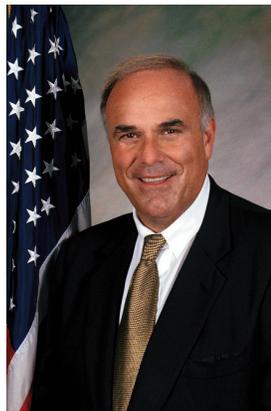




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GOVERNOR RENDELL SAYS NEW BUDGET PROTECTS PROGRESS; STIMULATES ECONOMY, INVESTS IN EDUCATION



Governor Edward G. Rendell hailed Pennsylvania's major new investments in energy, education and infrastructure, which are part of the commonwealth's \$28.3 billion budget for the 2008-09 fiscal year, as investments that will benefit Pennsylvanians for decades to come.

"Even in tough national economic times, this budget shows that Pennsylvania has the resources and the resilience to keep moving forward," Governor Rendell said.

"Because we have worked hard over the past five years to trim the cost of government by \$1.5 billion and control spending, we have been able to make major new investments in educating our children, repairing our bridges, and moving toward energy independence in Pennsylvania.

"This is a fiscally responsible budget that provides economic stimulus with much-needed capital for community and business development. It will help create thousands of jobs that can't be outsourced and it will invest in innovative energy programs that will help us break free from our dependence on foreign sources of oil.

"We accomplished these important goals while preserving the Rainy Day Fund and without increasing taxes," the Governor said. "With this budget, Pennsylvania is well positioned for whatever lies ahead."

Continued on Page 2

FAST FACT:

The 2008-09 budget includes \$1.7 billion in savings from business tax cuts, including \$274 million in savings for tax year 2008 from the continued phase-out of the capital stock and franchise tax.

*Continued from Page 1***TAX CUTS AND CREDITS**

The fiscal year 2008-09 budget includes \$1.7 billion in savings from business tax cuts, including \$274 million in savings from the continued phase-out of the capital stock and franchise tax.

Capital Stock and Franchise Tax Elimination Schedule

2007	3.89 mills
2008	2.89 mills
2009	1.89 mills
2010	0.89 mills
2011	Eliminated

Alternative Energy Production Tax Credit (Act 1 of Special Session 2008)

Taxpayers who develop or construct alternative energy production projects, which have a useful life of at least four years, may apply to the PA Department of Environmental Protection for a credit beginning in September 2009.

Educational Improvement Tax Credit (Act 61)

This bill makes subchapter S corporations and other pass-through entities eligible for the Education Improvement Tax Credit program, which allows business firms to receive tax credits for certain contributions made to non-profit, scholarship and education improvement organizations.

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.

Keystone Opportunity Zones (Act 72)

This legislation expands the Keystone Opportunity Zone (KOZ) program. Under this legislation, KOZs that are set to expire within the next five to 10 years will have the option of extending benefits for seven to 10 years. Zones that expired in January will be given until June 2009 to apply for the extension.

Volunteer Responder Retention and Recruitment Tax Credit (Act 66)

Qualified active volunteer ambulance, fire and rescue personnel are eligible for a credit of up to \$100 to be used against their 2008 Pennsylvania personal income tax liability.

For more information on these tax changes, see the 2008 State Tax Summary available at www.revenue.state.pa.us.

OTHER KEY BUDGET HIGHLIGHTS INCLUDE:**INVESTING IN OUR STUDENTS, PREPARING FOR THE FUTURE**

The new budget increases funding for education by \$347 million and it continues to fund successful initiatives that are benefiting children from early childhood through graduation. For the first time in 18 years, Pennsylvania's school districts will benefit from predictable state funding that's designed to ensure that all children have the opportunity to succeed.

REBUILDING PENNSYLVANIA

Under Governor Rendell's Rebuild Pennsylvania program, a combination of federal and state funds, including \$350 million in bond funds, will underwrite bridge projects that will be included in the state transportation improvement program. The combined funding will allow PennDOT to start repairs on 411 bridges this year.

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The budget agreement includes \$800 million to begin upgrading the state's unsafe dams and rebuilding water and sewer infrastructure in communities across the state. In November, voters will have a chance to approve an additional \$400 million to invest in water and sewer infrastructure improvements.

CREATING ENERGY INDEPENDENCE

As part of the budget process, Governor Rendell worked with legislators to invest \$650 million in one of the most promising sectors of the economy: the emerging new technologies and innovative ideas that can help residents and businesses lower energy bills and reduce America's dependence on foreign oil.

In total, these measures will invest \$665.9 million in alternative energy, of which \$237.5 million will go to consumers to lower their energy costs and help them join the new energy economy, and \$428.4 million will go to create jobs and expand the alternative energy sector in Pennsylvania.

CARING FOR PENNSYLVANIANS

The budget will enable Pennsylvania to provide affordable health care coverage for 186,000 children – an enrollment increase of nearly 11 percent over 2007-08. Additionally, the spending plan will help expand child care services to 2,600 more children and provide assistance to 77,665 developmentally delayed children.

MANAGING RESOURCES RESPONSIBLY

Overall, the new budget increases spending by 3.98 percent compared to last year. More than 32 percent of the increase in the General Fund budget is for education.

The commonwealth is leading by example in these challenging economic times by cutting the cost of running the government and continuing to find new ways to deliver services more efficiently. Through management and productivity initiatives, the Rendell administration is saving \$1.2 billion annually in the cost of operating government.



2007-08 FISCAL YEAR-END COLLECTIONS

Secretary of Revenue Tom Wolf reported that the state collected \$2.6 billion in General Fund revenue in June, \$135 million, or 4.9 percent, less than anticipated. Fiscal year 2007-08 General Fund collections totaled \$27.9 billion, which was \$159.4 million, or 0.6 percent, above estimate.

Sales tax receipts totaled \$710.2 million for June, which was \$30.2 million below estimate. Sales tax collections for the fiscal year totaled \$8.5 billion, which was \$32.3 million below estimate, or 0.4 percent less than anticipated.

Personal income tax (PIT) revenue in June was \$1 billion, which was \$8.9 million below estimate. This brought fiscal year PIT collections to \$10.9 billion, which was \$157.7 million, or 1.5 percent, above estimate.

June corporation tax revenue of \$499.3 million was \$80.1 million below estimate. Fiscal year corporation tax collections totaled \$5.5 billion, which was \$15.2 million, or 0.3 percent, above estimate.

Other General Fund revenue figures for the month included \$70.9 million in inheritance tax, which was \$6.3 million below estimate and brought the fiscal year total to \$823.9 million, or \$22 million above estimate.

Realty transfer tax was \$32.2 million for June, bringing the total to \$426.2 million for the fiscal year, or \$8.4 million less than anticipated.

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Other General Fund revenue including the cigarette, malt beverage and liquor tax totaled \$273.4 million for the month (\$2.9 million below estimate) and brought the fiscal year total to \$1.8 billion, which was \$5.2 million above estimate.

In addition to the General Fund collections, the Motor License Fund received \$172.8 million for the month, which was \$23.9 million below estimate. Fiscal year collections for the fund totaled \$2.7 billion, which was \$88.5 million, or 3.2 percent, below estimate.

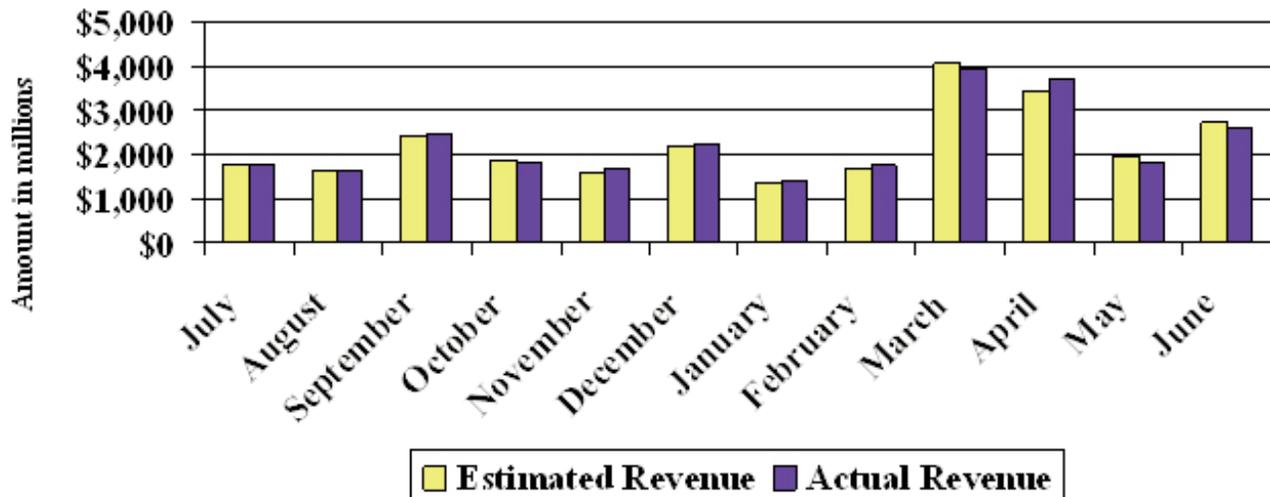
The Gaming Fund received \$45 million in unrestricted revenues for June. Fiscal year 2007-08 collections for the fund total \$731.8 million. Gaming Fund receipts include taxes, fees and interest. Of the total for the month, \$44.6 million was collected in state taxes for property tax relief, bringing the fiscal year total to \$472.9 million.

Other gaming-related revenues collected for June included \$5.6 million for the Local Share Assessment, bringing the total to \$52 million for the fiscal year. Additionally, \$6.6 million was collected for the Economic Development and Tourism Fund, for a fiscal year total of \$69.5 million; and \$15.8 million was collected for the Race Horse Development Fund, bringing the total for the fiscal year to \$166.9 million.

General Fund Revenues

Estimated versus Actual Revenue Collections

*In June, monthly collections were \$135 million lower than projected.
Fiscal year 2007-08 General Fund collections totaled \$27.9 billion, which was \$159.4 million, or 0.6 percent, above estimate*



GOVERNOR RENDELL SIGNS TAX COLLECTION SYSTEM REFORMS INTO LAW

Reduces number of local earned income tax collections from 560 to 69

Governor Edward G. Rendell signed into law a new, more efficient tax collection system that could yield more than \$200 million for municipalities and school systems and improve Pennsylvania's business climate through the standardization, coordination and accountability it provides.

"This fixes what is now, probably, the most complex and confusing local taxing environment in the nation, with more local earned income tax collectors—560—and more local taxing jurisdictions—nearly 2,900—than all other states combined," said Governor Rendell in signing Senate Bill 1063.

According to the Pennsylvania Economy League, Pennsylvania's fractured and inefficient system left some \$237 million uncollected each year, which would be enough to hire 3,000 more teachers and 3,000 more police officers, or lower property taxes.

The legislation was a direct result of a 2004 **report** published by the Department of Community and Economic Development, which documented the fragmentation, complexity and inefficiency of the earned income collection system.

Under SB 1063, Pennsylvania's number of earned income tax collectors will be reduced from 560 to 69 -- roughly congruent with counties, but not a function of county government.

In addition, the legislation includes a number of important improvements:

- Establishing uniform withholding, remittance, and distribution requirements.
- Requiring that employers withhold all local income taxes imposed on the compensation of their employees and remit those taxes to only one collector, even if an employer operates in multiple counties.
- Instituting a continually updated, comprehensive tax register, maximum twice-yearly rate changes, a uniform definition of taxable income and a system of appeals.
- Strengthening reporting requirements so that each tax dollar is tracked from the time it is withheld until it is received by the appropriate taxing jurisdiction.
- Requiring that the commonwealth issue one set of rules & regulations that apply to all collectors, taxpayers, and employers.
- Requiring that the Department of Community and Economic Development develop uniform forms, notices, reports, returns, schedules, and codes for school districts, municipalities, and tax collection districts.
- Requiring that tax collectors keep a record of all public monies received and distributed, and submit monthly reports to each taxing jurisdiction and the tax collection district that must be reconciled with other records in an annual audit.
- Providing for more accountability, transparency, oversight, and enforcement.

SALE OF RESTRICTED TAX CREDIT REPORTING REQUIREMENTS

Taxpayers awarded the Research and Development, Neighborhood Assistance, Resource Enhancement and Protection, Film Production and Keystone Innovation Zone tax credits (restricted tax credits) are afforded the ability under the Tax Reform Code of March 4, 1971, as amended, to sell the unused credits (under certain limitations). The Department of Revenue has received a number of inquiries from taxpayers wanting to know if the sale of the restricted credits are taxable to the seller and if the purchaser has any tax consequences or additional reporting requirements if the restricted tax credit is purchased at a discount. The following questions, answers and examples illustrate the department's position on the reporting requirements of sellers and purchasers of restricted tax credits.

Is the sale of restricted tax credits taxable to the seller?

For PA Personal Income Tax purposes, the sale of restricted tax credits are taxable as gains on the sale, exchange or disposition of property to the seller or original awardee of the restricted tax credits. The taxpayer selling the restricted credit reports the sale as a sale of intangible property for PA income tax purposes on PA-40 Schedule D, PA-41 Schedule D, or PA-20S/PA-65 Schedule D. The taxpayer's cost basis in the restricted tax credit sold is usually \$0 as the credit is awarded based on income or expenses already included in the current or a prior year's tax return(s) whereas no adjustment or reduction in income or expenses is required to be made to obtain such credit. A reduction in the sale price may be reported if commissions are paid to an agent or broker for the sale of such restricted tax credits in the amount of the commissions paid that reduce the amount of net proceeds received by the taxpayer. The taxpayer reports the date of the award of the restricted tax credit as the acquisition date and the date sold as the date the sale was consummated. The gross proceeds the taxpayer receives from the sale of the restricted tax credit, less any commissions paid, are included as the sale price of the credit sold.

Does an individual who purchases a restricted tax credit at a discount have any tax consequences or additional reporting requirements?

A taxpayer who purchases a restricted tax credit at a cost to him or her of less than the full value of the credit must also report a gain on the sale, exchange or disposition of property for PA income tax purposes. The taxpayer purchasing the restricted tax credit reports the transaction as a sale of intangible property for PA personal income tax purposes on PA-40 Schedule D, PA-41 Schedule D, or PA-20S/PA-65 Schedule D. Unlike the sale of a restricted tax credit, the purchaser records as his or her cost basis, the full purchase price of the credit (complete price of all such tax credits purchased plus any commissions paid by the purchaser). The taxpayer records the purchase date as the date acquired and records the tax year end date (usually December 31) for the tax year to which the tax credit is applied as the date the restricted tax credit was sold. The sale price of the tax credit is the full value of the credit permitted or allowed to be applied to the tax return of the taxpayer. By recording only the amount of credit allowed or permitted as the sale price and the full purchase price of the credit as the basis, restricted tax credits purchased but not able to be used because of tax limitations imposed under the law permitting the use of a purchased tax credit, require no pro-ration of credit cost and no separate reporting of the loss on unused credits.

Also, the purchaser must provide, with their applicable return, the sale or purchase agreement documents necessary for a taxpayer to claim the restricted tax credit as required by the department, agency or commission responsible for administering such restricted tax credit. Such documents are required as support for PA-40 Schedule OC, Other Credits, which must also accompany the applicable tax return. Individual taxpayers are reminded that joint tax returns cannot be filed if a restricted tax credit is claimed and that separately filed PA-40, Pennsylvania Personal Income Tax returns, for the taxpayer and spouse are required to report usage of restricted tax credits. Restricted tax credits

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purchased and used by a taxpayer should also have code "PA" entered in the Credit Description Code box for the appropriate line of PA-40 Schedule OC.

Example:

Facts

ABC Company Inc., an S corporation, was awarded a restricted tax credit of \$10,000 on Dec. 15, 2006. ABC Company Inc. and its shareholders cannot use the restricted tax credit and sells the entire amount of the credit to Susann and Onkar Taxpayer for \$9,200 on Aug. 15, 2007 with 60 percent of the credit being purchased by Susann and 40 percent being purchased by Onkar. ABC Company Inc. receives \$9,200 from the agent responsible for finding buyers of the restricted tax credit. Susann and Onkar paid a \$300 commission to the agent that found a seller of the restricted tax credit. ABC Company Inc. has no other sales, exchanges or dispositions of property required to be reported for PA Personal Income Tax purposes. Susann Taxpayer is able to use all the restricted tax credit she purchased on her 2007 Personal Income Tax return, while Onkar Taxpayer is only able to use \$3,000 of the tax credit purchased due to the tax liability restrictions imposed on purchasers of the restricted credit purchased by the Taxpayers.

Reporting Requirements

ABC Company Inc. reports the sale of the tax credit on its PA-20S/PA-65 Schedules D-I and D-II. The type of property sold is O (Other Intangible) and the description of the property sold is "Restricted Tax Credit". The date acquired is reported as Dec. 15, 2006, with \$0 as the cost or other PA basis. The date sold is reported as Aug. 15, 2007, and the gross sales price as \$9,200. Enter a zero in Difference in PA/Fed Gain (Loss). ABC Company Inc. must report a gain on the sale, exchange or disposition of property of \$9,200 on its PA-20S/PA-65 Information Return. The \$9,200 gain is passed through to the shareholders on PA Schedules RK-1 only because the gain on the sale of the restricted tax credits is from the sale of intangible property.

Susann and Onkar are required to complete separate PA-40, Pennsylvania Personal Income Tax returns. Susann and Onkar claim the restricted credit that each of them purchased from ABC Company Inc. on PA-40 Schedules OC, Other Credits. The Taxpayers are also required to provide the documentation supporting their purchase of the credit as required by the agency responsible for administering the restricted credit. They are further required to report on their separately filed returns, a gain on the sale, exchange or disposition of property related to that purchase and use of the restricted credits on PA-40 Schedule D.

On PA-40 Schedule D, Susann Taxpayer reports the description of the property as "utilization from purchase of restricted tax credit", a date acquired of Aug. 15, 2007, and a cost or adjusted basis of the property sold of \$5,700 (60 percent of the \$9,200 purchase price plus 60 percent of the \$300 purchase commission). She also reports on PA-40 Schedule D a date sold of Dec. 31, 2007, with a sale price of \$6,000 (60 percent of the tax credit purchased or the net amount of the restricted credit allowable). The net gain from the transaction is reported as \$300.

On PA-40 Schedule D, Onkar Taxpayer reports the description of the property as "utilization from purchase of restricted tax credit", a date acquired of Aug. 15, 2007, and a cost or adjusted basis of the property sold of \$3,800 (40 percent of the \$9,200 purchase price plus 40 percent of the \$300 purchase commission). He also reports on PA Schedule D a date sold of Dec. 31, 2007, with a sales price of \$3,000 (the net amount of the restricted credit allowable). The net gain (loss) from the transaction is reported as (\$800). Onkar Taxpayer reports a loss because he could not utilize the full value of the credit he purchased. If Onkar had been able to utilize the entire restricted tax credit purchased of \$4,000, he would have been required to report a gain of \$200.

BUSINESS USE TAX VOLUNTARY COMPLIANCE INITIATIVE - UPDATE

The department continues to inform Pennsylvania businesses about their use tax obligations.

As part of this initiative, the department is preparing to mail self-audit worksheets and PA-1 Use Tax forms to Pennsylvania businesses in the financial and insurance industries. Businesses receiving these worksheets will be asked to review their records and determine their use tax liability. Businesses that remit the return in a timely manner along with their use tax payment will have penalties waived on the related tax due.

In preparation of this mailing, the department is inviting financial and insurance industry associations to a use tax seminar. The seminar explains how use tax and the department's voluntary compliance program works. The department looks forward to continuing these meetings.

The department is also following-up with businesses in other industry segments that were mailed information about the program but failed to respond. The department is also continuing its efforts to identify and monitor established businesses that have no use tax filing history for further action.

Since the inception of the program in 2005, the department has collected millions of dollars of unreported use tax and many taxpayers have continued to pay use tax after making their initial voluntary compliance payment.

TREATMENT OF FEDERAL ECONOMIC STIMULUS PAYMENTS

On April 28, the U.S. Treasury Department began issuing federal economic stimulus payments to qualifying taxpayers.

The Pennsylvania Department of Revenue has determined that the 2008 federal stimulus payments are **not** to be included as a taxable source of income for personal income tax or Property Tax/Rent Rebate program purposes. In addition, these payments should **not** be included in eligibility income for personal income tax, tax forgiveness purposes.

However, federal economic stimulus payments **are** subject to PA Inheritance Tax. If a decedent filed a 2007 personal income tax return, or one was filed on his/her behalf after his/her death, the decedent was eligible for and due the payment. Even if the decedent died prior to receiving the payment, it was obligated to him/her during their lifetime. Consequently, the payment becomes a part of their taxable estate upon payment and ultimately distributed to the beneficiary.

PROPERTY TAX/RENT REBATE PROGRAM EXTENDED TO DEC. 31

\$221 million distributed to more than 424,000 households by mid-July

The deadline for seniors and disabled residents to apply for rebates for property taxes or rent paid in 2007 has been extended from June 30 to Dec 31. The Property Tax/Rent Rebate Program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older.

Secretary of Revenue Tom Wolf also recently announced that a record number of rebates were distributed by mail and direct deposit on July 1, the first day rebates can be distributed, by law. Nearly \$204 million was distributed to 417,052 homeowners, 107,113 more rebates than were distributed last year on July 1.

As of July 11, \$221 million was distributed to 454,009 homeowners and renters through the Property Tax/Rent Rebate Program, 27.3 percent more rebates than were issued by the same time last year.

An estimated 68,000 senior homeowners will have school property taxes completely eliminated when rebates combine with the more than \$600 million in slots gaming-funded general property tax reduction that all homeowners are seeing itemized on school district property tax bills this summer.

In 2006, Governor Edward G. Rendell signed a law to dramatically expand the rebate program by increasing the income limit for homeowners from \$15,000 to \$35,000 and raising the maximum rebate for homeowners and renters from \$500 to \$650. Applicants can exclude one-half of Social Security wages, Supplemental Security payments and Railroad Retirement Tier 1 benefits as income.

About 600,000 seniors are expected to benefit from rebates this year, compared to 310,000 before the program's expansion. Last year more than 562,000 seniors received more than \$240 million in rebates.

The 2006 Taxpayer Relief Act that dramatically expanded the Property Tax/Rent Rebate Program also provided for additional money to be added to the program when statewide property tax relief money became available. These supplemental rebates, equal to 50 percent of base rebates and automatically calculated by the Department of Revenue, are available this year for the first time to an estimated 187,000 seniors who live on limited incomes in areas of particularly high tax burden.

Property Tax/Rent Rebate forms (PA-1000) are available at www.PaPropertyTaxRelief.com and by calling 1-888-222-9190. Forms and assistance also are available at Revenue district offices (listed in the blue pages of local phone directories), local Area Agencies on Aging, senior centers and state legislators' offices. Rebates will continue to be distributed as claims are received and processed through the rest of the year.

The Property Tax/Rent Rebate Program is one of five programs supported by the Pennsylvania Lottery. Since the program's 1971 inception, seniors and disabled adults have received \$4 billion worth of property tax and rent rebates. The expanded portion of the rebate program is being paid for with revenue from slots gaming.

FEDERATION OF TAX ADMINISTRATORS 76TH ANNUAL MEETING A SUCCESS



★ **FTA08** ★
PHILADELPHIA

The PA Department of Revenue and the city of Philadelphia hosted more than 470 attendees and guests from across the country at the 76th Annual Meeting of the Federation of Tax Administrators, June 8 – 11.

First day conference highlights included a golf outing at Glen Mills and an opening reception in the historic Reading Terminal Headhouse, with entertainment by the Philly POPS Festival Brass. The next day, guests of conference attendees went on an entertaining and

educational tour of Philadelphia that included lunch at City Tavern.

The one and only Ben Franklin opened the General Session on Monday, and interesting tax policy and management presentations and breakout sessions were presented throughout the conference.

The closing reception featured a surprise appearance from the Philly Phanatic and featured the celebrated Philadelphia Mummers. Mayor Michael Nutter gave remarks, and Harley Duncan was recognized at his last FTA conference for 20 years of dedicated and compassionate service.

Conference attendees enjoyed Philadelphia's unique blend of history and progress while learning about the latest tax-gathering initiatives and will meet again next year in Denver, Colorado.

PA DEPARTMENT OF REVENUE RECEIVES 2008 TECHNOLOGY AWARD

The PA Department of Revenue received the "Best of Pennsylvania 2008 Technology" award at the Pennsylvania Digital Government Summit on June 16 for its Data Warehouse Project.

The Data Warehouse Project has provided the technology infrastructure to enable collections of more than \$450 million over the last four years. The honor was awarded for the "most innovative use of technology".



(2008 Technology Award)

TAX PROFESSIONAL E-SERVICES CENTER



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

Visit the department's [Online Customer Service Center](#) or call (717) 787-1392.