pennsylvania
DEPARTMENT OF REVENUE

TAX UPDATE

Tom Corbett, Governor **Daniel Meuser**, Secretary of Revenue

NUMBER 172 • FEBRUARY 2014/MARCH 2014 www.revenue.state.pa.us

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SECRETARY MEUSER: GOVERNOR CORBETT'S 2014-15 EXECUTIVE BUDGET COMMITTED TO BUILDING A STRONGER PENNSYLVANIA

Governor Tom Corbett's strategic plan for Pennsylvania aims to improve quality of life for all Pennsylvania families, and this year, Governor Corbett is focused on furthering Pennsylvania's position in the global marketplace through continued strategic investments in jobs, education, and healthcare and human services, all in order to build a stronger Pennsylvania.

Through three balanced, financially sound and on-time budgets, Governor Corbett has achieved tax reform for families and businesses, implemented cost-saving and efficiency reforms in state government, developed a sound, safe and pro-growth energy policy and made progress in meaningful education reform. Additionally, Governor Corbett's leadership paved the way for improvements to our transportation infrastructure, as new revenues now allow us to address our roads and bridges in desperate need of repair.

To facilitate a private sector where every business large and small can grow and hire, Governor Corbett's JOBS1st agenda continues his commitment to creating family-sustaining jobs and establishing Pennsylvania as a leader in the manufacturing, energy, life sciences and technology industries. Targeted investments in job training – to make our workforce even better and to sharpen our state's competitive edge – combined with a policy against tax increases will result in long-term gains for job-seekers, employers and Pennsylvania as a whole.

Governor Corbett's $29.4 billion budget keeps spending in line with available revenue, does not raise taxes and is focused on reforms that will generate new revenue through economic growth and tax fairness, rather than place additional burden on the businesses and families of the commonwealth. By

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FAST FACT:

Payments of $1,000 or more for taxes other than personal income tax must now be made electronically.

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phasing out the capital stock/foreign franchise tax, increasing the net operating loss deduction for corporate net income tax, implementing a $5,000 start-up business deduction, adopting market sourcing for services and eliminating the inheritance tax for family farmers and small, family-owned businesses (all of which are detailed later in this edition), we're making Pennsylvania a more attractive environment for companies to build and grow their businesses.

Energy equals jobs, and our state has become the nation's second-largest producer of natural gas, in large part due to Governor Corbett's economically attractive and environmentally sound energy policies. The natural gas industry has paid more than $1 billion in state business taxes, $400 million in local impact fees and billions of dollars in royalties to tens of thousands of Pennsylvania landowners since Governor Corbett took office. The Marcellus Shale offers our region and our country a chance at energy independence and greater economic security, and by refusing to unfairly over-tax a budding industry, Governor Corbett has attracted new family-sustaining jobs and unique educational opportunities for our residents.

Regarding education, this year's budget invests the highest level of state tax dollars ever – a record $12.01 billion – in funding for students in Pennsylvania's early, basic and post-secondary education systems. This is an increase of $387 million over last year's budget and illustrates Governor Corbett's commitment to providing greater support for students, educators and schools. Increased accountability and improved transparency are backed by historic investments to ensure our students receive the quality education they deserve.

To ensure our children not only have access to great educational resources but also good doctors and medical treatment, last September Governor Corbett introduced his Healthy Pennsylvania plan to increase access to quality, affordable health care for all Pennsylvanians and deliver on his promise to preserve the safety net for individuals who need it most. The 2014-15 budget balances the need to make our healthcare system sustainable and the need for better access to and delivery of health care. Ultimately, *Healthy Pennsylvania* will put high-quality, private and public health insurance within reach of all Pennsylvanians, regardless of their means.

These reforms focus on strategic investment and prudent fiscal management to address the core funding needs of the commonwealth and the three priorities common among Pennsylvania families: a quality education for our children, jobs for ourselves today and our children tomorrow and a human services system that provides coverage and choices for everyone.

This is our Governor's plan for a stronger Pennsylvania.

Dan Meuser
Secretary of Revenue

TAX PROFESSIONAL E-SERVICES CENTER

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

Visit the department's **Online Customer Service Center** or call 717-787-1392.

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DEPARTMENT OF REVENUE: TAX ADMINISTRATION AND ADVOCACY

The Department of Revenue's mission is to fairly, efficiently and accurately administer the tax laws and other revenue programs of the commonwealth in order to fund necessary government services. Through fair and equitable tax collection and the sale of Lottery tickets, the Revenue Department provides about $33 billion each year to be spent from the General Fund, Motor License Fund, Gaming Fund and Lottery Fund.

Governor Corbett pledged not to raise taxes, instead focusing on tax reforms that will generate new revenue through economic growth and tax fairness rather than additional burden on the businesses and families of the commonwealth. By working now to make Pennsylvania a more attractive place for companies to build and grow their businesses, tax reform will grow jobs, personal incomes, state gross domestic product and tax revenues in the long-run.

Highlights of tax administration accomplishments and legislative priorities include:

Business Tax Reform

- **Eliminating the capital stock/foreign franchise tax** in 2016 puts an end to Pennsylvania's role as one of a minority of states in the nation to tax both business income and business assets. By continuing the phase-out of the CSFT, Governor Corbett will finally eliminate a long-standing job inhibitor.
- **Eliminating the inheritance tax for family farmers and small, family-owned businesses** means Pennsylvania farmers and entrepreneurs can now pass their farms and small family businesses on to heirs without worrying they will have to pay steep "death taxes" to keep them in the family.
- Also a benefit for small businesses, the **start-up business deduction** allows new businesses to 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.
- By **moving to a 100 percent single sales factor**, Pennsylvania now has a corporate tax structure that encourages businesses to locate within the commonwealth because their tax burden is not increased by having employees or property in Pennsylvania.
- The adoption of **market sourcing for services** 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.
- **Raising the cap on net operating loss deductions** for corporate net income tax – from $3 million or 20 percent of income to $5 million or 30 percent of income – will attract technology, bioscience and research companies, as well as large manufacturers to Pennsylvania.
- **100 percent bonus depreciation** is a business-friendly interpretation of tax law benefitting more than 100,000 corporate taxpayers, allowing for greater capital investment and encouraging further economic growth. The initiative is revenue-neutral in the long-run, but lowered tax burdens in the short-term for the business sector and signaled that Pennsylvania is serious about supporting its job creators.
- In **repealing the corporate loans tax**, Governor Corbett ended 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.
- In the interest of fair and equitable tax administration, the **expense deductions add-back provision** signed into law in 2013 ensures corporations doing business in Pennsylvania pay their fair share in corporate taxes. This law is a fair and responsible approach to addressing a corporate tax loophole, as evidenced by its bipartisan support.
- Preserving, enhancing and creating **tax credits** to incentivize business investment and growth is a priority for Governor Corbett, who increased and made permanent the Research & Development Tax Credit and developed a one-of-a-kind Pennsylvania Resource Management Tax Credit to inspire the petrochemical industry to establish itself and grow in Pennsylvania. The PRM tax credit encourages creation of an ethane cracker facility in Beaver County that would create 10,000 construction jobs and more than 10,000 positions in spinoff production and manufacturing industries across Pennsylvania.

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E-Commerce Sales/Use Tax Fairness

- By clarifying existing sales tax law and educating e-commerce retailers about their sales tax obligations, the department achieved substantial compliance from remote sellers with Pennsylvania nexus that became licensed and began collecting sales tax. It's simply a matter of fairness under the existing law, and it's essential that both e-commerce retailers with nexus and brick-and-mortar stores in Pennsylvania, many of which are small businesses employing thousands of Pennsylvanians with retail jobs, are treated equally.
- Individuals were also educated about use tax and provided a simple, annual use tax reporting and payment option with the PA-40 personal income tax return.

Appeals Reform

- Following administrative improvements to the tax appeals process that streamlined operations and improved taxpayer service in 2011 – including the ability of the Board of Appeals to accept and negotiate compromises – the department achieved legislative appeals reform in 2012 that capitalized on national best practices to implement taxpayer-friendly changes designed to reduce issues that result in appeals and make the appeals process more fair for taxpayers.
- Peter Calcara, Vice President of Government Relations for the Pennsylvania Institute of Certified Public Accountants, called Act 52 of 2013, which restructured the Board of Finance and Revenue, "the most significant reforms in Pennsylvania's tax administration process in more than 20 years." The reforms replace the current six part-time members of the board with three full-time, independent tax professionals in order to better address tax appeals functions independently and impartially.

Enhanced Enforcement

- The **Enhanced Revenue Collections Account** has proven extremely successful, as these dollars dedicated to enhanced enforcement efforts, additional audits and more scrutinized evaluation of tax refund requests is providing ten-fold returns on investment.
- The 2012 authority for **Administrative Bank Attachment** now allows the department to freeze, then access the bank accounts of businesses and the individuals responsible for them, to satisfy tax delinquencies that can't be addressed through wage garnishment. This tool will be effective in recovering stolen trust fund taxes – like sales tax collected from customers and employer withholding collected from employees – not remitted to the state by businesses.
- The ability to enter into **performance-based procurements** now allows the department to enter into contracts that pay based upon contractor performance. Pennsylvania now joins the majority of states that have such contingent-fee procurement options, which allow Revenue agencies to minimize investment risk and pay a percentage of tax collections based upon benefits realized by the state.

Integrated Tax System

The ITS is being designed to provide an IT infrastructure that will better support and facilitate enhanced revenue collection, improved customer service, increased efficiencies and more equitable tax administration. The ITS will eliminate the risk of system failure, replace information silos with a holistic view of taxpayers and facilitate improved tax collection. An integrated tax system will also allow the Department of Revenue to reduce administrative costs, respond quickly to changes in tax laws, better enforce tax laws and improve overall taxpayer service. Enhanced accessibility, streamlined and simplified processes and improved communication with stakeholders will allow the Department of Revenue to provide superior customer service and facilitate the revitalization of PA's economy. The department achieved a milestone in this project in March 2013, with the deployment of the corporation taxes into ITS.

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REMINDER: ELECTRONIC FUNDS TRANSFER (EFT) THRESHOLD LOWERED TO $1,000

Act 71 of 2013 lowered the electronic funds transfer (EFT) threshold from $10,000 to $1,000 for taxes other than personal income tax. Beginning Jan. 1, 2014, payments of $1,000 or more of any of the following taxes must be made electronically.

- Sales/ Use Tax
- Employer Withholding
- Liquid Fuels Tax
- Fuel Use Tax
- Mutual Thrift Institutions Tax
- Oil Company Franchise Tax
- Malt Beverage Tax
- Motor Carrier Road Tax
- Corporate Net Income Tax
- Capital Stock/Foreign Franchise Tax
- Bank Shares Tax
- Title Insurance and Trust Company Shares Tax
- Insurance Premiums Tax
- Public Utility Realty Tax
- Gross Receipts Tax

Taxpayers subject to the electronic payment requirement must remit the payments by automated clearing house (ACH) debit, ACH credit or credit card.

All payments of these taxes of $1,000 or more must be made by an approved EFT method, and taxpayers of other payments – regardless of tax type or amount – are encouraged to voluntarily remit payments via EFT.

Businesses making EFT payments should register to file and remit online through e-TIDES. Taxpayers not currently registered for e-TIDES are encouraged to visit www.etides.state.pa.us for additional information.

Failure to comply with the EFT requirement may result in assessment of penalty of 3 percent on each payment (up to $500) required to be made by EFT but not made by ACH credit, ACH debit or credit card.

2014-2015 General Fund Revenues

Estimated versus Actual Revenue Collections (in millions)

Fiscal year-to-date collections through February total $16.3 billion, which is $75.5 million, or 0.5 percent, below estimate.