

# Pennsylvania Tax Update

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THE TAX UPDATE IS A  
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PUBLISHED BY THE  
PENNSYLVANIA  
DEPARTMENT  
OF REVENUE  
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SECRETARY OF REVENUE  
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## FAST FACT:

*Forty-eight percent of Pennsylvanians filed their state personal income tax returns electronically.*

VISIT OUR WEB SITE AT:  
[www.revenue.state.pa.us](http://www.revenue.state.pa.us)

## PA TAX DELINQUENTS NOW ON THE INTERNET STATE REVENUE DEPARTMENT COLLECTED \$3.9 MILLION IN UNPAID TAXES PRIOR TO WEB SITE LAUNCH



Revenue Secretary Fajt announced the new "Tax Delinquent List" at a press conference in Harrisburg on April 6.  
(Photo Credit: Commonwealth Media Services)

People and businesses that fail to pay state taxes, may now find their names on the Revenue Department's Web site.

In a new effort to collect unpaid state taxes the Department of Revenue has begun releasing the names of people and businesses that are delinquent in sales and use taxes.

"The vast majority of Pennsylvanians pay their taxes on time and in full," Secretary of Revenue Gregory C. Fajt said at a press conference in Harrisburg to announce the list on April 6. "We are shining a spotlight on the small minority who do not. Each of these delinquent taxpayers has been given many opportunities to pay. Each has been warned that failure to pay will result in public disclosure. They have ignored those warnings and, therefore, have earned a place on our inaugural tax delinquents list."

Other states have found that the threat of public exposure can be a powerful tax collection incentive. At least 17 other states, including Maryland, New Jersey and the District of Columbia use Internet tax delinquent lists to help collect unpaid taxes.

Revenue Department collections personnel had been telling delinquent taxpayers about the inaugural Pennsylvania tax delinquent list for several months before the list was published. The prospect of appearing on the list helped convince delinquent taxpayers to pay \$3.9 million and enter into deferred payment plans for an additional \$4.3 million in previously unpaid taxes.

The businesses and individuals listed on the Web site were contacted by the Department and given one final chance to make payment arrangements before appearing on the list, either by paying the taxes due in full or entering into a payment plan agreement.

All of the information on the Web site is public as a result of a lien filed by the Revenue Department. The liens are recorded in a county prothonotary's office where the person resides or does business. The amounts listed on the Web site are the amounts of the original liens. The current amount of tax due may differ from the amount listed on the site because of partial payments and/or the accrual of additional interest since the tax lien was filed.

The Revenue Department started with recently liened sales and use tax accounts and is working to add more tax types and more delinquent taxpayers to the list. Delinquent taxpayers who appear on the list should contact the Revenue Department at the telephone number listed on the letter they received or call the nearest **Revenue district office** to make payment arrangements. The Web site will be updated monthly. Delinquent taxpayers who resolve their tax liabilities will be removed from the site at that time.

The complete **PA Tax Delinquent List** is available on the PA Department of Revenue's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

## NEW RULES ON NONQUALIFIED DEFERRED COMPENSATION PLANS ADD SPECIAL REQUIREMENTS FOR EMPLOYERS AND TAXPAYERS

### General Information

Act 40 of 2005 changed the definition of constructive receipt for Pennsylvania Personal Income Tax purposes. Specifically, the act's new definition of constructive receipt adopts many of the provisions established by the Internal Revenue Code with respect to what to include and when to include certain deferrals of compensation as income for Pennsylvania Personal Income Tax purposes. The Act also provided that distributions from nonqualified deferred compensation plans attributable to elective deferrals (and earnings thereon) are taxable at the time of the distributions irrespective of retirement.

### Employer Requirements

#### For tax years before 2005:

Employers who have nonqualified deferred compensation plans that provide for elective deferrals need to provide plan participants with a letter establishing the amount of elective contributions previously included in Pennsylvania taxable income, so that plan participants have an acceptable record of their elective deferrals. The letter should set forth (for each taxable year of elective deferral between July 1, 1971 and December 31, 2004) amounts of elective deferrals of compensation to nonqualified deferred compensation plans that were not taxable for Federal income tax purposes (Box 1 of the W-2), but were included in Medicare Wages (Box 5 of the W-2) and in Pennsylvania taxable wages (Box 16 of the W-2) and were subject to withholding.

#### For tax year 2005:

Employers should also provide a letter to their plan participants that outlines amounts included in Box 11 of the W-2 that are attributable to: 1) nonqualified deferred compensation plan deferrals that were included in Medicare wages as a result of the amount no longer being subject to a substantial risk of forfeiture for prior year services; or 2) earnings from prior year deferrals not previously included in Medicare wages. The letter should set forth the value of each of these amounts.

#### For tax years after 2005:

Employers that have nonqualified deferred compensation plans for employees and directors must use Box 14 of the W-2 form to indicate additional information regarding these plans in cases where: 1) the employee had a deferred amount of nonqualified deferred compensation that was included in Medicare wages as a result of the amount no longer being subject to a substantial risk of forfeiture (for prior year services); 2) the employee had a distribution from the nonqualified deferred compensation plan; 3) the employee had a distribution from the nonqualified deferred compensation plan when the employee had a deferral for prior year services and a distribution in the same year; or 4) the employee had earnings from prior year deferrals not

previously included in Medicare wages. Employees with *only* a deferral of nonqualified deferred compensation that is included in Medicare wages that are not subject to a substantial risk of forfeiture for current year services are required by the IRS to have this amount shown in Box 12 of the W-2 with a code Y and do not need to complete Box 14 of the W-2.

Employees who have a deferral of compensation that is included in Medicare wages as a result of the amount no longer being subject to a substantial risk of forfeiture (for prior year services) should have that amount shown in Box 14 of the W-2 along with the code YN. Employees who have a distribution of nonqualified deferred compensation should have that amount shown in Box 14 of the W-2 along with a code YT. Employees who have had a deferral for prior year services and a distribution in the same year should have both the amounts shown in Box 14 of the W-2. The deferral for prior year services will have a code YN next to that amount and the distribution will have a code YT next to that amount. Employees who have earnings from prior year deferrals not previously included in Medicare wages should have these amounts shown in Box 14 of the W-2 with the code ZN.

### Chart for New PA Codes in W-2 Box 14 for Nonqualified Deferred Compensation Plans

#### Code When to use:

- Deferrals under Nonqualified Deferred Compensation (NQDC) plans (coded as a Y in Box 12 of the W-2).
- YN Deferrals under a NQDC plan included in social security and Medicare wages as a result of the amount no longer being subject to a substantial risk of forfeiture and are for prior year services.
- YT Distributions from a NQDC plan included in Box 1 of the W-2.
- ZN Earnings from prior year deferrals now included in social security and Medicare wages.

### Withholding requirements

When distributions exceed the amount of elective deferrals previously taxed by the Commonwealth, inclusion of the amounts in Pennsylvania taxable compensation and withholding on the excess is required. Employers are required to withhold PA Personal Income Tax from nonqualified deferred compensation plan distributions when payment is made to employees (except for distributions of deferrals for taxable years prior to January 1, 2005, if the deferrals were previously included in Pennsylvania taxable compensation).

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## **Taxpayer Requirements**

### **Amended returns for tax years between 2003 and 2005:**

Taxpayers do not have to file amended returns for tax years between 2003 and 2005. Taxpayers who paid tax on elective deferrals of nonqualified deferred compensation for such years will not be subject to tax on such deferrals when such amounts are distributed from the nonqualified deferred compensation plan. However, if a taxpayer elects to do so, amended returns can be filed to remove the elective deferrals of nonqualified deferred compensation plans previously included in Pennsylvania taxable compensation from such taxable compensation. As a result, special processing procedures and supporting documentation are needed to establish and validate the reduction to compensation. Therefore, the Department of Revenue will require that taxpayers, who amend their returns and remove the deferrals from Line 1a, Gross Compensation, of the PA-40 return, write the words "Deferred Compensation" across the top of the amended return. They must also provide a copy of the letter to them from their employer establishing the amount of deferrals previously included in Pennsylvania taxable compensation for each tax year along with a copy of the original W-2 from their employer. Taxpayers with distributions and deferrals within the same tax year should also include a worksheet with their amended return reconciling the Federal wages (Box 1) shown on their W-2 to the Medicare wages (Box 5) on their W-2 as well as to their PA wages (Box 16) on their W-2 by clearly indicating on that schedule each category of compensation included in each of the three aforementioned areas. A sample of the worksheet to be provided is included at the end of this article and is available on the Department's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us). Go to **Forms and Publications**, click on **2005** under the **Income Tax** heading and then **PA-40 W-2 Reconciliation Worksheet**.

### **For tax year 2005:**

The PA-40 W-2 Reconciliation Worksheet should be included with taxpayers' returns if they have not yet filed their 2005 returns. This worksheet should indicate whether the amount is due to a distribution or as a result of the amount no longer being subject to a substantial risk of forfeiture for prior year services and/or from earnings from prior year deferrals. The worksheet will also indicate whether any distributions were previously taxed as Pennsylvania compensation. Taxpayers should also obtain a letter from their employer indicating each of these amounts as previously discussed in the employer section of this article. For taxpayers who have already filed their returns for 2005, the Department will request PA-40 W-2 Reconciliations on an as needed basis.

### **For tax years after 2005:**

Taxpayers whose employers do not include codes in Box 14 of their W-2s may be requested to provide additional information and reconciliations of PA Gross Compensation if there is an amount reported in Box 11 of the W-2 or if the Department is not able to reconcile the PA wages with Medicare and/or Federal wages from their W-2 forms. If an employer does not provide the new codes in Box 14 of the W-2, the PA-40 W-2 Reconciliation Worksheet should be provided with the return.

Any taxpayer who receives distributions from their nonqualified deferred compensation plans must include the distributions from nonqualified deferred compensation plans in their Pennsylvania Gross Compensation to the extent that they have not already paid tax on their deferrals. Taxpayers who have already paid tax on any deferrals should complete the PA-40 W-2 Reconciliation Worksheet and include it with their return along with a copy of the letter from their employer indicating the amounts previously taxed.

### **Proof deferrals were previously taxed:**

In addition to the letter from their employers showing the amounts previously included in Pennsylvania compensation, taxpayers may also be requested to provide proof that the deferrals were previously taxed. Proof of tax paid may include, but may not necessarily be limited to: copies of W-2s for the tax years showing the deferrals were included in Pennsylvania compensation; copies of the tax returns for the tax years showing the amount included in the reported gross compensation for those tax years; copies of any Departmental assessments showing that the compensation amount reported for the taxpayer was adjusted by the Department to include the deferred amount; and copies of any amended returns including or excluding the compensation from taxation.

**Important:** Taxpayers and practitioners should keep the above listed tax records and all other related tax records for deferrals of compensation (or other contributions to retirement plans) indefinitely with their permanent tax records for purposes of documenting their recoverable costs and previously taxed contributions and deferrals.

For additional information regarding the taxation of Deferred Compensation, please see PA Personal Income Tax Bulletins 2005-03 and 2005-04 available on our Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

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<b>PA W-2 RECONCILIATION WORKSHEET</b>			
Name _____		Social Security Number _____	
	<b>FEDERAL WAGES (Box 1)</b>	<b>FEDERAL WAGES (Box 1)</b>	<b>MEDICARE WAGES (Box 5)</b>
<b>PART I – STARTING POINT</b>			
<b>PART II – Additions:</b>			
	<b>COLUMN A</b>	<b>COLUMN B</b>	<b>COLUMN C</b>
1. Company contribution to deferred comp plan.			
2. Elective deferrals to IRC Section 401(k) - Code "D" in Box 12.			
3. Elec. deferrals under IRC Section 403(b) salary reduction agreement - Code "E" in Box 12.			
4. Elec. def under IRC Section 408(k)(6) salary reduction agreement SEP - Code "F" in Box 12.			
5. Elec. & non-elec. deferrals under IRC Section 457(b) deferred comp. plan - Code "G" in Box 12.			
6. Elective deferrals to a Section 501 (C)(18)(D) tax-exempt organization plan - Code "H" in Box 12.			
7. Income under IRC Section 409A nonqualified deferred comp (NQDC) plan - Code "Z" in Box 12.			
8. Deferrals under IRC Section 409A NQDC plan - Code "Y" in Box 12.			
9. <b>OTHER ADDITIONS</b> (provide full descriptions)			
9a.			
9b.			
9c.			
9d.			
9e.			
<b>TOTAL PART II (add lines 1 through 9e.)</b>			
<b>PART III – Subtractions:</b>			
	<b>COLUMN A</b>	<b>COLUMN B</b>	<b>COLUMN C</b>
10. Company contribution to deferred comp plan.			
11. Cost of group-term life - Code "C" in Box 12.			
12. Income under IRC Section 409A nonqualified deferred comp (NQDC) plan - Code "Z" in Box 12.			
13. Deferrals under IRC Section 409A NQDC plan - Code "Y" in Box 12.			
14. Personal use of company vehicle.			
15. Distributions from an IRC Section 409A NQDC plan			
16. Distributions from an IRC Section 409A NQDC plan previously taxed for Pennsylvania purposes.			
17. <b>OTHER SUBTRACTIONS</b> (provide full descriptions)			
17a.			
17b.			
17c.			
17d.			
17e.			
<b>TOTAL PART III (add lines 10 through 17e.)</b>			
<b>PART IV – FINISHING POINT</b>			
[Add Parts I and II then subtract Part III]			
	<b>MEDICARE WAGES (Box 5)</b>	<b>PA WAGES (Box 16)</b>	<b>PA WAGES (Box 16)</b>

## ELECTRONIC INCOME TAX FILING UPDATE

### *Record Number of Taxpayers Filed State Income Tax Returns Electronically*

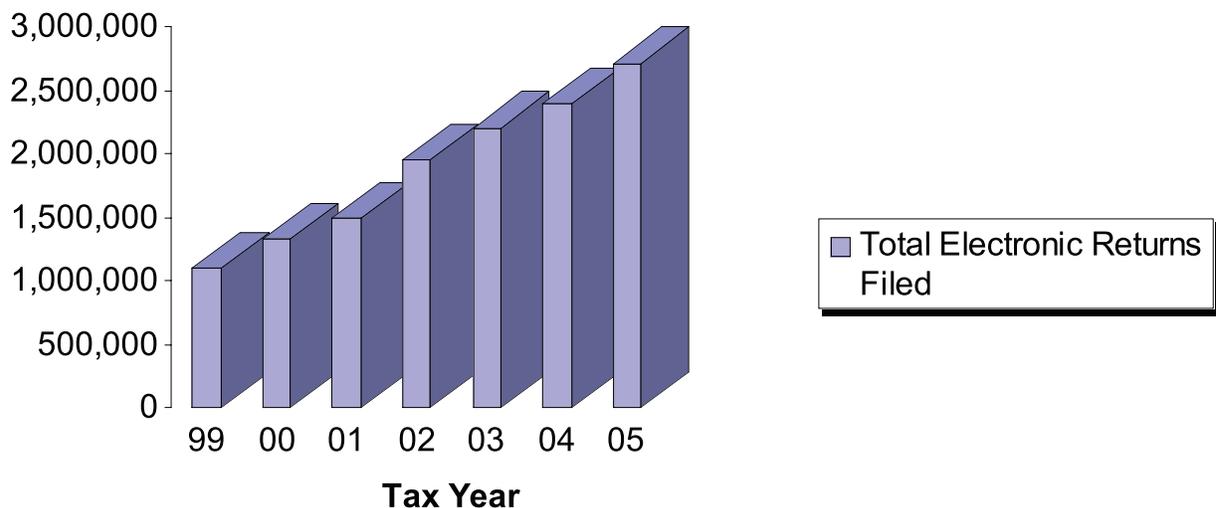
More than 2.7 million taxpayers, or about 48 percent of all individual taxpayers, filed their 2005 state personal income tax returns electronically. This was an all-time record for electronic filing, exceeding last year's total by 12 percent.

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

Taxpayers who file using an electronic method can have their refund deposited directly into their bank account or pay a balance due electronically. This tax season, more than 491,000 taxpayers chose to directly deposit their refund; about 172,000 chose to pay their taxes using the ACH debit/credit option; and more than 22,000 chose to pay their taxes by credit card.

The Department's Web site continues to be a popular source for tax information as more than 176 million hits were recorded this tax season, a 2 percent increase from last year. The site allows taxpayers to download forms, receive answers to their most commonly asked questions through the **Online Customer Service Center**, and file their returns electronically.

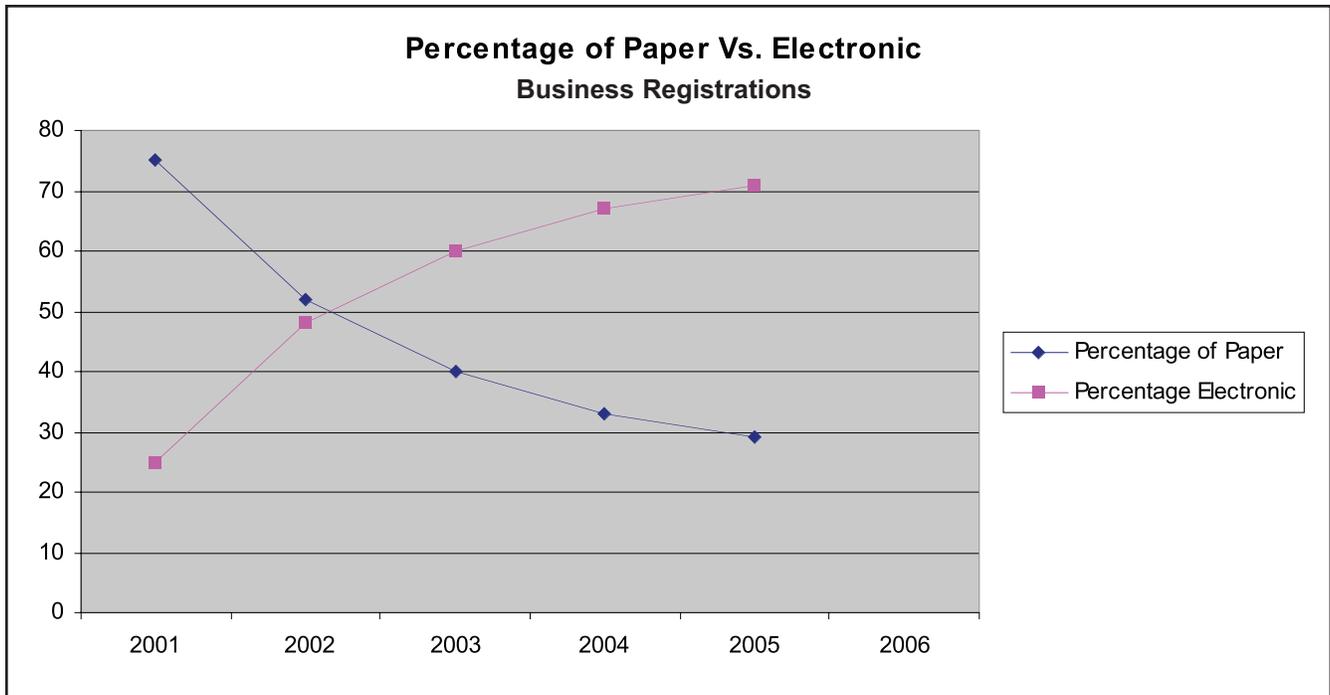
### Personal Income Tax Electronic Filing



## RECORD NUMBER OF BUSINESSES REGISTER ELECTRONICALLY

The Department of Revenue has seen a steady increase in the percentage of businesses using the Internet to register their businesses since 2001. During the week of April 15, the Department received a record 89 percent of business registration applications electronically.

Overall, the number of business applications submitted electronically has increased from 25 percent in 2001 to 71 percent in 2006, as of April 28.



The [PA Open for Business Web site](#) allows users to register an enterprise electronically with the Commonwealth in two ways: an online interactive interview or an online version of the PA-100 Enterprise Registration Form. The Online PA-100 is an online fill-in form, and allows users to register an enterprise with the Departments of Labor & Industry and Revenue, but **does not** register the enterprise with the Department of State. The Online PA-100 is designed for users who are familiar with the PA-100 process and know the taxes and services for which they need to register. The Online Business Registration Interview is a step-by-step wizard that guides users through the process of registering an enterprise with the departments of [Labor & Industry](#), [Revenue](#) and [State](#). It is designed for:

- Users who are unfamiliar with Pennsylvania taxes, services and business registration requirements.
- Enterprises that have not registered their Limited Liability Company, Corporation, Limited Partnership, Limited Liability Partnership or Fictitious Name with the Department of State.

To view all of the Department's electronic services, visit the Revenue [e-Services Center](#) at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

## PENNSYLVANIA UNVEILS NEW WEB SITE FOR UNDERSTANDING PERSONAL MONEY MATTERS

### *'Your Money's Best Friend' Offers Pennsylvanians A Wealth of Financial Information*

Pennsylvanians now have one place to go to help them make informed decisions about their personal finances: a Web site called **'Your Money's Best Friend.'**

Secretary of Banking Bill Schenck said the free service, [www.moneysbestfriend.com](http://www.moneysbestfriend.com), provides financial assistance for Pennsylvanians about personal budgeting, loan information and banking options in a user-friendly manner.

"We asked working families how the Department of Banking could be more helpful," said Schenck, "and people kept saying they needed help with understanding financial information and ways to make better personal financial decisions. **'Your Money's Best Friend'** fulfills that need by providing information that's unbiased and easy to comprehend.

"There's no sales pitch, no hidden agenda, and most importantly, you don't have to be a certified public accountant to access the information."

The new Web site was developed by the Pennsylvania Office of Financial Education, which was created by Governor Edward G. Rendell in 2004 to help the public improve its personal money management plans and increase the quality and availability of personal finance education in Pennsylvania's schools, workplaces and communities.

"Saving is down, debt is up, and foreclosures and bankruptcies are ruining people's lives," said Schenck. "By improving financial literacy, we are empowering Pennsylvanians to take control of

their financial destiny and make sound decisions with their hard-earned dollars."

**'Your Money's Best Friend'** covers topics such as banking, budgeting, investing, buying a house, getting married, taxes, and talking to loved ones about money. Along with explaining concepts, the site provides practical tips and advice, links to other helpful resources, calculators and a glossary of financial terms.

The **'Taxes'** section of **'Your Money's Best Friend'** covers specific tax topics that most taxpayers are interested in. It talks about withholding, basic information for filing tax returns, tax forgiveness and it has links to other useful information from the PA Department of Revenue, IRS and others.

The site also allows visitors to look-up community-based resources such as housing counselors, university cooperative extension offices, programs and services in their area. Simply type in a ZIP code and the site's mascot, "Buck," will retrieve a list of contact and background information for an ever-growing number of organizations.

**your money's best friend**

Friendly tips, tools and time-tested wisdom for making the most of your money.

**pennsylvania**  
OFFICE OF FINANCIAL EDUCATION



## PENNSYLVANIA TAKING ACTION TO ADDRESS AND PREPARE FOR PANDEMIC FLU

Although there is no immediate threat, as the prospect of national pandemic flu continues to grab headlines, the Commonwealth of Pennsylvania has already begun planning ahead by taking an aggressive approach to preparedness.

In March, Governor Edward G. Rendell convened Pennsylvania's Pandemic Influenza Preparedness Planning Summit in Pittsburgh to ensure that federal, state and local partners were working together to prepare and protect commonwealth residents in the event of a human influenza pandemic.

"Pennsylvania must prepare for Pennsylvania," Gov. Rendell said. "If an avian flu pandemic hits the commonwealth, we cannot rely on our usual sources of aid – other states, the federal government or even other countries. These partners will be just as hard hit as we are.

"Because we have made preparedness a priority – whether it is a public health or bio-terrorism emergency, or a natural disaster – we have many resources in place that will now serve as a solid foundation for our pandemic planning efforts."

While every community and every Pennsylvanian must prepare for themselves, there are many simple and important actions that can be taken. Please use the Commonwealth's official Pandemic Flu Preparedness Web site to get information, learn the facts and help you prepare.

