



**Tom Corbett**, Governor

NUMBER 168 • JUNE/JULY 2013

# TAX UPDATE

**Daniel Meuser**, Secretary of Revenue

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## IN THIS ISSUE:

- GOVERNOR CORBETT SIGNS 2013-14 BUDGET, HELPING THE NEEDIEST CITIZENS, FAMILIES AND SMALL BUSINESSES, WITHOUT RAISING TAXES *Pages 1-2*
- 2013 TAX CHANGE HIGHLIGHTS *Pages 3-4*
- PRE-PAID E-911 SURCHARGE CLARIFIED FOR RETAILERS *Page 4*
- DEPARTMENT CREATES SCHEDULE AU FOR INHERITANCE TAX AGRICULTURAL EXEMPTIONS *Page 5*
- FALL TAX SEMINAR PREVIEW *Page 6*
- 2012-2013 GENERAL FUND REVENUE *Page 6*

## GOVERNOR CORBETT SIGNS 2013-14 BUDGET, HELPING THE NEEDIEST CITIZENS, FAMILIES AND SMALL BUSINESSES, WITHOUT RAISING TAXES

On June 30, Governor Tom Corbett signed the 2013-14 budget. Corbett's third pro-growth budget helps children receive the best education possible, helps those who need it most, and helps employers grow jobs - without raising taxes for working families.

For the third consecutive year, Corbett increased funding for education and early childhood development, investing 41 percent of the budget or the most state dollars in the history of Pennsylvania. The budget promises more than \$5.5 billion for basic education funding and \$1.6 billion for higher education.

Corbett also successfully fought for increased funding for people with intellectual disabilities, domestic violence and rape victims, as well as the state's Children's Health Insurance Program (CHIP) helping provide insurance for more of Pennsylvania's neediest children.

Corbett's enacted budget focuses on five key areas: education, health and human services, agriculture, public safety and jobs.

Highlights of the 2013-14 budget include:

### Education

- Expanded funding for K-through-12 education, including an additional \$122.5 million in Basic Education Funding, an increase of 2.27 percent over last year's record funding levels, for a total of \$5.5 billion, the highest in state history.
- More than \$348 million each year in early childhood programs, including \$222 million for Early Intervention

*Continued on Page 2*

### FAST FACT:

*On July 1, more than 482,000 older homeowners, renters and people with disabilities across Pennsylvania were issued rebates totaling \$226.9 million through the Property Tax/Rent Rebate Program.*

**Page 1**

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NUMBER 168 • JUNE/JULY 2013

*Continued from Page 1*

- (\$5 million increase) to serve 1,500 additional children from ages 3 to 5.
- \$87.3 million toward Pre-K Counts (an increase of \$4.5 million) and \$39.2 million in Head Start Supplemental Assistance (an increase of \$1.9 million) programs. Increases in these areas will give an additional 3,200 children, and their families, access to quality full and part-day programs, as well as summer kindergarten readiness programs.
  - Higher education funding at nearly \$1.6 billion, including support of student grants and institutions of higher learning. Of that total amount, more than \$942 million is divided among Pennsylvania's state and state-related universities.
  - \$100 million for the Accountability Block Grant. These grants fund proven educational programs including quality pre-kindergarten and full-day kindergarten

#### **Health and Human Services**

- More than \$1 billion in total state funds for support services to our citizens with intellectual disabilities, including serving an additional 1,180 individuals independently in their homes and communities.
- \$5.2 billion in total funds to provide home and community-based services, as well as nursing home care to persons with disabilities and older Pennsylvanians.
- Assisting more than 210,000 low-income families and enabling 1,400 children now on waiting lists to receive child care assistance with an additional \$7 million, along with \$3 million for the Rising STARS child care quality enhancement initiative.
- More than \$445 million in total funds to provide health insurance coverage for more than 200,000 children through the Children's Health Insurance Program.
- Investing \$4 million in the creation of the Community-Based Health Care Program to bring health care to people who live in areas without easy access to hospitals and clinics.

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- Funding Adult Protective Services, to protect abused and neglected adults with disabilities, for persons aged 18 to 59. Previously, the state had protection systems for children 18 and younger or adults 60 and older, but nothing for those in between. The Corbett Administration allocated start-up funds last year that will be fully implemented in 2013-14 for \$2.8 million.

#### **Agriculture**

- Nearly \$35 million to fund the nation's best farmland preservation program.
- \$10 million to continue a system of tax credits for Resource Enhancement Protection Program that rewards farmers for best environmental and management practices.
- Increased funding to \$2.5 million for Pennsylvania's county fairs.
- More than \$17 million to fund the state Food Purchase Program providing critical help to Pennsylvanians who are at risk of having too little to eat.
- Funding for The PennVET program at the University of Pennsylvania and agricultural research and extension service program at Penn State.

#### **Public Safety**

- Three new cadet classes for the Pennsylvania State Police in the next fiscal year with a potential for 290 new state troopers.
- In addition, the state police will hire 90 new civilian dispatchers, freeing our state troopers to get back out on the roads and into the communities where they are most needed.
- An increase of nearly \$1.4 million, for a total of \$13.9 million for the Domestic Violence Program, and an increase of \$950,000, for a total of nearly \$8 million for the Rape Crisis Program, making these the highest-ever state investments.
- \$6 million for juvenile justice intervention, including academic and career training for delinquent youths, as well as strategies for delinquency and violence prevention.

To review the budget in entirety, visit  
[www.budget.state.pa.us](http://www.budget.state.pa.us).



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## 2013 TAX CHANGE HIGHLIGHTS

- Effective Jan. 1, 2014, the resident credit for personal income tax paid to foreign countries is eliminated.
- Effective immediately, transfers of small family-owned business interests to other members of the same family are exempt from inheritance tax, provided the business continues to be owned by a family member for at least seven years from the decedent's death.
- The cap on corporate net income tax net operating loss deductions is raised from \$3 million or 20 percent of income to \$5 million or 30 percent of income in 2015, attracting technology, bioscience and research companies and large manufacturers and allowing these job creators to smooth business losses over future tax years. Following is the schedule for this increase:

2013 - \$3 million or 20 percent of income  
2014 - \$4 million or 25 percent of income  
2015 - \$5 million or 30 percent of income

- A corporate net income tax expense deductions add-back provision will ensure corporations doing business in Pennsylvania pay their fair share in corporate taxes.
  - The new statute confirms that audit and assessment activities the department has been pursuing to challenge sham transactions are within the department's authority.

◦ The statute gives the department clear new authority to adjust the tax calculations of a company that tries to avoid paying Pennsylvania corporate net income tax by establishing holding companies in low-tax or no-tax states such as Delaware. Effective for tax years beginning after Dec. 21, 2014, these companies must now "add-back" to Pennsylvania taxable income expense deductions (royalties, interest, costs and other expenses) for payments made to affiliates, when those payments were made

with the purpose of avoiding Pennsylvania corporate tax.

- Beginning Jan. 1, 2014, corporations that fail to file corporate tax reports will be subject to a minimum \$500 non-filing penalty in order to encourage greater compliance with the tax law.
- After Dec. 31, 2013, new businesses can deduct up to \$5,000 of start-up costs from taxable income as an incentive for entrepreneurs to create small businesses and invest these savings into equipment needed to be successful.
- Beginning with tax year 2014, sales of services will be sourced to the location of service delivery for purposes of corporate net income tax apportionment. The new law also clarifies the treatment of income from the lease, licensing and rental of both personal and real property in the sales factor. This change complements the 100 percent single sales factor for tangible goods and benefits Pennsylvania service companies by not taxing income from services performed out-of-state.
- The capital stock/foreign franchise tax phase out is extended to January 2016, reducing the rate according to the following schedule:

2013 – 0.89 mills  
2014 – 0.67 mills  
2015 – 0.45 mills  
2016 – 0.00 mills

- Beginning with tax year 2014, pass-through entities may recover intangible drilling costs by amortizing the costs over 10 years or expensing up to one-third of federally allowable costs against personal income tax. Under prior law, these costs were amortized over the life of the well.
- The commonly known 89/11 realty transfer tax loophole is addressed through the following changes, effective with tax year 2014:
  - An option or commitment to transfer interests in a real estate company in the

*Continued on Page 4*



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NUMBER 168 • JUNE/JULY 2013

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*Continued from page 3. 2013 Tax Change Highlights*

- future is now treated as a transfer of those interests.
- A closely held company, 90 percent of whose assets are interests in one or more real estate companies, is now considered a real estate company itself.
  - Whether or not a company is a real estate company is determined by consideration of real estate everywhere, not just in Pennsylvania.
  - The corporate loans tax is repealed effective Jan. 1, 2014, ending an unjust burden placed on small businesses without access to traditional forms of lending that take loans to grow or simply pay regular business expenses.
  - Given the proven success of dollars dedicated to enhanced enforcement efforts, additional audits and more scrutinized evaluation of tax refund requests, the 2013-14 budget allocates up to \$15 million in Enhanced Revenue Collection Account funding each year through 2019-20, a \$5 million increase over 2012-13 funding. This investment is estimated to generate \$194 million in revenue for 2013-14.
  - Tax enforcement changes will improve the efficiency and effectiveness of delinquent collections:

- The department's citation authority is extended beyond just sales tax licensees to include businesses not timely remitting employer withholding deducted from employees' pay on behalf of the commonwealth.
- The appeal period following revocation of a sales tax license has been shortened from 90 days to 30 days. This change will avoid unnecessary delay in taxpayer compliance and prevent taxpayers with histories of stealing trust fund taxes from having more time to do so.

- By April 2014, the Board of Finance and Revenue within the Treasury Department will be restructured to better address tax appeals functions. Three new independent board members will replace the current six board members representing various agencies of state government. This change further capitalizes on national best practices to make the appeals process more fair for taxpayers and improve Pennsylvania's ranking in multi-state reviews of tax appeals processes.

For more information, including tax credit changes and additions, review the department's [2013 State Tax Summary](#).

## PRE-PAID E-911 SURCHARGE CLARIFIED FOR RETAILERS

Effective July 1, 2011, pre-paid telecommunication services and wireless telephones became subject to a pre-paid wireless emergency 911 surcharge of \$1 per retail transaction, regardless of whether the service or pre-paid wireless telephone is purchased in person, by telephone, through the Internet or by any other method.

The pre-paid E-911 surcharge is to be charged and collected by a retailer in addition to any other charges or fees, but it is not to be included for purposes of calculating sales tax.

Pre-paid E-911 surcharges are to be reported on the sales tax return, which includes a separate line to report the surcharge. Retailers collecting and reporting the pre-paid E-911 surcharge must file electronically using e-TIDES, [www.etides.state.pa.us](http://www.etides.state.pa.us), or by TeleFile, 1-800-748-8299.

For more information on the pre-paid E-911 surcharge, visit the Online Customer Service Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) or call 717-787-1064 and select Option 2 for sales and use tax.



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## DEPARTMENT CREATES SCHEDULE AU FOR INHERITANCE TAX AGRICULTURAL EXEMPTIONS

The Department of Revenue has created Schedule AU, Agricultural Use Exemption form (REV-1197), for residents to claim inheritance tax exemptions established under Act 85 of 2012.

Act 85 of 2012 created two agricultural exemptions from Pennsylvania inheritance tax for estates of decedents dying on or after June 30, 2012: the Farmland Commodities, Easements and Reserves exemption and the Business of Agriculture tax exemption for working family farms.

Under the Farmland Commodities, Easements and Reserves tax exemption, transfers to lineal descendants or siblings of agricultural commodities, agricultural conservation easements, agricultural reserves, agricultural use property and forest reserves are not subject to inheritance tax.

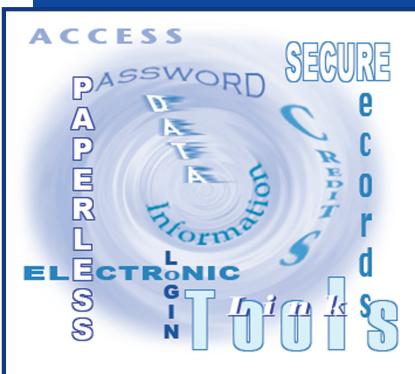
Under the Business of Agriculture exemption, real estate devoted to the business of agriculture that is transferred between family members or from one

generation to the next is not subject to inheritance tax, so long as the working family farm:

- Is transferred to members of the same family;
- Is devoted to the business of agriculture at the time of the decedent's death;
- Is devoted to the business of agriculture for seven years after the decedent's date of death; and
- Produces annual gross income of at least \$2,000 in the business of agriculture for seven years after the decedent's date of death.

To claim either exemption, Schedule AU must be completed and submitted with REV-1500, Inheritance Tax Return for Resident Decedents or REV-1737-A, Inheritance Tax Return for Nonresident Decedents. All inheritance tax forms and instructions are available on the department's website at [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

## TAX PROFESSIONAL E-SERVICES CENTER



Tax professionals are encouraged to use the department's 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.



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## FALL TAX SEMINAR PREVIEW

Review the complete fall tax seminar [schedule](#) and agenda to plan your attendance today.

SPONSOR	DAY	DATE	CONTACT PERSON	CONFERENCE LOCATION
CPE Forum of Central PA 601 Hawthorne Drive, Suite 2-B Hollidaysburg, PA 16648	Thursday	09-19-2013	Kelly Park 814-695-1558 kelly.park@wfadvisors.com	The Casino 300 Lakemont Park Blvd. Altoona, PA 16602
Lehigh Valley PSTAP	Wednesday	09-25-2013	Sherry DeAgostino 800-270-3352 sherry@pstap.org	Breinigsville Holiday Inn Conf. Center 7736 Adrienne Drive Breinigsville, PA 18013

## 2012-2013 General Fund Revenues

*Estimated versus Actual Revenue Collections (in millions)*

*Fiscal year 2012-13 collections total \$28.6 billion, which is \$56.9 million, or 0.2 percent, above estimate.*

