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THE TAX UPDATE IS A

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DEPARTMENT

OF REVENUE

GREGORY C. FAJT

SECRETARY OF REVENUE

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GOVERNOR



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FAST FACT:

The Department of Revenue is now accepting credit card payments for Realty Transfer Tax liabilities resulting from the issuance of a tax determination.

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

REVENUE SECRETARY ADDRESSES BUSINESS LEADERS ON STATE BUDGET AND BUSINESS TAX CUTS



The event was sponsored by the PA Careerlink-Westmoreland County, the Westmoreland County Area Labor Management Committee and the Westmoreland County Industrial Development Corporation, and was open to the public.

Revenue Secretary Gregory C. Fajt recently addressed local business leaders at the Westmoreland County Community College to highlight key components of the 2006-07 State Budget and particularly, its business tax cuts.

As previously reported, the 2006-07 budget cuts business taxes by \$297 million. The budget:

- **Accelerates Capital Stock and Franchise Tax phase-out schedule**
Reduces 2006 tax rate from 4.99 to 4.89 mills; 3.89 mills for 2007; completely phased-out by 2011, increases exclusion from \$125,000 to \$150,000.
- **Changes CNI Tax apportionment formula from 60 percent sales factor to 70 percent sales factor**
Gives businesses with more property and employees, such as manufacturers, a tax break.
- **Increases Net Operating Loss deduction from \$2 million to the greater of \$3 million or 12.5% of net income**
Primarily benefits high-tech companies and cyclical businesses like manufacturers.
- **Raises R&D Tax Credit cap from \$30 million to \$40 million**
Under Gov. Rendell, the R&D Tax Credit has increased from \$15 million (2003) to \$40 million (2006)
Last year, more than half of the taxpayers receiving the tax credit were manufacturers, claiming 63 percent of the total amount of approved credits.

BUSINESS TAX CUTS SINCE 2003: \$1.1 BILLION

\$249.4 M	...CSFT Reduction
21.0 M	...Lifting NOL Cap to \$3 Million or 12.5%
14.1 M	...CNI Tax Apportionment Changes
10.0 M	...Increasing the R&D Tax Credit
1.7 M	...Organ and Bone Marrow Tax Credit
1.1 M	...Corporation "S" Election Changes
\$297.3 M	...Business Tax Cuts in 2006-07
765.7 M	...Business Tax Cuts through 2005-06
\$ 1.1 B	...Total Business Tax Cuts Since 2003

DEPARTMENT NOW ACCEPTING CREDIT CARD PAYMENTS FOR REALTY TRANSFER TAX LIABILITIES

The Department of Revenue is now accepting credit card payments for Realty Transfer Tax liabilities resulting from the issuance of a tax determination. Individuals and businesses can pay both their delinquent state and local Realty Transfer Tax with a credit card via the Internet on the Department of Revenue's Web site at www.revenue.state.pa.us, through the Department's vendor, Official Payments Corporation at www.officialpayments.com or over the telephone at 1-800-2PAY-TAX (1-800-272-9829).

Businesses can also use the Internet or telephone to make regular and delinquent Liquid Fuels Tax and

Fuels Tax payments, Corporation Tax, Sales and Use Tax and Employer Withholding Tax payments. Individuals can use a credit card to make current year balance due, delinquent, quarterly estimated and extension payments. Credit card payments are credited to the account on the day of the transaction, so taxpayers can avoid late payment penalties.

Official Payments Corporation is the vendor responsible for processing credit card payments for the Department of Revenue. A 2.49 percent convenience fee, based on the tax due, is charged by the vendor to process the transaction. Visa, MasterCard, American Express and Discover cards are accepted.

PAY YOUR PENNSYLVANIA TAXES BY CREDIT CARD



CORRECTION

ELECTION NOT TO BE TAXED AS A PENNSYLVANIA S CORPORATION

Starting with tax years beginning on or after January 1, 2006, a corporation with a valid federal Subchapter S election is no longer required to file the Pennsylvania S Corporation Election and Shareholders' Consent form (REV-1640) in order to be a Pennsylvania S Corporation. Under Act 67 of 2006, all federal Subchapter S corporations are Pennsylvania S Corporations. Act 67 also includes a provision for federal Subchapter S corporations to make an election to **NOT** be taxed as a Pennsylvania S Corporation. To make this election, the taxpayer is required to file a completed REV-976 (Election Not to be Taxed as a Pennsylvania S Corporation) on or before the due date, or extended due date, of the report for the first period in which the election is to be in effect. Example: A federal Subchapter S Corporation that does not want to be a PA S Corporation for the tax year ending December 31, 2006, must file the REV-976 on or before April 16, 2007 (April 15 is a Sunday). If the taxpayer has a valid extension to file the RCT-101, then the REV-976 would be due on or before October 15, 2007.

IMPORTANT: This change does not effect prior years. Corporations that failed to file REV-1640 may not be granted PA S Corporation status for years beginning prior to January 1, 2006.

The REV-976 is now available on the Department's Web site under the 2005 Corporation Tax Forms.

PA Resident Shareholders of Subchapter S Corporations in Another State

Any Federal Subchapter S Corporation that does not make this election, and which is a Subchapter S Corporation in another state that has a Pennsylvania resident shareholder, will be taxed as a Pennsylvania S Corporation and is required to file PA Corporate Tax Report and PA 20S/PA 65 (PA S Corporation/Partnership Information Return.) **They are not required to file the RCT-101, as was previously reported in Tax Update #121.** In addition, each shareholder will be subject to Pennsylvania Personal Income Tax on each shareholder's pro rata share of the S Corporation income, whether distributed or not.

ACT 40 OF 2005 CHANGE TO REV-1630F, EXCEPTION 2, FOR CALCULATION OF UNDERPAYMENT OF ESTIMATED TAX BY FIDUCIARIES

Fiduciaries will use the new Form REV-1630F, Underpayment of Estimated Tax by Fiduciaries, to determine underpayment penalties and whether they meet either of the exceptions to the penalties. Effective with payments due after June 30, 2006, fiduciaries can use the annualized method to calculate the minimum estimated payment needed to avoid the estimated underpayment penalty. The following explains how the calculation for Exception 2 is to be done for the 2006 tax year.

EXCEPTION 2 WORKSHEET

Use this worksheet if your income was earned unevenly through 2006 and your 2006 estimated tax payments, tax withholdings, and credits equal at least 90 percent of the tax on your actual taxable income for the first two periods or equal at least the applicable percentage of the tax on the annualized income for the last two periods.

13. Part II, Line 13 Calculation (For Installments due before 07/01/2006, use the first two columns. For installments due after 06/30/2006, use the last two columns.)

- A. Enter your actual taxable income for period.
 - B. Annualized Amounts
 - C. Annualized income. Multiply Line A by Line B.
 - D. For the first two columns, multiply Line A by 3.07% (0.0307). For the last two columns, multiply Line C by 3.07% (0.0307).
 - E. For each period, enter the same type of credits as allowed on PA-41, Lines 12, 13, and 14. (See instructions.)
 - F. Subtract Line D from Line E. If zero or less, enter zero.
 - G. Applicable Percentage
13. **Exception 2** - For the first two columns, multiply Line D by Line G. For the last two columns, multiply Line F by Line G.

	01/01/06 03/31/06	01/01/06 05/31/06	01/01/06 07/31/06	01/01/06 11/30/06
A.				
B.			1.71429	1.09091
C.				
D.				
E.				
F.				
G.	90%	90%	67.5%	90%
13.				

If the amount on Line 11 of the REV-1630F (estimated tax payments, tax withholdings, and credits) is equal to or greater than Line 13, you do not owe a penalty for that quarter.

2006 FALL TAX SEMINARS SCHEDULE

SPONSOR	DAY	DATE	CONTACT	SEMINAR LOCATION
Alvernia College Reading, PA 19603	Wednesday	10-11-2006	Alan D. Ross, CPA (610) 372-9911	Alvernia College Reading, PA 19603
PA Department of Revenue (Limited to Government Employees)	Monday	10-16-2006	Richard Santo (717) 787-8346	The State Museum of PA Auditorium Third and North Streets Harrisburg, PA
Duquesne University School of Bus. and Admin. 701 Rockwell Hall Pittsburgh, PA 15282-0104	Thursday	10-26-2006	Pat Police (412) 396-1643	Duquesne Union Hall Duquesne University Campus Pittsburgh, PA 15282-0104
Wilkes University Continuing Education Dept. 215 South Franklin Street Wilkes-Barre, PA 18766	Thursday	11-02-2006	Margaret Petty (570) 408-4460	The Woodlands Inn and Resort Highway 315 Wilkes-Barre, PA 18766
Harrisburg Area Community College 3300 Cameron Street Road Harrisburg, PA 17110	Wednesday	11-08-2006	Non-Credit Registration Dept. (717) 780-2414	Rose Lehrman Arts Center Harrisburg Area Community College 1 HACC Drive Harrisburg, PA 17110-2999
Neumann College Continuing Education Dept. 1 Neumann Drive Aston, PA 19014-1298	Thursday	11-16-2006	Lois Ritacco (610) 558-5629	Neumann College Life Conference Center Aston, PA 19014-1297
Penn State University Ogontz Campus 1600 Wood Land Road Abington, PA 19001	Wednesday	12-06-2006	Theresa Bloom (215) 881-7402	Holiday Inn, Select 4700 Street Road Trevose, PA 19053

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2006 FALL TAX SEMINAR AGENDA

See page 4 for Seminar Schedule Dates

TIME	TOPIC	PRESENTER
8:15 - 9:30 AM	INTRODUCTION & PERSONAL INCOME TAX UPDATES <ul style="list-style-type: none"> > Update on Nonqualified Deferred Compensation and PA-40 W-2 Reconciliation Worksheet > PA Booklet and forms changes. New PA forms > Common Errors > Tax Law Changes 	<i>David Braden, CPA</i> Bureau of Individual Taxes
9:30 - 10:15 AM	PASS THROUGH BUSINESS UPDATE <ul style="list-style-type: none"> > Abusive Tax Shelters > Calculation of Partnership/Shareholder Basis 	<i>Mary Hubler</i> Pass Through Business Office
10:15 - 10:30 AM	<i>Break</i>	
10:30 - 11:00 AM	USE TAX VOLUNTARY COMPLIANCE PROGRAM AND OTHER VOLUNTARY COMPLIANCE INITIATIVES	<i>Kevin Milligan</i> Enforcement, Planning Analysis, and Discovery
11:00 - 11:45 AM	SALES AND USE TAX	<i>Jeffery S. Snavelly and Lora A. Kulick</i> Office of Chief Counsel
11:45 - NOON	QUESTIONS AND ANSWERS	
Noon - 1:00 PM	<i>Lunch</i>	
1:00 - 2:00 PM	CORPORATION TAXES UPDATES <ul style="list-style-type: none"> > Amended Reports, Corrected Reports, and Reports of Change > New Schedules for 2006 > What is required with RCT 101 > Federal/State E-file Program 	<i>Greg Skotnicki, John Naccarato, Jeffrey A. Creveling or Joseph Clover</i> Bureau of Corporation Taxes
2:00 - 3:00 PM	INHERITANCE TAX AND ESTATE TAX UPDATE <ul style="list-style-type: none"> > Updates in the Law > Electronic Initiatives > Inheritance Tax Refresher 	<i>Holly McClintock</i> Bureau of Individual Taxes
3:00- 3:15 PM	<i>Break</i>	
3:15 - 4:15 PM	UNEMPLOYMENT COMPENSATION TAX UPDATES (LABOR AND INDUSTRY)	<i>Timothy McGarvey, Jim Diffendal, Paul Bowes</i> Labor and Industry
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 for persons with disabilities .