

Tax Update

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THE TAX UPDATE IS A
BI-MONTHLY E-NEWSLETTER
PUBLISHED BY THE
PENNSYLVANIA
DEPARTMENT
OF REVENUE
TOM WOLF
SECRETARY OF REVENUE
EDWARD G. RENDELL
GOVERNOR



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FAST FACT:

Deadline to register for the 76th Annual Meeting of the Federation of Tax Administrators is May 16.

Deadline to file Property Tax/Rent Rebate applications is June 30.

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



★ FTA08 ★
PHILADELPHIA

Deadline to register for the 76th Annual Meeting of the Federation of Tax Administrators is May 16!

**Philadelphia Marriott Downtown
June 8 – 11, 2008**

Visit www.FTA08.com for conference details and registration forms.

NEW REVENUE LOGO

The Commonwealth of Pennsylvania recently began implementing a branding initiative to standardize communications across all state agencies to better serve the public. Capitalizing on the keystone shape so familiar to Pennsylvanians, agencies will adopt new logos that reflect similar standards of style.

The Department of Revenue recently committed to a long-term plan for improving its business processes and technology, so the branding initiative comes at a perfect time to put a professional face on the progress we'll make in improving Revenue operations.

In the near future, you will begin to notice a change in the look, feel and format of department communications as the new Revenue logo is phased in.

The Department of Revenue will phase in the new logo and brand standards to keep implementation costs down, over time and paying special attention to cost-effectiveness. No existing and functional materials will be discarded simply for the sake of restyling. Rather, the department will continue to use existing materials until they require updating or reprinting. Therefore, you may see use of both the old and the new logo for some time, until the commonwealth brand is completely implemented.



pennsylvania
DEPARTMENT OF REVENUE

STATEWIDE PROPERTY TAX RELIEF COMING THIS SUMMER

On May 2, the Pennsylvania Department of Education notified all school districts how much state funding each will receive to provide dollar-for-dollar property tax reductions on bills that will go out this summer.

"The average Pennsylvanian will save approximately \$190 in 2008 as we cut local taxes by \$786 million, including \$612.9 million in direct reduction to school property tax bills and wage tax relief, plus extra help for the senior citizens who need it the most," said Governor Edward G. Rendell.

It is estimated that once all 14 gaming facilities are up and running, general property tax relief to homeowners will grow to \$300 a year, on average.

To view estimates of property tax relief by school district, the number of approved homesteads and farmsteads and an estimate of property tax relief for each homeowner, visit www.PaPropertyTaxRelief.com. Each school district will determine the actual amount of property tax relief for each homestead and farmstead after it determines its 2008-2009 real estate tax rate.

The Governor indicated he is also committed to ensuring that this year's property tax cut is not swallowed up by next year's school tax hike and encouraged the General Assembly adopt his plan to invest \$2.6 billion in Pennsylvania schools over the next six years.

"The best way to take the burden off of local taxpayers is for the state to live up to its commitment to adequately fund public education," the Governor said. "The General Assembly is to be commended for taking the important step of commissioning the landmark Costing-Out Report to determine the real cost of a successful education. Now we must work together to turn that report into reality by enacting my six-year plan to provide the \$2.6 billion investment needed to implement the school funding formula. On behalf of our taxpayers as well as our students, we simply cannot afford to wait."

Two Benefits Added to Property Tax/Rent Rebate Program

Now that slots gaming has generated enough money to provide property tax relief to all Pennsylvania homeowners this summer, supplemental property tax rebates will be provided through the Property Tax/Rent Rebate Program to approximately 187,000 homeowners in high-tax areas who most need property tax relief.

Qualifying homeowners with incomes of \$30,000 or less in Pittsburgh, Scranton and Philadelphia will receive additional rebate money equal to 50 percent of their base rebates. Homeowners who make under \$30,000 in the rest of the state and pay more than 15 percent of their income on property tax bills will also receive supplemental rebate money. For example, a claimant living in one of these high-tax areas who is eligible for a \$650 rebate will receive \$975.

Supplemental rebate money is only available for homeowners, not renters, and no homeowner can receive more rebate money than was paid in property taxes.

The 2007 Property Tax/Rent Rebate form (PA-1000) does not include a line for claimants to calculate supplemental rebates. The Department of Revenue will automatically calculate the additional rebate for qualifying homeowners and include it in one payment. **Claimants should not alter the form.**

Property Tax/Rent Rebate claim forms and information are available online at www.PaPropertyTaxRelief.com and by calling, toll-free, 1-888-222-9190. Forms and assistance also are available at Department of Revenue district offices (listed in the blue pages of local telephone directories), local Area Agencies on Aging, senior centers and state legislators' offices.

Seniors are encouraged to submit applications by the June 30 deadline.

GOVERNOR RENDELL SAYS FINANCIAL ANALYSIS SHOWS NOTHING STANDS IN THE WAY OF SENATE ACTION TO HELP PENNSYLVANIA'S UNINSURED

Earlier this month, Governor Edward G. Rendell urged the Senate to immediately enact Pennsylvania Access to Basic Care (PA ABC) for the uninsured, now that an **analysis** shows the proposal is affordable and sustainable.

"The financial analysis released by the Governor's Budget Office proves that we have the funds to do two things: help hundreds of thousands of Pennsylvanians by offering them access to affordable health insurance through PA ABC; and continue to help doctors pay medical malpractice insurance," the Governor said.

The Governor's Budget Office worked with international actuarial consulting firm Mercer to estimate the likely costs of PA ABC. The budget office also examined the level of funding available to support PA ABC over the next 10 years.

PA ABC is a private-sector health insurance package that would be available to eligible small businesses and low- and moderate-income individuals. It builds upon the health insurance proposals that were part of Governor Rendell's Prescription for Pennsylvania health care reform plan.

According to an Insurance Department study, there are **767,000 uninsured adults** in Pennsylvania. PA ABC especially targets small businesses because the majority of Pennsylvania's uninsured adults have full-time jobs, and many are employed by small businesses. PA ABC enables these uninsured individuals and their employers to purchase health coverage that is comprehensive, affordable and focused on wellness and prevention rather than costly emergency treatment.

Health coverage under PA ABC will be offered through private insurance companies. To discourage employers from dropping coverage they already offer, the PA ABC bill offers \$42 million in health care grants to small employers who already offer coverage and have low-wage workers. The bill prohibits employers from participating in PA ABC if they have offered health care coverage to employees over the past six months.

Because low-income workers in small businesses have the hardest time obtaining affordable health coverage, the PA ABC bill allows

employers to participate in PA ABC if they have 50 or fewer employees and, on average, these employees earn less than 300 percent of the federal poverty level, or \$31,200 a year.

All uninsured adults in Pennsylvania – no matter their employment status or income level – will be able to buy affordable health insurance through this program at the same premium rate the commonwealth pays.

The key funding sources for PA ABC are: state funds used currently to support Pennsylvania's much more limited and more expensive adultBasic program; federal matching funds; premium payments paid by participating employers and employees and other individuals; and a portion of state cigarette tax revenues that has been earmarked to support improved access to health care for Pennsylvanians.

The Governor's Budget Office analysis found that the estimated total cost of PA ABC in the first year will be \$501 million, which would permit nearly 143,000 uninsured Pennsylvanians to obtain affordable health coverage. By the fifth year, the estimated total cost of the plan will be \$1.1 billion, and more than 272,000 individuals would be covered.

Senate Bill 1137, the House-passed legislation establishing PA ABC, requires that in addition to the other funding sources already identified, at least \$120 million in further funding is to be identified and deposited into a new account to support PA ABC. The Governor's Budget Office evaluated two possible funding sources to support this account that have been proposed by Governor Rendell to help support affordable health care for uninsured Pennsylvanians: a 10-cent-per-pack increase in the state cigarette tax and a 36-cents-per-unit tax on other tobacco products, such as cigars, cigarillos and chewing tobacco. Pennsylvania is the only state that does not tax other tobacco products. The budget office analysis finds that these two revenue sources would generate nearly \$120 million a year.

"This budget analysis is the final piece to the puzzle and, with it, I hope the Senate debates and takes action on this crucial program," said Governor Rendell. "The biggest holdup we have been hearing is, 'How are you going to fund it?' Well, this analysis answers that question. Now it's time to take action and help the people of Pennsylvania."



Pennsylvania's Children's Health Insurance Program **We Cover All Kids.**

ARE YOUR KIDS COVERED? IF NOT, CHIP CAN HELP!

Commonwealth Is at Forefront of Providing Affordable Health Insurance for Kids and Teens

Across the nation, millions of people are living without health insurance. Here at home, approximately 8 percent of Pennsylvanians – more than one million people – don't have health insurance. This may be because they are between jobs, don't have access to coverage through their employers or simply can't afford health insurance on their own. More than 130,000 of the commonwealth's uninsured are children and teens, many of whom may not be getting the routine medical care they need to stay healthy.



But there's some good news in all of this. Pennsylvania is a pioneer in providing free or affordable health care to its residents, especially for children and teens. Pennsylvania's **Children's Health Insurance Program** now covers all uninsured kids and teens (up to age 19), **and no family makes too much money for CHIP.**

Coverage includes doctor visits, dental care, eye care, prescriptions, immunizations, mental health and much more, which can offer peace of mind to parents, especially during the active spring and summer months.

CHIP's benefits are administered by private health insurance companies licensed and regulated by the Pennsylvania Insurance Department. CHIP clients get the same quality coverage they would receive as general-market customers of these companies. As of April, more than 170,000 Pennsylvania children and teens were enrolled in the CHIP program.

For many families, CHIP is free, with no co-pays or monthly premiums. Families with higher incomes may qualify for low-cost or at-cost CHIP, which includes the same comprehensive benefits. Families whose incomes fall below CHIP guidelines may be enrolled in Medical Assistance. If your family or a family you know needs CHIP, visit www.chipcoverspakids.com or call, toll-free, **1-800-986-KIDS** to apply or for more information.

RECORD NUMBER OF PENNSYLVANIANS FILED STATE INCOME TAXES ELECTRONICALLY

More than 3.2 million taxpayers, or about 55 percent of all individual taxpayers, filed 2007 state personal income tax returns electronically this year, setting an all-time record for electronic filing.

“At the beginning of April, Revenue reached a milestone by processing its 20 millionth electronic return since e-filing became available in 1996,” said Secretary of Revenue Tom Wolf, who noted that the state has received 7 percent more tax returns electronically so far this year than it did compared to the total number of electronic returns filed last year. “Each year, more and more taxpayers take advantage of electronic filing options, which are the most cost-effective and advantage-rich options for filing tax returns.”

Taxpayers who file electronically may have refunds deposited directly into bank accounts or pay balances due electronically. This tax season, more than 619,500 taxpayers chose to directly deposit refunds; more than 235,300 paid taxes using the ACH debit/credit option; and more than 24,300 paid taxes by credit card.

The department’s Web site www.revenue.state.pa.us continues to be a popular source for tax information, as more than 188 million hits were recorded this tax season. The site allows taxpayers to download forms, receive answers to most commonly asked questions through the online customer service center and file state income tax returns electronically for free.



CLICK. ZIP. FAST ROUND TRIP.



NINETY-EIGHT PERCENT OF BUSINESSES FILE RETURNS ELECTRONICALLY

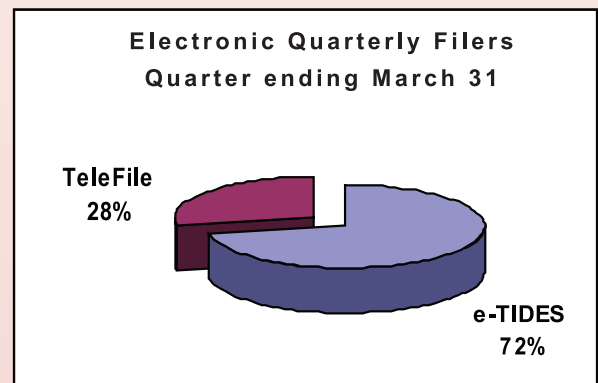
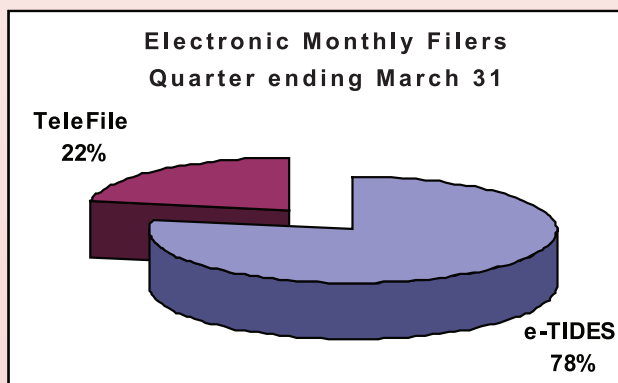
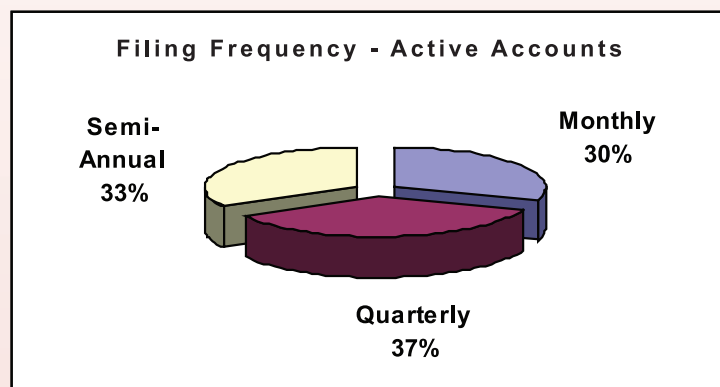
The Department of Revenue thanks the 86,000 monthly and 59,500 quarterly sales and use tax filers who filed returns and payments electronically for the quarter ending March 31.

As of March 31, about 98 percent of monthly sales and use tax returns were filed electronically. More than 67,000 taxpayers, about 78 percent, filed online using e-TIDES, and approximately 18,700, about 22 percent, filed over the phone using TeleFile.

During this same period, approximately 98 percent of quarterly taxpayers filed sales and use tax returns electronically. Of the quarterly filers, more than 42,900 taxpayers, about 72 percent, filed using e-TIDES, and approximately 16,500, about 28 percent, filed using TeleFile.

Three years into the electronic filing process, Pennsylvania businesses continue to successfully transition into the paperless filing. Among all filers, the compliance rate continues to grow as taxpayers become more comfortable with the electronic filing process and the department's filing systems.

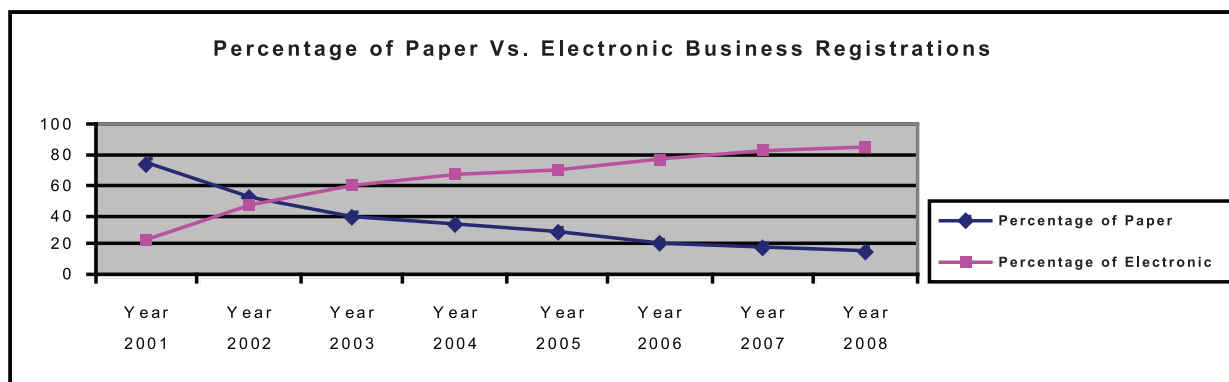
The department's e-Business Services unit is available to assist taxpayers Monday through Friday from 8 a.m. to 5 p.m. at (717) 783-6277.



ELECTRONIC BUSINESS REGISTRATIONS CONTINUE TO RISE

The Department of Revenue continues to see a steady increase in the percentage of businesses using the Internet to register their businesses. During the week ending April 18, the department received 85 percent of business registration applications electronically.

Overall, the number of business applications submitted electronically has increased from 25 percent in 2001 to 85 percent in 2008, as of May 2.



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 a fill-in form that 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 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 a 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**.

ACT 119 PETITION PROCEDURES

Act 119 of 2006 amended the Tax Reform Code to make Pennsylvania's tax system closer to the tax systems of other states. These changes include requiring the Department of Revenue to issue assessments of \$300 or more by certified mail and to include a basis for assessment with each assessment. Act 119 also replaced the settlement process for corporate taxes with an assessment process. Finally, it adopted consistent appeal procedures for the major state taxes. **These changes apply to assessments issued on or after Jan. 1.**

The department issued **Miscellaneous Tax Bulletin 2008-1** to provide guidance to taxpayers on the practices and procedures for appealing assessment before the Board of Appeals under Act 119. This Bulletin addresses the two separate procedures for tax appeals: a petition for reassessment and a petition for refund. Since these are separate procedures, taxpayers must be aware of refund rights as well as rights to contest assessments.

Once a taxpayer has filed a return, the department has three years to issue an assessment for any additional tax owed. In certain circumstances, such as fraud or a failure to file a return, the department may have a longer period of time to issue an assessment. Under Act 119, the taxpayer has 90 days from the mailing date of the assessment to file a petition for reassessment with the Board of Appeals. Act 119 eliminated the requirement to file a notice of intent to appeal for all assessments of Article II taxes. Only in the assessment process may the changes made by the department be contested in a petition for reassessment. Therefore, a notice changing an item on a return cannot be appealed until the change has a tax effect and results in the issuance of an assessment. For example, if a net operating loss is changed by the department and the change does not result in a tax effect in the current year, that change cannot be appealed. The change in the net operating loss may only be appealed in the year in which the change has a tax effect and results in an assessment. A petition for reassessment must set forth the taxpayer's reason(s) for believing the assessment is erroneous. A petition for reassessment may only challenge the changes made by the department that resulted in the assessment and may not be used to change any other item(s) on the return as filed by the taxpayer.

A petition for refund may be submitted when a taxpayer believes tax has been overpaid. Since the department will only issue assessments when additional tax is owed, the taxpayer must pay attention to the statute of limitation for refunds (generally three years from the date of payment) to ensure its petition for refund is filed in a timely manner.

If a taxpayer contests issues other than those in the basis of the assessment, the Board of Appeals, upon notification to the petitioner, will split the filing into two petitions: a petition for reassessment and a petition for refund. Each petition will be assigned a docket number; however, the Board of Appeals may opt to consider both petitions at the same hearing. A decision and order will be issued for each docket number. The Bulletin also describes how petitions for reassessment may be amended and how petitions for refunds will be considered by the Board of Appeals.

Act 119 authorizes the abatement of penalties for taxes other than sales and use tax if a taxpayer can show he/she acted in good faith, without negligence or the intent to defraud the commonwealth. Act 119 also allows consideration of a written request from the petitioner to defer a case pending the outcome of litigation that may establish a claim made in the petition.

The procedures to appeal an assessment of bank shares taxes are outlined in Section 1004.1 of the Fiscal Code. The procedures to appeal the tax imposed by Article 21 (inheritance and estate taxes) are still governed by the provisions contained in Part 11 of that Article. Appeals of the taxes imposed by Chapters 90 (liquid fuels and fuels tax), 95 (taxes for highway maintenance & construction) and 96 (motor carriers road tax) of Title 75 of the Consolidated Statutes continue to be governed by the appropriate procedures contained in Title 75.

The Bulletin takes effect immediately.

NEW DEPARTMENT ENFORCEMENT WEB PAGES

In February and March, the Department of Revenue added two new enforcement pages to its Web site.

The first Web page explains the department's **Motor Vehicle Understated Value Program**, which addresses situations where an automobile buyer or seller knowingly understates the purchase price of a vehicle in order to reduce sales tax paid on the vehicle.

Pennsylvania law allows the department to assess sales tax based on the fair market value of a vehicle when there is reason to believe the purchase price does not reflect the vehicle's true value [72 Pennsylvania Statutes § 7201(g)(3)].

The new Motor Vehicle Understated Value Program Web page is designed to answer questions purchasers, tag agents or dealers may have on vehicle transactions. It provides instructions on how to verify a purchase price or fair market value of a vehicle and discusses common problem areas such as gifted vehicles, vehicle liens and vehicle transactions between commonly owned businesses.

This Web page may be accessed through the Enforcement Spotlight section of the department's **home page** and through links for businesses and tax professionals under the category of sales, use and hotel occupancy tax.

The second new Web page details the **Business License Information Exchange Program**.

This program establishes procedures for the exchange and delivery of business and professional licensee information to the Department of Revenue by agencies responsible for the issuance and renewal of licenses, permits and registrations. This program helps ensure that, whenever possible, the commonwealth does not issue a license, permit or registration to an entity that has failed to pay state taxes.

The new Business License Information Exchange Program Web page is designed to answer questions that licensed professionals and businesses affected by this program may have. It describes program information, requirements, enforcement provisions and confidentiality requirements.

The link to this page is also found under the Enforcement Spotlight section of the department's Web site, www.revenue.state.pa.us.

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.