

Pennsylvania Tax Update

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THOMAS W. WOLF
SECRETARY OF REVENUE
EDWARD G. RENDELL
GOVERNOR



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FAST FACT:

Pennsylvania's fiscal year 2007-08 budget includes \$363.6 million worth of business tax reductions, including the continued phase-out of the capital stock and foreign franchise tax.

VISIT OUR WEB SITE AT:
www.revenue.state.pa.us

2007-08 BUDGET PASSED AND SIGNED

*\$27.5 BILLION SPENDING PLAN SUPPORTS AGENDA FOR PA PROGRESS;
AIMS TO FIX LONG-TERM PROBLEMS*



(Photo Credit: Commonwealth Media Services)

On July 17, Governor Edward G. Rendell signed into law the 2007-08 state budget, which continues to benefit businesses and brings substantial investments in education, health care and transportation.

Overall, the new budget increases spending by 4.4 percent compared to last year. Administrative spending in the new budget is 2.3 percent below 2002-03 levels. At 4.4 percent growth, this year's budget places Pennsylvania well below the national state budget growth average of 6.7 percent. Of the 39 states with enacted budgets, 25 states have increased their expenditures at a higher rate than the commonwealth.

The budget contains no tax increases. Some of the funding problems faced in February, when the Governor introduced his budget, are gone because the growing economy generated the revenue needed to pay for important programs and services. The fiscal

year 2006-07 revenue collections were \$27.4 billion – which was \$649.6 million, or 2.4 percent, above estimate.

2007-08 BUDGET BENEFITS BUSINESSES

The 2007-08 budget includes \$363.6 million worth of business tax cuts:

- The continued phase-out of the Capital Stock & Franchise Tax – a tax savings valued at a minimum of \$250 million this fiscal year. The tax rate is 3.89 for the 2007 tax year and will be reduced by 1 mill annually until it is completely eliminated;
- A new agricultural tax credit program – known as the Resource Enhancement and Protection Tax Credit that provides up to \$10 million in tax credits for farmers who use best practices to preserve the environment;
- A \$16 million increase in the Educational Improvement Tax Credit program - from \$59 million to \$75 million for companies and groups that fund scholarships for students;
- Total tax credits of no more than \$75 million annually for film and television production companies to encourage investments by the movie industry; and
- 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. The bank shares goodwill deduction is a tax savings valued at \$12.6 million.

INVESTING IN EDUCATION

The 2007-08 enacted budget increases Pennsylvania's investment in pre-kindergarten through 12th grade education by \$558 million, or 6.3 percent, for a total of \$2.4 billion in new resources since Governor Rendell took office.

CARING FOR PENNSYLVANIANS

Governor Rendell's Prescription for Pennsylvania is the blueprint for a comprehensive solution to Pennsylvania's health care crisis. The plan – announced earlier this year – is designed to: make sure that all Pennsylvanians have access to affordable health insurance; drive down health care costs for businesses and residents; and improve access to quality health care at the times and places when Pennsylvanians need it.

Legislation accompanying this year's budget will ensure that all licensed health care providers – including advanced nurse practitioners, midwives and others – are able to practice medicine to the fullest extent of their education and training. By eliminating barriers in existing laws that restrict the services they may provide, Pennsylvanians will enjoy greater access to quality health care.

The budget includes \$17.5 million in state and federal funds for several other key components of Prescription for Pennsylvania, including:

- The development of a plan to eliminate hospital-acquired infections, which will save thousands of lives and billions of dollars each year;
- Improving the preventive care of those suffering from chronic conditions, such as diabetes and heart disease; and
- An initiative to address childhood obesity by providing financial incentives for school districts to adopt tough nutrition standards.

The legislature is expected to take up the other aspects of the Governor's comprehensive health care proposals this fall, including his Cover All Pennsylvania plan to make sure that all Pennsylvanians, including small business owners, have access to affordable health insurance.

Continued from page 1

TRANSPORTATION SOLUTIONS

Governor Edward G. Rendell signed House Bill 1590 into law, which includes \$750 million this year in new funding for Pennsylvania's network of highways, bridges and mass transit systems. The long-overdue investment is the first installment of a plan that will bring \$946 million a year, on average, in the first 10 years to respond to the state's critical transportation needs. It's also part of a "public-public" partnership between PennDOT and the Pennsylvania Turnpike Commission.

The new measure, which delivers on the Governor's transportation priorities, will make, on average over the next 10 years, \$532 million available to fund bridge and road repairs and \$414 million available to support the 73 public transit systems that provide more than 400 million rides a year to residents in all 67 counties.

MOVING TOWARDS ENERGY INDEPENDENCE

The Governor and the General Assembly reached an agreement to pursue an energy independence legislative package this fall. With legislation expected out of a special session on energy, Pennsylvania will move closer to energy independence and be better positioned to attract new economic development projects in rapidly growing industries because of a stronger commitment to clean and renewable energy.

RETURNING TO FISCAL STABILITY

In January 2003, Governor Rendell inherited a \$2.4 billion General Fund budget deficit, a near-bankrupt Pennsylvania Employees Benefit Trust Fund and a depleted Rainy Day Fund – the commonwealth's savings account.

In July 2007, under the Governor's leadership, the commonwealth has seen five enacted, balanced General Fund budgets, a stabilized PEBTF – the fund's \$65 million reserve balance is the highest since 2001-02 – and a replenished Rainy Day Fund – its nearly \$715 million balance is also the highest since 2001-02.

[2007-08 Budget Highlights](#)

[2007-08 Tax Summary](#)

DAVID M. BARASCH APPOINTED EXECUTIVE DEPUTY SECRETARY



The Department of Revenue is pleased to announce the appointment of David M. Barasch to the position of executive deputy secretary.

As executive deputy secretary, Barasch will be responsible for supervising the deputy secretaries for tax policy, taxation, information technology and compliance and collections. He will also be responsible for directing the deputies in policy development for various programs.

Most recently, Barasch was a member of McNees Wallace & Nurick LLC, a regional corporate law firm. Prior to that, he was a partner with Rhoads & Sinon LLP, a law firm in central Pennsylvania. Barasch was the U.S. attorney for the Middle District of Pennsylvania for seven years and served as special assistant to the Governor of Pennsylvania for three years. He also served as director of the Pennsylvania Office of Consumer Advocate for seven years.

Barasch received his juris doctorate from Cornell University Law School and he received his Bachelor of Arts in political science from the State University of New York at Stony Brook.

CORPORATION TAX SETTLEMENT PROCESS CHANGES JAN. 1, 2008

Act 119 (SB 993), signed into law on October 27, 2006, by Governor Edward G. Rendell, replaces the current corporation tax settlement process with an assessment and reassessment process beginning Jan. 1, 2008. With this change, corporation tax returns will be treated similarly to other tax returns and similarly to the tax return processes used in other states. Returns will be considered accepted as filed unless the Pennsylvania Department of Revenue or Auditor General selects them for review or audit.

Act 119 implements recommendations made by the bipartisan Business Tax Reform Commission appointed by Governor Rendell in 2004, which the newly-appointed Secretary of Revenue Thomas W. Wolf was a member of.

Three major provisions of the law become effective Jan. 1, 2008. Act 119 will require the Department of Revenue to issue assessments (of \$300 or more, as amended by Act 55 of 2007) by certified mail, including the basis for such assessments, for all taxes covered by the statute. Another prominent change is the replacement of the current settlement procedure for corporation taxes with an assessment process comparable to that used for other Pennsylvania state taxes. Finally, consistent appeal procedures will be adopted for major state taxes.

To summarize, Act 119:

- Standardizes assessment terminology throughout the tax code;
- Replaces the existing settlement process for corporation taxes with an assessment and reassessment process similar to that used for the other major state taxes (including sales and use and personal income taxes);
- Requires all tax assessment notices (of \$300 or more, as amended by Act 55 of 2007) to be sent by certified mail;
- Allows the department to issue estimated assessments for failure to file a corporation tax report (or for filing a return that is too incomplete to determine the tax);
- Provides new administrative procedures for petitions for reassessments and petitions for refunds made to the Board of Appeals; and
- Authorizes new time limits for tax assessments.

A new article in the Tax Reform Code, Article (XXVII), adopts new rules to be consistently applied for major taxes, petitions for reassessments and petitions for refund content and procedures. This new assessment process does not apply to Liquid Fuels Tax, Oil Company Franchise Tax, or Motor Carriers Road Tax. The new appeal procedures do not apply to Inheritance Taxes (Article XXI).

Before Act 119:

- Assessments and settlements of state taxes were occasionally misdirected in the mail and the appropriate taxpayers' officials could not confirm that they received the information. (By sending assessments of \$300 or more via certified mail, the department can now confirm with some certainty whether or not an assessment has been received by the taxpayer or his/her representative.)
- A tax settlement process was required because there was no final determined tax liability until either the state settled the return or the settlement period expired. This led to the existing process in which all corporation tax reports were settled within 18 months of receipt to legally determine the tax liability, even if no adjustment or change was made with settlement. (In most other states, a tax liability is established when a taxpayer reports it, a process usually referred to as self-assessment. Under Act 119, Pennsylvania will now treat corporation taxes like it does other major taxes – with an assessment and reassessment process.)

The PA Department of Revenue is working to implement the changes required by Act 119. Currently, the department is finalizing its review of the process and system requirements necessary for changing the corporation tax settlement process to an assessment process.

REVENUE COLLECTS \$31.4 MILLION IN DELINQUENT TAXES BY CITING BUSINESSES OPERATING WITHOUT A SALES TAX LICENSE

Act 46 of 2003, granted PA Department of Revenue enforcement agents the authority to issue citations to people who sell or lease items subject to Pennsylvania sales tax without a valid sales tax license.

Since 2003, the Revenue Department has collected more than \$31.4 million in delinquent taxes from issuing citations to businesses operating without a sales tax license. The department's tax enforcement agents, located across the state, have issued 590 citations to 513 businesses since the program started. Ninety-one of the businesses failed to comply with the first citation and were issued more than one citation.

The penalties for making sales without a valid license can include a fine between \$300 and \$1,500 for each violation, as determined by a magisterial district judge. If the person maintaining the business fails to pay the fines, he/she could be imprisoned for five to 30 days.

This authority continues to be one of the most successful collection tools available to the department in collecting delinquent taxes. It also helps ensure that businesses located within the commonwealth operate on a level playing field.

PENNSYLVANIA BUSINESSES CAN NOW ELECTRONICALLY FILE STATE CORPORATE TAX RETURNS

Secretary of Revenue Thomas W. Wolf announced in July that businesses can now electronically file PA Corporate Tax Reports (RCT-101), forms and schedules for tax year 2006.

"For the first time, the 320,000 Pennsylvania businesses that file corporate net income and capital stock and franchise tax reports can file electronically," Wolf said. "Electronic filing is the most cost-effective method of filing a tax return and the returns are processed faster and more accurately compared to the traditional paper tax returns."

Pennsylvania joins six other states, including neighboring New York and Maryland, in partnering with the IRS and software vendors to provide a single-point filing method that enables federal and state corporate tax returns/reports to be filed electronically and simultaneously.

For a list of software vendors approved to prepare electronic corporate tax reports for Pennsylvania, please visit the e-Services Center on the Revenue Web site, www.revenue.state.pa.us. Software developers and products will be added to the list in alphabetical order as vendors are approved.

The Pennsylvania Corporate Tax Report (form RCT-101) is used to file the corporate net income, capital stock and foreign franchise and corporate loans taxes. Pennsylvania corporate tax reports are due April 15 for corporations operating on a calendar-year basis, or 30 days after the federal corporate tax due date for corporations operating on a fiscal-year basis.

The PA Department of Revenue requires business tax payments of \$20,000 or more to be submitted electronically. The IRS has offered electronic filing for federal corporate tax returns since 2004 and now requires some large and mid-size corporations to file electronically. The IRS requires corporations with assets exceeding \$10 million and that file at least 250 federal returns each year, such as Form W-2 and Form 1099, to file federal corporate tax returns electronically. These businesses can now electronically file their Pennsylvania corporate tax reports at the same time.

Pennsylvania's Corporate Tax e-File Program was developed over the past three years in conjunction with the IRS's modernized e-File platform and under the umbrella of the Federation of Tax Administrators. The Department of Revenue and the IRS continue to work closely with e-file software developers and e-file service providers to ensure a smooth transition to electronic filing for businesses.

Questions about Pennsylvania's corporate e-file program may be directed to the Department of Revenue's Online Customer Service Center at www.revenue.state.pa.us.



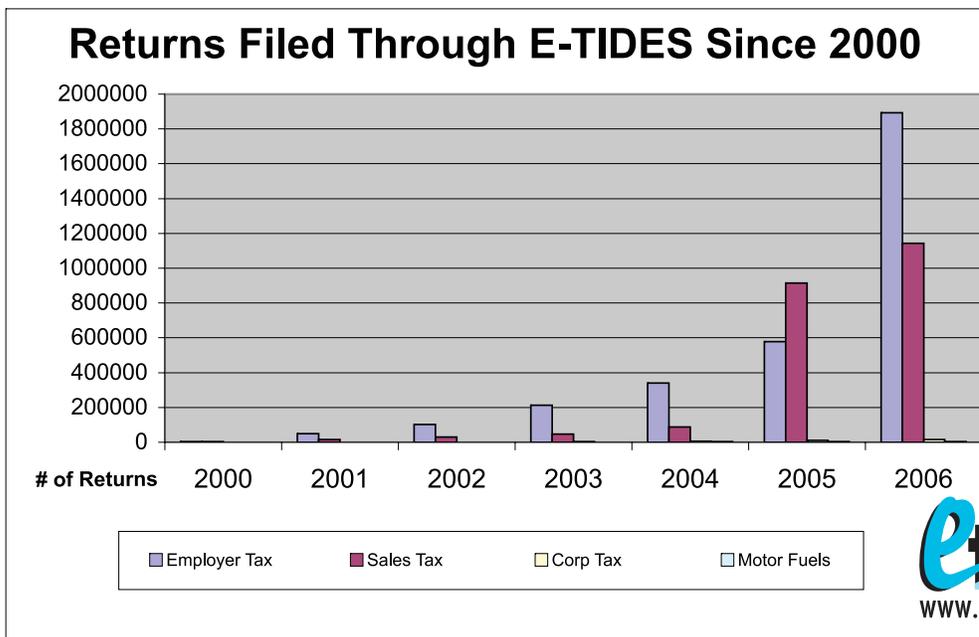
CLICK. ZIP. FAST ROUND TRIP.

E-TIDES CELEBRATES 7 YEARS

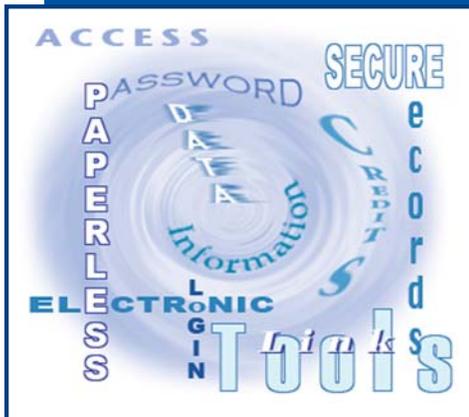
E-TIDES, the Department of Revenue's free online business tax filing system, turns seven years old this year.

When it was introduced in 2000, e-TIDES (Electronic Tax Information Data Exchange System) promised to be secure, convenient, accessible, customer-driven, easy and effective. Over the years, the system has proven to meet all of those promises and even more as the department continues to develop and improve its online tax filing and payment services.

The primary business taxes filed on the e-TIDES system include: Employer Withholding, Sales and Use, Corporate and Motor Fuels Taxes. Filings in all tax categories have increased annually since 2000.



TAX PROFESSIONAL E-SERVICES CENTER



Tax Professionals are encouraged to use the department's new Tax Professional e-Services Center for easy access to their client's tax information.

For questions concerning the Center, refer to the department's **Online Customer Service Center** or call (717) 787-1392.

PROPERTY TAX/RENT REBATE PROGRAM DEADLINE EXTENDED TO END OF THE YEAR

The deadline to apply for Pennsylvania's recently-expanded Property Tax/Rent Rebate program has been extended from June 30 to Dec. 31.

"We are extending the program deadline again this year because we want to be sure that those who are eligible have ample time to apply for property tax or rent rebates," Secretary of Revenue Thomas W. Wolf said. "The rebate program was dramatically expanded this year, so we especially want to give some extra time to those people who are applying for a rebate for the first time."

The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. Last year, Governor Edward G. Rendell signed a law expanding the rebate program by increasing the income limit from \$15,000 to \$35,000 for homeowners and raising the maximum rebate for both homeowners and renters from \$500 to \$650. Applicants can exclude, as income, one-half of Social Security, Supplemental Security Income and Railroad Retirement Tier 1 benefits.

The expanded household income limits and rebate amounts are:

<u>Homeowners:</u>		<u>Renters:</u>	
<u>Income</u>	<u>Rebate</u>	<u>Income</u>	<u>Rebate</u>
\$0 to \$8,000	\$650	\$0 to \$8,000	\$650
\$8,001 to \$15,000	\$500	\$8,001 to \$15,000	\$500
\$15,001 to \$18,000	\$300		
\$18,001 to \$35,000	\$250		

Renters with incomes between \$0 and \$8,000 will now receive a \$650 rebate and those with incomes between \$8,001 and \$15,000 will receive a \$500 rebate.

Rebates for property taxes or rent paid during 2006 were distributed beginning on July 1, as specified by law. Rebates will now be distributed as the claims are received and approved.

To check on the receipt and status of a claim, call the department's automated FACT and Information Line at 1-888-PATAXES (1-888-728-2937). Touch-tone telephone service is required. Callers will need their Social Security Number and the amount of their rebate. People can also call 1-888-222-9190 between 7:30 a.m. and 5:30 p.m. for help.

Property Tax/Rent Rebate claim forms (PA-1000) are available online at www.revenue.state.pa.us or by calling 1-888-222-9190. Forms and assistance also are available at the department's district offices (listed in the government section of local telephone directories), local area agencies on aging, senior centers and state legislators' offices. Claimants are reminded to provide all the necessary income, property tax or rental information for their claims to be processed accurately and quickly.

The Property Tax/Rent Rebate Program is one of four programs supported by the Pennsylvania Lottery. Since the program's 1971 inception, \$3.76 billion has been paid to qualified applicants. The expanded portion of the rebate program is being paid for with revenue from slots gaming.

2007 FALL TAX SEMINARS SCHEDULE

SPONSOR	DAY	DATE	CONTACT	SEMINAR LOCATION
CPE Forum of Central PA 601 Hawthorne Dr. Suite 2-B Hollidaysburg, PA 16648	Thursday	09-20-2007	Kelly Park (814) 695-1558 kelly.park@wachoviasec.com	The Casino 300 Lakemont Park Blvd. Altoona, PA 16602
Duquesne University School of Bus. and Admin. 701 Rockwell Hall Pittsburgh, PA 15282-0104	Tuesday	10-09-2007	Pat Police (412) 396-1643 police@duq.edu	Duquesne Union Hall Duquesne University Campus Pittsburgh, PA 15282-0104
Alvernia College Reading, PA	Thursday	10-11-2007	Alan D. Ross, CPA (610) 372-9911 Aross@RossCpa.com	Alvernia College Reading, PA 19603
Wilkes University Continuing Education Dept. 215 South Franklin Street Wilkes-Barre, PA 18766	Thursday	11-01-2007	Margaret Petty (570) 408-4460 Margaret.Petty@wilkes.edu	The Woodlands Inn and Resort Highway 315 Wilkes-Barre, PA 18766
Neumann College Continuing Education Dept. 1 Neumann Drive Aston, PA 19014-1298	Thursday	11-15-2007	Allison Jones (610) 358-4580 jonesa@neumann.edu	Neumann College Life Conference Center Aston, PA 19014-1297
Harrisburg Area Community College 3300 Cameron Street Road Harrisburg, PA 17110	Tuesday	11-27-2007	Non-Credit Registration Dept. (717) 780-2414 dgroot@hacc.edu	Rose Lehrman Arts Center Auditorium Harrisburg Area Community College 1 HACC Drive Harrisburg, PA 17110-2999
Penn State University Ogontz Campus 1600 Wood Land Road Abington, PA 19001	Wednesday	12-05-2007	Theresa Bloom (215) 881-7402 tmb17@psu.edu	Holiday Inn, Select 4700 Street Road Trevose, PA 19053

2007 FALL TAX SEMINAR AGENDA

See Page 7 for Seminar Schedule Dates

TIME	TOPIC	PRESENTER
8:00 - 9:30 AM	INTRODUCTION & PERSONAL INCOME TAX UPDATES <ul style="list-style-type: none"> > PIT Tax Law Changes > Impact of Act 119 of 2006 > PA PIT Forms Changes > Miscellaneous Items Affecting PA PIT 	<i>David A. Braden, CPA Sylvia Olimpi or Donald Bianchi, CPA Bureau of Individual Taxes</i>
9:30 - 10:15 AM	PASS THROUGH BUSINESS UPDATES <ul style="list-style-type: none"> > Tax Benefit Rule > Non-Resident Withholding > Centralized Database > Health Insurance – S-Corps vs. Partnerships > S-Corp Acquisition Interest > Problem Areas 	<i>Mary Hubler Pass Through Business Office</i>
10:15 - 10:30 AM	Break	
10:30 - 11:15 AM	USE TAX VOLUNTARY COMPLIANCE PROGRAM AND OTHER VOLUNTARY COMPLIANCE INITIATIVES	<i>Kevin Milligan Enforcement, Planning, Analysis, and Discovery</i>
11:15 - 11:45 AM	STATE TREASURY DEPARTMENT <ul style="list-style-type: none"> > Bureau of Unclaimed Property > Annual Unclaimed Property Reporting: What, When and How Business Should Report 	<i>Calvin Gilchrist State Treasury Department</i>
11:45 - NOON	QUESTIONS AND ANSWERS	
Noon - 1:00 PM	Lunch	
1:00 - 2:00 PM	CORPORATION TAXES UPDATES <ul style="list-style-type: none"> > Act 119 Changes > Act 67 & Act 116 Changes > Fed/State e-file 	<i>Greg Skotnicki, John Naccarato, Jeffrey A. Creveling, Joseph Clover or Michael Answine, CPA Bureau of Corporation Taxes</i>
2:00 - 3:00 PM	SALES AND USE TAX UPDATES <ul style="list-style-type: none"> > Update - Tax Law & Court Decisions > Refund Petitions - Statute of Limitations > Aircraft Issues > Building Machinery and Equipment 	<i>Jeffery Snavelly, Esq. and Lora Kulick, Esq. Office of Chief Counsel</i>
3:00- 3:15 PM	Break	
3:15 - 4:15 PM	UNEMPLOYMENT COMPENSATION TAX UPDATES (LABOR AND INDUSTRY) <ul style="list-style-type: none"> > Relief from Charges and Their Effect on Rates > What's New in UC 	<i>Timothy McGarvey or Paul Bowes Labor and Industry</i>
4:15 - 4:30 PM	QUESTIONS AND ANSWERS	

In compliance with the Americans with Disabilities Act, the Department will make every effort to provide an alternative format to persons with disabilities about the content of the seminars.