



THE TAX UPDATE IS A  
BI-MONTHLY E-NEWSLETTER

PUBLISHED BY THE  
PENNSYLVANIA

DEPARTMENT  
OF REVENUE

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## FAST FACT:

*A record 81 percent of businesses submitted their business registration applications electronically to the Department the week of June 5.*

## GOVERNOR RENDELL SIGNS 2004-05 BUDGET

**Governor Edward G. Rendell** celebrated July 4 by signing a \$22.9 billion state budget that holds the line on taxes while increasing state support for public education for the second consecutive year. The Fiscal Year 2004-05 budget also includes increased funding for higher education, the Children's Health Insurance Program (CHIP) and the Adult Basic Health Insurance program for low-income working Pennsylvanians.

"This budget builds on my commitment to fiscal responsibility, and continues to bring state spending in line with what we can afford," said Governor Rendell.

While overall budget expenditures will increase by 4.3 percent in comparison to the FY 2003-04 budget, the current fiscal year budget maintains the overall 10 percent reduction (\$212 million) in the cost of government operations that was put in place by the Rendell Administration in FY 2003-04. There were no tax changes in the 04-05 budget other than the Film Production Tax Credit.

The Department of Revenue is required to cut its operating budget by 3 percent in fiscal year 2004-05 (on top of the 7 percent cut in FY 2003-04). This budget cut is part of the Administration's continuing effort to deliver services more efficiently, spend tax dollars more effectively and reduce the cost and size of state government.

The Department will close seven of its 40 district offices, saving \$3.8 million, to meet this year's 3 percent budget cut. The following offices will close next month: Bradford, Washington, Indiana, \*Wilkes-Barre, Lancaster, Newtown Square and Doylestown. (\* Only the Collections and Taxpayer Services portion of the office will be affected.)

The Department will conduct outreach programs to provide taxpayer service in areas affected by the office restructuring. Those outreach efforts may include establishing office hours for Revenue Department staff in other state offices, libraries, senior centers and legislative offices.

The decision to close some field offices was made after carefully considering a broad range of alternatives. All affected employees will be offered a job within the Department or in other state agencies.

### ● GOVERNOR RENDELL SIGNS EXPANDED GAMING AND PROPERTY TAX RELIEF LEGISLATION

On July 5, Governor Edward G. Rendell signed legislation implementing expanded gaming and delivering on his pledge to deliver property tax relief.

"Today, the people of Pennsylvania are true winners," Rendell said at the bill signing. "Starting now, we begin the long over-

due process of recapturing billions of dollars in lost revenue, creating thousands of jobs, dramatically contributing to the future of the horseracing industry and finally returning millions of dollars in the form of lower property and wage taxes for the citizens of Pennsylvania".

### ● PROPERTY TAX RELIEF PACKAGE (SB 100)

The bipartisan property tax relief package represents the largest local tax reduction in Pennsylvania in decades. The state-funded portion of local tax relief will be paid for by taxes on gaming revenue. Based on estimates of gaming revenues, as much as \$1 billion is expected to be available for property tax relief.

To receive state funds for property tax relief, school districts must impose a minimum 0.1 percent local Earned Income Tax (EIT). At \$1 billion, the state share of funds provided for property tax relief will reduce property taxes on average by 20 percent. The local EIT combined with the state share will lower property taxes by an average of 23 percent statewide. At that level, an average of \$333 in property tax relief will be available for every Pennsylvania homeowner.

The property tax package also includes a mechanism to keep property taxes low. If a school district wants to raise property taxes faster than the rate of inflation, it will have to seek voter approval. In adopting this referendum requirement, Pennsylvania joins the majority of states in allowing voters to directly decide on certain tax increases. As a result, once property taxes go down they will rise much more slowly than they have in the past.

In 66 of Pennsylvania's 67 counties, every homeowner will receive property tax relief. In Philadelphia, the same relief will be distributed via a wage tax reduction. Philadelphia's wage tax will be substantially reduced to a historic low for resident wage taxpayers and non-resident wage taxpayers who work in Philadelphia.

### ● PENNSYLVANIA RACE HORSE DEVELOPMENT AND GAMING ACT (HB 2330)

Pennsylvania's economy will finally recapture the \$3 billion spent annually by Pennsylvanians in other states where slot machine gaming is permitted. The state will allow a maximum of 61,000 slot machines at 14 venues. Category 1 licenses (slots at race-tracks) are limited to seven sites. Category 2 licenses (non-track locations) are limited to five sites. Category 3 licenses (resort hotels) are limited to two sites.

Each Category 1 and 2 licensee must pay a license fee of \$50 million; each Category 3 licensee must pay a license fee of \$5 million. The Department of Revenue will collect tax from each slot machine licensee at a rate of 34 percent of daily revenues.

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The Department will also control the operation of every slot machine centrally. If experts observe a problem, they will be able to shut down an individual machine or, if necessary, an entire facility.

A soon-to-be appointed Gaming Control Board will oversee all licensing and operations of the slots venues. The Gaming Board must issue all licenses within 12 months of the application deadline determined by the Board. If the formation and operation of the board goes smoothly, Pennsylvanians may receive property tax relief in FY 2005-06. Otherwise, the funds will be distributed for tax relief in following years. Funds for property tax relief cannot be distributed until \$400 million is set-aside in a reserve fund and at least an additional \$500 million is available for property tax relief.

The Gaming Board will include:

- Seven voting members: three appointed by the Governor, one appointed by each of the legislative caucuses. The Governor selects the Chair.

- Three Ex Officio Members (non-voting): [Secretary of Revenue](#), [Secretary of Agriculture](#) and the [State Treasurer](#).

Proceedings of the Board will be open to the public according to the terms of the Sunshine Act.

## ● FILM PRODUCTION TAX CREDIT

This credit provides a 20 percent Film Production Tax Credit for film-production expenses incurred in Pennsylvania.

The credit is available for feature films, television series and television shows of 15 minutes or more in length intended for a national audience. Sixty percent of total production expenses must be incurred in Pennsylvania.

The Department of Revenue and the Pennsylvania Film Office will jointly administer the Film Production Tax Credit. For more information, call the Pennsylvania Film Office at 717-783-3456 or visit [www.inventpa.com](http://www.inventpa.com).

## BUSINESS TAX REFORM COMMISSION RELEASES INTERIM REPORT, ASKS FOR MORE TIME



**Members of the PA Business Tax Reform Commission present their interim report to the public.**

*Commissioners From L to R :  
Joseph A. Cottonaro,  
Denise L. Devine, Secretary of  
Revenue Gregory C. Fajt (Chair),  
M. Christine Murphy and  
Joseph C. Bright.*

*Missing from photo: Yarone S. Zober,  
Dr. Leroy D. Nunery, II, Ron A. Bloom,  
Dean Glick, R. Michael Cortez,  
Joseph C. Guyaux and Thomas W. Wolf.*

On June 21, the Pennsylvania Business Tax Reform Commission released an [interim report](#) that recommended lowering the state's Corporate Net Income (CNI) tax to between 6 and 7 percent.

"The Commonwealth's current 9.99 percent (CNI) tax rate is so high that it discourages both new economic development and the expansion of existing Pennsylvania businesses," the report said.

The Commission also recommended eliminating the existing \$2 million annual cap on future Net Operating Losses, which it said discourages economic development and is at odds with other state policy and funding initiatives that encourage technology-based and biotech company start-ups.

Governor Edward G. Rendell created the Commission on March 4. Since that time it has held a series of public hearings

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to receive testimony from numerous tax professionals and interested organizations. Its interim report recommends sweeping changes in Pennsylvania's business tax system to make the state more competitive and its tax system more fair.

To keep its recommendations revenue neutral, as required in the Governor's Executive Order, the Commission recommended that Pennsylvania shift to a mandatory combined unitary reporting system, which would require members of a unitary group of businesses to combine their income and expenses for tax purposes. Mandatory combined unitary reporting would provide a more accurate method of measuring the net income of affiliated corporations. The Commission said it would substantially broaden the tax base and would be less subject to manipulation than the current separate company reporting method.

The Commission also recommended consideration of a new tax on "pass through" businesses. Profits of such businesses are currently taxed at the 3.07 percent Personal Income Tax (PIT) rate, rather than the 9.99 percent rate paid by ordinary business corporations. The Commission said that the 6.92 percentage-point gap is the largest of any state, and recommended that it be narrowed as part of its tax reform proposal.

**Also recommended in the Commission's interim report were:**

- Market-based sourcing for the sale of services. Market-based sourcing would source sales of services in the same manner as sales of personal property, thereby leveling the playing field and encouraging growth in service-related industries.

- Continuing the phase-out of the Capital Stock and Franchise Tax, which the Commission called a "major obstacle to Pennsylvania's competitiveness."
- Reforming Pennsylvania's tax appeals process. The Commission called the existing process "inefficient and confusing to businesses, and detrimental to the business climate of the Commonwealth."

The Commission stressed that its interim report is a unified proposal, and should be considered as such.

"The Commission endorses (the recommendations) as a package," the interim report says, "and as a means to achieve its goal of dramatically lowering the Pennsylvania Corporate Net Income (CNI) tax rate. It does not endorse any of the recommendations individually, or without a substantial CNI tax rate reduction."

At the Commission's request, Gov. Rendell has given the Commission until November 30, 2004 to further study ways to finance a CNI rate reduction and other changes to the Commonwealth's business tax system, solicit testimony from the Department of Community and Economic Development concerning its programs and further consider the role that CNI tax apportionment can play in economic development.

The Commission also recommended that the Department of Revenue continue to refine its revenue estimates for the various options under consideration and obtain independent review of certain revenue estimates.

Additional information on the Commission can be found at its Web site: [www.businessreform.state.pa.us](http://www.businessreform.state.pa.us)

## NEW BUSINESS TAX PENALTY AND INTEREST CALCULATOR

The Online [Business Tax Penalty and Interest Calculator](#) is now available to assist taxpayers with calculating penalties and interest for the following business taxes:

- Sales and Use Tax
- Corporation Tax
- Realty Transfer Tax
- Employer Tax for Quarterly Filers (1985 & Later)
- Employer Tax for Monthly Filers (1985 & Later)
- Employer Tax for Semi-Monthly (1985 & Later)
- Deferred Payment Plan

Taxpayers can calculate penalties and interest by entering the amount of tax due, the tax period or tax due date, and the date of the payment. Visit the Department's [e-Services Center](#) at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) to use this new service.

The [Personal Income Tax \(PIT\) Penalty and Interest Calculator](#) is also available through the Revenue e-Services Center. The PIT calculator, implemented in November 2003, calculates penalties and interest for the following taxes:

- Personal Income Tax
- Inheritance Tax

## PA DEPARTMENT OF REVENUE ADDS TWO CPAS TO STAFF

The **Department of Revenue** is pleased to announce the addition of two Certified Public Accountants to its staff, David A. Braden of Camp Hill, PA and Suzanne Leighton of Mechanicsburg, PA. Mr. Braden replaces the recently retired Tom Frascella as an Assistant to the Director of the Bureau of Individual Taxes. Ms. Leighton replaces the recently retired Dorothy Totten as Director of the Department's Pass Through Business Office.

### DAVID A. BRADEN, CPA



Mr. Braden will be responsible for establishing policies and procedures for the audit and review of Personal Income Tax returns; directing the form and booklet program for Personal Income Tax; and interpreting tax laws, rules, regulations, policies and procedures for attorneys, accountants, and taxpayers concerning Personal Income Tax. He will report to Judy Rohrer, Director of Individual Taxes.

Mr. Braden has his Bachelor's Degree in Business Economics with a concentration in Accounting from the University of Pittsburgh at Johnstown and is a Certified Public Accountant. He was most recently an Audit Manager for the Treasury Department. He has also worked as a Special Assistant to the Deputy Treasurer for three years and for two years he was Assistant Deputy Treasurer within Treasury's Bureau of Fiscal Review. Prior to his employment with the Commonwealth, Mr. Braden was employed in Public Accounting firms in the Pittsburgh area.

### SUZANNE LEIGHTON, CPA



Ms. Leighton will be responsible for planning and directing the Pass Through Business Taxation program; supervising two Revenue Fiscal Analyst Supervisors as they review large corporations to determine compliance with the Pass Through Business Taxation program; meeting with Deputies and the Executive Deputy Secretary to discuss tax issues and interpreting tax laws, rules, regulations, policies and procedures for attorneys, accountants and taxpayers concerning the Pass Through Business Taxation program. She will report to Robert Coyne, Deputy Secretary for Compliance and Collections.

Ms. Leighton has her Master's Degree in Taxation from Villanova University, a Bachelor's Degree in Accounting from the University of Maryland, and is a Certified Public Accountant. Ms. Leighton was most recently a Senior Tax Manager for McKonly and Asbury, L.L.P. She has worked as a Tax Manager for two years for PricewaterhouseCoopers, L.L.P. and has also worked for five years in various accounting jobs (Tax Associate, Senior Tax Associate, and Tax Manager) for Coopers and Lybrand, L.L.P.

## UNDER CONSTRUCTION . . .

## SALES TAX E-FILING PROCESS



As you know, the PA Department of Revenue is committed to expanding the use of electronic filing and payment options for all taxes. Electronic filing is simply the most accurate and cost-effective way for the Department to administer the tax laws of the Commonwealth.

Currently, the Department is working to make it easier for Sales Tax license holders to file and pay Sales Tax by replacing its current paper-based coupon system with two *free* electronic filing options:

- Filing via the Internet (currently available through e-TIDES) or
- Using a toll-free telephone filing system (coming soon).

Both methods are fast, easy and safe ways to file Sales and Use Tax returns and make payments. Plus, taxpayers receive instant confirmation that the Department received their return.

The Department will contact Sales and Use Tax account holders to make them aware of changes coming to the filing and paying process. More information will also be on the Department's Web site [www.revenue.state.pa.us](http://www.revenue.state.pa.us) and in the *PA Tax Update* as it becomes available.

We encourage you to visit the Department's e-Services Center at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) to learn about the many **e-business services** offered by the Department and register for electronic filing.

## MORE BUSINESSES REGISTER ELECTRONICALLY

The Department of Revenue has seen a steady increase in the percentage of businesses using the online **Business Registration application** since Fiscal Year 2001-02, when tracking began. During the week of June 5, 2004, the Department set a new record for electronic business registration applications with 81 percent received electronically through the **PA Open for Business** Web site.

Overall, the number of business applications submitted electronically has increased from 38 percent in fiscal year 2001-02 to 64 percent in Fiscal Year 2003-04.

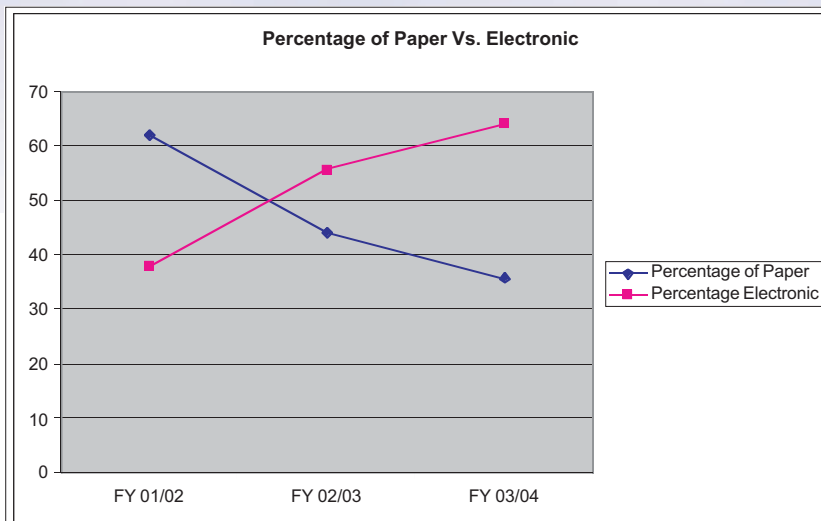
The PA Open for Business Web site allows users to register an enterprise electronically with the Commonwealth in two ways: an online interactive interview or an online version of the PA-100 Enterprise Registration Form. The Online PA-100 is an online fill-in form, and allows users to register an enterprise 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).



## 2004 FALL TAX SEMINARS SCHEDULE

| SPONSOR   | DAY       | DATE       | CONTACT   | SEMINAR LOCATION  |
|---|-----------|------------|---|---|
| <b>CPE Forum of Central PA</b><br>1321 11th Ave., Suite 1<br>P.O. Box 2210<br>Altoona, PA 16603               | Thursday  | 09-29-2004 | <b>Kelly Park</b><br>(814) 941-2486   | <b>The Casino</b><br>300 Lakemont Park Blvd.<br>Altoona, PA 16602   |
| <b>Duquesne University</b><br>School of Bus. and Admin.<br>701 Rockwell Hall<br>Pittsburgh, PA 15282-0104     | Tuesday   | 10-05-2004 | <b>Elaine Franks</b><br>(412) 396-1642  | <b>Duquesne Union Hall</b><br>Duquesne University<br>Campus<br>Pittsburgh, PA 15282-0104                          |
| <b>Albright College</b><br>1621 North 13th Street<br>Reading, PA 19604-1708                                   | Tuesday   | 10-12-2004 | <b>Alan D. Ross, CPA</b><br>(610) 372-9911<br><b>Lois Kubinak</b><br>(610) 921-7247 | <b>Albright College</b><br>Campus Center<br>Reading, PA 19603   |
| <b>Government Employees Program</b><br><i>(Government Employees Only)</i>                                     | Monday    | 10-18-2004 | <b>Richard Santo</b><br>(717) 787-8346  | <b>The State Museum of PA</b><br>Auditorium<br>Third and North Streets<br>Harrisburg, PA                          |
| <b>Wilkes University</b><br>Continuing Education Dept<br>215 South Franklin Street.<br>Wilkes-Barre, PA 18766 | Thursday  | 10-28-2004 | <b>Margaret Steele</b><br>(570) 408-4462  | <b>The Woodlands Inn and Resort</b><br>Highway 315<br>Wilkes-Barre, PA 18766                                      |
| <b>Harrisburg Area Community College</b><br>3300 Cameron Street Road<br>Harrisburg, PA 17110                  | Wednesday | 11-10-2004 | <b>David Root</b><br>(717) 780-2561   | <b>Rose Lehrman Arts Center</b><br>Harrisburg Area Community College<br>1 HACC Drive<br>Harrisburg, PA 17110-2999 |
| <b>Penn State University Ogontz Campus</b><br>Land Road<br>Abington, PA 19001                                 | Wednesday | 11-17-2004 | <b>Theresa Bloom</b><br>(215) 881-7402  | <b>Holiday Inn</b><br>432 Pennsylvania Avenue Wood<br>Fort Washington, PA 19034-3458                              |
| <b>Neumann College</b><br>Continuing Education Dept.<br>1 Neumann Drive<br>Aston, PA 19014-1298               | Thursday  | 11-18-2004 | <b>Lois Ritacco</b><br>(610) 558-5629   | <b>Neumann College</b><br>Life Conference Center<br>Aston, PA 19014-1297  |

*Pennsylvania Department of Revenue*

## 2004 FALL TAX SEMINAR AGENDA

*See page 6 for Seminar Schedule Dates*

| TIME                          | TOPIC   | PRESENTER   |
|-------------------------------|---|---|
| 8:30 - 9:30 AM                | <b>SALES AND USE TAX</b> <ul style="list-style-type: none"> <li>&gt; Taxable Purchases and Use Tax related to: Services, retail operations, construction contracts, items for personal use.</li> <li>&gt; McNeil vs. Commonwealth Impact</li> <li>&gt; Sales Tax Updates</li> </ul> | <i>Kenneth Perry, CPA, Karen Shaw (DOR)</i>   |
| 9:30 - 10:00 AM               | <b>E-COMMERCE INITIATIVES</b> <ul style="list-style-type: none"> <li>&gt; Business Tax Electronic Filing Update</li> <li>&gt; Department of Revenue Web Site Update</li> <li>&gt; Expansion of Credit Card Payment Program</li> </ul>   | <i>Tom VanKirk (DOR)</i>  |
| <i>10:00 - 10:15 AM Break</i> |   |   |
| 10:15 - 11:00 AM              | <b>INHERITANCE TAX AND ESTATE TAX</b> <ul style="list-style-type: none"> <li>&gt; Updates in the Law</li> <li>&gt; Electronic Initiatives</li> <li>&gt; Inheritance Tax Refresher</li> <li>&gt; Protest/Appeal Process</li> </ul>   | <i>Shawn E. Young (DOR)</i>   |
| 11:00 - 11:45 AM              | <b>LABOR AND INDUSTRY</b> <ul style="list-style-type: none"> <li>&gt; Unemployment Compensation Tax Matters Update</li> </ul>   | <i>John Grady, Timothy McGarvey, Jim Diffendal, Paul Bowes, Ed Peridan, (L &amp; I)</i> |
| 11:45 - NOON                  | <b>QUESTIONS AND ANSWERS</b>  |   |
| <i>Noon - 1:00 PM Lunch</i>   |   |   |
| 1:00 - 2:00 PM                | <b>PERSONAL INCOME TAX</b> <ul style="list-style-type: none"> <li>&gt; Changes for Tax year 2004</li> <li>&gt; PA/IRC Differences</li> <li>&gt; Forms and Instructions</li> <li>&gt; Common Mistakes on PA PIT Returns</li> </ul>   | <i>David Braden, CPA (DOR)</i>  |
| 2:00 - 3:00 PM                | <b>CORPORATION TAXES</b> <ul style="list-style-type: none"> <li>&gt; Limited Liability Companies</li> <li>&gt; Bonus Depreciation</li> <li>&gt; Starting and Stopping a Corporation</li> <li>&gt; Law Changes</li> </ul>  | <i>Jeffrey A. Creveling, Joseph Clover, Cathy Benson (DOR)</i>                          |
| <i>3:00- 3:15 PM Break</i>    |   |   |
| 3:15 - 4:15 PM                | <b>PASS THROUGH BUSINESS</b> <ul style="list-style-type: none"> <li>&gt; History</li> <li>&gt; Forms Changes and New Schedules</li> <li>&gt; Filing problems</li> <li>&gt; Corporate Partner Non-filer Program</li> </ul>   | <i>Mary Hubler (DOR)</i>  |
| 4:15 - 4:30 PM                | <b>QUESTIONS AND ANSWERS</b>  |   |

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