the amount is 25 percent (increased from 20 percent) of the amount of qualified investment, or 35 percent (increased from 30 percent) of the amount invested in special program priorities. A credit equal to 75 percent of the contributions made by a business firm during a taxable year for comprehensive service projects with a five-year commitment may be awarded. A credit equal to 80 percent of the contributions made by a business firm during a taxable year for comprehensive service projects with a six-year commitment may be awarded. The amount of the credits awarded annually cannot exceed \$500,000 (increased from \$250,000) for contributions or investments for single projects or \$1,250,000 for contributions or investments for four projects.
- The amount of credits that can be awarded in any fiscal year remains at \$18 million and of that amount, \$2 million is to be allocated exclusively for pass-through entities. If the \$2 million is not used, then the unused portion is to be available for other taxpayers. (Effective immediately)

To the Resource Enhancement and Protection Tax Credit:

- Establishes the Resource Enhancement and Protection (REAP) tax credit. The tax credit may be used against personal income tax, corporate net income tax, capital stock and franchise tax, bank shares tax, title insurance company premiums tax, insurance premiums tax and mutual thrift institutions tax. These credits can be awarded to eligible projects, applicants or sponsors of eligible projects. Dependent on the type of project, a tax credit in the amount of 75 percent of the eligible project or 50 percent of the project costs may be awarded up to a maximum amount of \$150,000 for each eligible applicant or project. There is no limitation on the amount of credit that can be awarded to a sponsor of the project.
- The applicant must apply to the State Conservation Commission (“Commission”) for certification that a project meets best management practices and for authorization of the tax credit. Tax credits will be awarded on a first come first served basis. Once the Commission has authorized a credit, the Commission shall provide notice to the Department of the credit. The credit may be carried forward for 16 years.
- There are procedures for the sale and assignment of the credit as well as for pass-through entities to transfer tax credits to their shareholders, partners or members. The total amount of credits that can be awarded in one fiscal year is \$10 million. If the Commission determines that a best management practice is not maintained, then the amount of the tax credit originally awarded shall be returned to the Department. The credit shall take effect in 90 days except that credits for legacy sediment cannot be issued prior to July 1, 2008.

To the Sales and Use Tax:

- Manufacturing exemption includes the remanufacturing of locomotive parts. (Effective immediately)
- There will no longer be an exclusion from sales and use tax for the production of commercial motion pictures. (Effective October 1, 2007)
- The refund for sales tax remitted and attributable to bad debt is now expanded to private label credit cards. A private label credit card is a card that includes the name or logo of the retailer and can be used to make purchases from the retailer. This change will apply to amounts deducted as

bad debts on Federal income tax returns required to be filed after January 1, 2008.

Miscellaneous Changes:

- A nexus exemption is provided for the customers of powdered metallurgy parts manufacturers. This will be applicable to taxable years beginning after December 31, 2004, as well as taxable years as to which there is an appeal prior to the effective date of this act.
- The Department will be required to mail by certified mail assessments that are \$300 or more. This will apply to assessments issued after December 31, 2007.

ACT #45 of July 20, 2007 made the following changes:

To the Educational Improvement Tax Credit:

- Increases the total aggregate amount of Educational Improvement Tax Credits available for a fiscal year by \$16 million, from \$59 million to \$75 million. The amount of credits available for scholarship organizations has been increased by \$8.7 million to \$44.7 million per year. The amount available for contributions to educational improvements has been increased by \$4.3 million to \$22.3 million per year. The total amount of credits available for kindergarten organizations will now be \$8 million per year, an increase of \$3 million. (Effective immediately)

ACT #189 of November 29, 2006 made the following changes:

To the Sales and Use Tax:

- Exempts the sale of copies of official documents sold by government agencies or courts from tax. (Effective immediately)

ACT #182 of November 29, 2006 made the following changes:

To the Personal Income Tax:

- Exempts amounts paid by the U.S. Government or the Commonwealth for active state duty emergency service inside or outside of the Commonwealth from the definition of compensation.
- Applies to taxable years beginning after December 31, 2006.

ACT #151 of November 20, 2006 made the following changes:

Allows for the creation of Strategic Development Areas (SDA):

- Businesses located within the SDAs receive relief from various local and state taxes, including the corporate net income tax, the capital stock and franchise tax, the sales and use tax, and the personal income tax. In addition, insurance companies and certain regulated transportation companies are eligible to earn tax credits based on the number of jobs created within the SDA.
- The program is administered by the Department of Community and Economic Development and tax benefits may not extend beyond December 31, 2022. (Effective immediately)

ACT #119 of October 27, 2006 made the following changes:

To Corporation Taxes:

- Replaces the corporation tax settlement process with an assessment and reassessment process comparable to that used for other Pennsylvania state taxes, beginning January 1, 2008. Returns are now accepted as filed unless the Pennsylvania Department of Revenue or Auditor General selects them for review or audit. This new assessment process does not apply to Liquid Fuels Tax, Oil Company Franchise Tax, or Motor Carriers Road Tax.
- Estimated assessments may be issued by the Department of Revenue for failure to file a corporation tax report or for filing a return that is too incomplete to determine the tax.

Miscellaneous Changes:

- Standardizes assessment terminology throughout the tax code.
- Requires tax assessment notices (of \$300 or more, as amended by Act 55 of 2007) be sent via certified mail, including the basis for such assessments, so that the Department of Revenue may confirm with some certainty the receipt of the assessment.
- Provides new administrative procedures for petitions for reassessments and petitions for refunds made to the Board of Appeals.
- Authorizes new time limits for tax assessments. Under Act 119, the taxpayer has 90 days from the mailing date of the assessment to file a

petition for reassessment with the Board of Appeals. This change does not apply to Shares Taxes or Inheritance Taxes, which will retain the same method of appeal.

ACT #116 of July 6, 2006 made the following changes:

To the Sales and Use Tax:

- Clarifies that clean rooms and their component systems are included under the manufacturing and processing exemption and as such, are exempt from tax.

To the Corporate Net Income Tax:

- Increases the sales factor weight to 70 percent for calculating corporate net income tax apportionment. This applies to taxable years beginning after December 31, 2006.
- Expands the cap on net operating losses to \$3 million, or 12.5 percent of taxable income, whichever is greater. This applies to taxable years beginning after December 31, 2006.

To the Research and Development Tax Credit:

- Increases the cap on credits from \$30 million to \$40 million.
- Increases the amount of credits allocated for small businesses from \$6 million to \$8 million.
- Increases the small business credit from 10 percent to 20 percent of qualified research and development expenses.
- Extends the credit to include expenses incurred during taxable years ending on or before December 31, 2015.
- Changes apply to credits awarded after June 30, 2006.

ACT #114 of July 11, 2006 in part, made the following changes:

To the Educational Improvement Tax Credit:

- Raises the annual cap on credits from \$44 million to \$54 million. This change increases the amount available to provide tax credits to businesses for contributions to scholarship organizations from \$29.3 million to \$36 million, and the amount available for contributions to educational improvement organizations from \$14.7 million to \$18 million. (Effective immediately)

ACT #67 of July 6, 2006 made the following changes:

To the Sales and Use Tax:

- Exempts the sale of investment metal bullion and investment coins from the sales and use tax. This exemption does not include jewelry or works of art made from coins, nor does it include medallions. (Effective September 6, 2006)

To the Personal Income Tax:

- Links the Pennsylvania definitions of small corporation and qualified subchapter S subsidiary to the Internal Revenue Code, as amended through 2005. The effect is that, pursuant to recent Federal changes in the American Jobs Creation Act, the number of shareholders allowed for purposes of Pennsylvania S corporation designation increases from 75 to 100. Requires a Federal S corporation to be a Pennsylvania S corporation unless it specifically files an election not to be considered an S corporation for Pennsylvania purposes. The election requires the consent of 100 percent of the members. The election due date is extended and election revocations are prohibited for the six months. Applies to taxable years beginning after December 31, 2005.
- Provides a personal income tax exemption for contributions made to Health Savings Accounts (HSAs) and Archer Medical Accounts (AMAs). These changes are consistent with Federal treatment of these contributions. Applies to taxable years beginning after December 31, 2005.
- Provides a personal income tax exemption for qualified tuition program (QTP) contributions, rollovers, undistributed earnings, and distributions used for qualified higher education expenses. Applies to taxable years beginning after December 31, 2005.

To the Capital Stock and Franchise Tax:

- Excludes single member restricted professional companies (RPCs) from the definition of corporation, and consequently, from paying the capital stock and franchise tax (CSFT).
- Reduces the net income of a limited liability corporation (LLC) or business trust by the amount of distributions made by the entity to any member materially participating in the business activities of the entity. Applies to any LLC or business trust that is not taxable as a corporation for Federal income tax purposes and is effective

for taxable years beginning after December 31, 2005.

- Increases the applicable valuation deduction used in calculating capital stock value from \$125,000 to \$150,000. Applies to taxable years beginning after December 31, 2006.
- Accelerates the CSFT phaseout by 0.1 mills. The rate for tax year 2006 is reduced from 4.99 mills to 4.89 mills and declines by 1 mill per year thereafter until the tax is eliminated. Applies to taxable years beginning after December 31, 2005.

To the Realty Transfer Tax:

- Reduces the amount of the transfer to the Keystone Recreation, Park, and Conservation Fund from 15 percent to 2.1 percent for transfers occurring between July 1, 2006 and June 30, 2007. The transfers occurring on or after July 1, 2007 are at 15 percent.

To the Inheritance Tax:

- Reduces the value of agricultural conservation easements by fifty percent for purposes of inheritance tax assessments. Applies to estates of decedents with dates of death on or after July 6, 2006. (Effective immediately)

ACT #65 of July 2, 2006 made the following changes:

To Tax Credits:

- The Organ and Bone Marrow Donor Act provides for a tax credit for expenses incurred when a business firm grants to any of its employees a paid leave of absence for the purpose of donating an organ or bone marrow. Credits can be used against the taxes imposed under Articles III, IV, VI, VII, VIII or XV of the Tax Reform Code. The credit is available for tax years beginning on or after January 1, 2006. (Effective immediately)

Special Session ACT #1 of June 27, 2006 made the following changes:

Creates the Taxpayer Relief Act:

- Provides an allocation for a portion of Pennsylvania gaming revenue to school districts to provide for property tax reduction.
- Allows school districts to impose an earned income tax (EIT) or personal income tax (PIT) after a front-end referendum. The added revenue

must be used to provide additional homestead and farmstead exclusions.

- Requires each school board to appoint a local tax study commission to review certain past and present tax, revenue, and demographic data, and make recommendations whether the school district should increase the EIT, or impose a PIT, in order to provide property tax reductions for homesteads and farmsteads.
- Requires a school board to seek voter approval for any proposed tax increase exceeding an annually established index.
- Requires all school districts to submit a preliminary budget by February 14, 2007. The preliminary budget, along with a schedule of any proposed tax rate increases, must be submitted to the Department of Education (PDE) by February 19, 2007.
- Provides that any school district imposing an EIT and net profits tax is subject to section 13 of the Local Tax Enabling Act.
- Provides that any school district imposing a PIT is subject to all regulations adopted by the Department of Revenue for purposes of administering the Pennsylvania personal income tax.
- Establishes the Property Tax Relief Fund and the Property Tax Relief Reserve Fund.
- Requires the Secretary of the Budget to certify the amount of revenue in the Property Tax Relief Fund and the Property Tax Relief Reserve Fund that is available for distribution as property tax relief. The certification must be completed by April 15 and include the amount currently in the Funds, as well as all revenue which is reasonably projected to be deposited into the Funds during the following 6-month period. The Secretary may only certify an amount that is sustainable in subsequent years.
- Provides that no property tax relief shall be granted until at least \$400 million is available for distribution in the Property Tax Relief Fund.
- Repealed Act 72 of 2004, also known as the Homeowner Tax Relief Act.

To the Property Tax Rent Rebate Program:

- Expands the income parameters to include homeowners with an eligible income of up to \$35,000. The income eligibility requirements for renters remain at \$15,000.

- Changes the basis on which rebates are calculated from a percentage of the claimant's property tax/rent bill (where the percentage was based on income) to a fixed dollar amount based on the claimant's income.
- Provides a supplemental rebate for homeowners with incomes of \$30,000 or less and a property tax bill that exceeds of 15 percent of that income.
- Utilizes gaming revenue to provide for an additional rebate for homeowner residents of a city of the first class (Philadelphia), a school district of the first class A (Pittsburgh), or a city of the second class A (Scranton).

ACT #42 of May 11, 2006 made the following changes:

To the Film Production Tax Credit:

- Repealed the Film Production Tax Credit, Article XVII-C of the Tax Reform Code. (Effective June 30, 2006)
- Created the Film Production Grant program by amending Title 12 to add Chapter 41 to the Pennsylvania Consolidated Statutes. This replaces the Film Production Tax Credit Program.

Tax Summary

<u>Tax</u>	<u>Rate</u>	<u>Payment Remitted By</u>	<u>Report Due Date</u>
Alternative Fuels	12 cents per gallon plus an oil franchise tax component is applied to each gasoline gallon equivalent.	Dealer-users of fuel	20th day of each month
Bank and Trust Company Shares	1.25%	All bank and trust companies doing business in Pennsylvania	March 15th of each year
Capital Stock and Foreign Franchise	1.89 mills base rate for 2012 on formula valuation with a \$160,000 valuation exemption ¹	Corporations doing business in Pennsylvania	15th day of the 4th month after the close of a tax year
Cigarette	8.00 cents per cigarette	Cigarette Stamping Agents	Payment is due by the 15th day of each month. Report is due by the 10th day of the following month.
Corporate Loans	4 mills	Corporations doing business in Pennsylvania	15th day of the 4th month after the close of a tax year
Corporate Net Income	9.99%	Corporations doing business in Pennsylvania	15th day of the 4th month after the close of a tax year
Gross Premiums	2% of gross premiums, with certain exceptions	Domestic and foreign insurance companies	April 15th of each year
Gross Receipts	50 mills, except electric companies at 59 mills	Certain electric, telecommunications, and transportation companies	March 15th of each year
Inheritance and Estate	Rate determined by relationship to decedent: Spouses – 0% Parents of decedent 21 years of age or younger – 0% Other lineal heirs – 4.5% Siblings – 12% All other heirs – 15%	Local Registers of Wills	Within 9 months of the death of the decedent

¹ The tax rate is scheduled to be phased out by an additional 1 mill per year until the tax is eliminated.

Tax Summary

<u>Tax</u>	<u>Rate</u>	<u>Payment Remitted By</u>	<u>Report Due Date</u>
Liquid Fuels and Fuels	12 cents per gallon (aviation gasoline and jet fuel rates vary annually - see text)	Licensed distributors	20th day of each month
Liquor	18%	Liquor Control Board (LCB)	LCB functions on a monthly accounting cycle. Reports are due on the last day of the calendar month.
Malt Beverage	\$2.48 per barrel	Manufacturers, distributors and importers of malt beverages	15th day of each month
Motor Carriers Road/IFTA	12 cents per gallon plus an oil company franchise tax component	Motor carriers with vehicles in excess of 26,000 pounds	IFTA reports are due on the last day of April, July, October, and January while MCRT reports are filed annually
Motor Vehicle Lease	3%	Any entity making taxable leases of motor vehicles	20th day of each month
Motor Vehicle Rental Fee	\$2 per day	Any entity making taxable rentals of motor vehicles	20th day of each month
Mutual Thrift	11.5%	Savings institutions, savings banks, savings and loan associations, and building and loan associations doing business in Pennsylvania	15th day of the 4th month after the close of a tax year
New Tire Fee	\$1 per tire	Any entity selling new tires intended for highway use	20th day of each month
Oil Company Franchise	153.5 mills on liquid fuels and 208.5 mills on fuels	Registered liquid fuels and fuels distributors	20th day of each month
Personal Income	3.07%	Pennsylvania employers and residents, estates and trusts, nonresidents with income from sources within Pennsylvania and businesses with nonresident owners which receive income from	April 15th of each year

Tax Summary

<u>Tax</u>	<u>Rate</u>	<u>Payment Remitted By</u>	<u>Report Due Date</u>
		sources within Pennsylvania	
Private Bankers	1%	Private bankers authorized to do business in Pennsylvania	February 15th of each year
Public Utility Realty	Variable	Public utilities furnishing services and regulated by the Pennsylvania Public Utility Commission or a regulatory body of another state of the United States	May 1st of each year
Realty Transfer	1%	County Recorders of Deeds	Upon the presentation of any document for recording or the transfer of certain interests in real estate
Sales, Use and Hotel Occupancy	6%	Any entity making taxable sales or anyone who incurs use tax	20th day of each month
Sales, Use and Hotel Occupancy (Local)	1% (Allegheny) 2% (Philadelphia)	Any entity making taxable sales or anyone who incurs use tax in the City of Philadelphia or Allegheny County (see text for special situs provisions)	20th day of each month
Table Game Taxes	14% of gross table game revenue for 2 years following commencement of table game operations at the facility; 12% thereafter. 34% of gross table game revenue from table games played on fully automated electronic gaming tables	Licensed gaming entities	Weekly
Title Insurance Company Shares	1.25%	Pennsylvania title insurance companies (foreign title insurance companies are subjected to the gross premiums tax)	March 15th of each year

Tax Summary

<u>Tax</u>	<u>Rate</u>	<u>Payment Remitted By</u>	<u>Report Due Date</u>
Vehicle Rental	2%	Entities renting taxable vehicles	Quarterly reports due 20th day of January, April, July and October. Reconciliation due February 15th