

## OVERVIEW OF GOVERNOR RENDELL'S 2004-05 PROPOSED BUDGET



Governor Edward G. Rendell's 2004-05 budget proposal contains no new taxes. The \$22.3 billion budget will grow 4 percent over the 2003-04 spending plan, slower than the average for the past 10 years. It is a visionary program that will boost Pennsylvania's economic competitiveness and dramatically improve the Commonwealth's quality of life by continuing last year's fiscal prudence and expanding successful programs.

Last year, the Governor's Plan for a New Pennsylvania dramatically cut spending, substantially reduced the structural deficit and, in an effort to meet federal No Child Left Behind standards, enacted the largest and most comprehensive new education initiative in recent history.

Negotiations in December resulted in a commitment between legislative leaders and the Governor to complete work on substantial property-tax relief for millions of Pennsylvania taxpayers and on far-reaching economic-stimulus legislation that will jump start the Pennsylvania economy.

Other key funding initiatives include:

- Increasing operating assistance for mass transit by 3.4%, the largest increase since 1995.
- Offering Pennsylvania's manufacturers additional support through the Machinery Equipment Loan Fund and Industrial Resource Centers to promote efficiencies and innovation.
- Increasing funding for most social service programs, enabling Pennsylvania to maintain services and handle increased caseloads for Pennsylvanians in need. The budget also increases funding for key safety net programs including medical assistance, child care for working families, community mental retardation, community mental health services to persons with disabilities, early intervention and attendant care.
- Funding increases for community colleges, state colleges and universities and libraries.

The Governor also proposed improvements to the Commonwealth's tax structure, including:

- Continuing the phase-out of the capital stock and franchise tax, reducing the tax by about 3%.
- Expanding tax credits for research and development.
- Funding two one-week "sales tax holidays" for highly efficient household appliances.
- Providing a Historic Preservation Tax Credit program.

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### PENNSYLVANIA'S TAX BACK/TAX FORGIVENESS PROGRAM

Many Pennsylvania taxpayers qualify for the state's Tax Back/Tax Forgiveness program. To qualify, taxpayers must file a PA Personal income Tax return, and include a PA Schedule SP.

The amount of Tax Back/Tax Forgiveness is based on marital status, eligibility income and the number of dependent children. Following are examples of taxpayers eligible to receive 100 percent Tax Back/Tax Forgiveness: a single taxpayer with eligibility income of \$6,500; a married couple with an eligibility income of \$13,000; a single parent with one child and an eligibility income of \$15,500; or a couple with two children and an eligibility income of \$31,000. Eligibility income levels increase by \$9,000 for each additional dependent child. Retired persons and individuals that have low income and did not have PA tax withheld can have their PA tax liabilities forgiven as well.

Governor Rendell's 2003-04 Budget (Act #46 of 2003) increased the dependent allowance from \$9,000 to \$9,500 for each dependent child beginning January 1, 2004. In tax year 2004, a family of four with eligibility income of \$32,000 can receive 100% tax back.

Line-by-line instructions for PA Schedule SP are available on the Department's Web site at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) and toll-free FACT and Information Line at 1-888-PATAXES (728-2937).

### Fast Fact:

Over 90%  
of people  
who use our  
Online  
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answers they  
are looking for.

THE TAX UPDATE IS A

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**OVERVIEW OF GOVERNOR RENDELL'S 2004-05 PROPOSED BUDGET**

- Providing tax credits up to \$25 million annually to businesses in targeted industry segments operating in Keystone Innovation Zones.

"We must address the inequities in our business-tax system. A more competitive tax structure for business is essential for sustained economic growth," said Governor Rendell. "Currently, too many businesses pay little or no business tax while others endure high tax burdens that hurt Pennsylvania's competitiveness. I will therefore create a blue ribbon commission this year to assess our business tax system and propose improvements."

The budget continues last year's 10% reduction in administrative spending. In addition, new savings are factored in

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for next year. The budget also funds debt associated with the Governor's proposed Growing Greener II Program, with expanded fees on pollution and waste. As a result, this new program will not require support from other General Fund sources this year or into the future.

As the Governor stated, "During the past 12 months, this ship has begun to turn. Our course corrections are putting us on the path to growth and prosperity. We must be bold in these times, making smart decisions to expand investment, building a state that young workers and business leaders will want to call home."

For more detailed budget information, visit [www.governor.state.pa.us](http://www.governor.state.pa.us).

## **TREATMENT OF IRC § 179 EXPENSE FOR PENNSYLVANIA CORPORATION NET INCOME TAX**

The Bureau of Corporation Taxes recently clarified the Department's position of IRC Sec 179 Expense as it relates to the calculation of PA Corporate Net Income.

Under Section 401 (3) of the Tax Reform code of 1971, PA Corporate Taxable Income begins with Federal Taxable Income as reported to the Federal Government on a separate company basis or as it would have been reported to the Federal Government had the taxpayer been required to file a separate company Federal return (72 P.S. § 7401(3)). This amount is then adjusted for specific items listed in the statute.

Currently, there is no adjustment to Corporate Net Income for Section 179 Expense listed in the statutes. Corporate

taxpayers are allowed the same Section 179 expense deduction in the calculation of PA Corporate Net Income as allowed in the calculation of Federal Taxable Income.

As a reminder, this applies only to entities subject to the Pennsylvania Corporate Net Income Tax. Income of PA S Corporations is passed through to individual shareholders and is included as part of Personal Taxable Income. Since Personal Taxable Income is calculated under the provisions of Article III of the Tax Reform Code, the Section 179 Expense used in the calculation of PA S Corporation Earnings to be passed through to individual shareholders is limited under Sec 303 of the Tax Reform Code.

## **REQUIREMENTS TO BE TREATED AS A PENNSYLVANIA S CORPORATION**

Section 307 of the Tax Reform Code of 1971, 72 P.S. § 7307 permits small corporations that are subject to the Corporate Net Income Tax (CNI) or that own a qualified S Corporation subsidiary that is subject to CNI, the option to elect to be taxed as a Pennsylvania S Corporation.

The statute and regulations promulgated by the Department in the Pennsylvania Code at 61 Pa. Code § 9.13 contain requirements that must be met in order to be treated as an S Corporation.

An election is only valid if all shareholders of the corporation consent the day the election is made. In addition, an election must be made within 75 days of incorporation, by the end of the taxable year previous to the taxable year in which it is claimed or by the 15th day of the third month of the tax year in which it is claimed. An election is made by filing Form REV 1640 (PA S Elec-

tion) along with a copy of the corporation's Federal Notice of Approval. A statement indicating that the Federal election is pending can be submitted as well, but needs to be followed by the approval within 30 days of receipt. The election must be sent by certified mail in order to ensure proof of delivery.

This is a summary of the applicable law. Reference should be made to the Tax Reform Code for a more detailed explanation. Taxpayers are cautioned that there is no legal authority for the Department to deviate from the mandates of these requirements, including the requirement that the election be made in a timely manner. Taxpayers who claim S status where the Department of Revenue shows no S election was received will be denied treatment as an S Corporation unless a United States Postal Service Certificate of Mailing shows timely filing.

## **CORPORATION TAX REPORTS NOW AVAILABLE ON REVENUE WEB SITE**

The 2003 Corporation Tax report, RCT-101, RCT-101-X 2003 Amended Report and RCT-101-I 2003 Inactive Report are now available on the Internet as fill-in forms. Fill-in forms are convenient and reduce processing errors, which may delay settlement of the report. Complete the RCT-101s online, print them out, and mail to:

PA Department of Revenue, Bureau of Corporation Taxes, Dept. 280427, Harrisburg, PA 17128-0427.



## ATTENTION SUBSCRIBERS: PA TAX UPDATE IS GOING ELECTRONIC

In keeping with Governor Rendell's goal to reduce administrative costs in state government, the Department of Revenue will no longer print and mail the PA Tax Update. Beginning with the July 2004 edition, the PA Tax Update will only be distributed electronically. **To continue receiving the PA Tax Update, you must sign-up to receive e-Alerts.**

Going to an electronic format will not only save money, it will allow us to improve the quality of our newsletter. One of the most noticeable changes will be to the format. Articles will include direct links to Web sites and other important information. The frequency of distribution could increase, as the electronic format will allow us to distribute information quickly.

### STEP-BY-STEP INSTRUCTIONS TO BEGIN RECEIVING THE PA TAX UPDATE ELECTRONICALLY:

1. Go to the Department's Web site at **www.revenue.state.pa.us**
2. Click on the **Subscribe Now** link under e-Alerts (lower left side of the home page)
3. Fill out the registration information
4. Click **Submit**
5. Select **PA Tax Update** plus any other e-alerts you would like to receive
6. Click **Subscribe**

You will receive an e-mail notification when the PA Tax Update is posted to the Web site.

If you have previously registered on the Department's Web site and have a User ID and Password (not e-Signature), but are not receiving the PA Tax Update electronically: login, select **Subscribe Now** and select the **PA Tax Update** as an e-alert.

Thank you for your cooperation as we move to an electronic format. We look forward to providing you with a new and improved PA Tax Update.

### SELF-HELP CUSTOMER SERVICE SYSTEM PROVIDES 24-HOUR SERVICE

Do you have tax questions? During tax season, the Taxpayer Service and Information Center telephone lines are often busy. You may find the answer you need on the Department of Revenue's Online Customer Service Center. The online center provides answers to about 1,000 commonly asked questions, and it's available 24 hours a day. More than 90 percent of the people who use our searchable knowledge base find the answers they are looking for.

To use the online search, visit the Department's Web site at **www.revenue.state.pa.us** and click the link **Got Questions?** near the bottom of the page.

You have four menu options:

- **Find Answers** – Search the knowledge base of tax information using menus or keywords, or type a question in the text box. For a more detailed search, you can combine the two. Choose the tax category you are interested in. If your question is among the Hot Topics of the Day, scroll down and click on the question.
- **Submit a Question** – Submit a specific question by e-mail. A representative will personally answer your question within four business days. The first time you submit an e-mail question, you will be asked to create a personal account that is password protected. Only you can access the information.

- **My Profile** – Keeps a log of your questions and answers submitted to the Department. It allows you to review the status of a specific question, update your question or change your personal profile. Since your profile is password protected, your personal information cannot be viewed by anyone outside the Department of Revenue.
- **Provide Feedback** – Designed to handle comments, suggestions and complaints about the operation of the site. We are open to suggestions to make this system work for our users. Feedback is monitored and answered if you leave an e-mail address.

The Online Customer Service Center is one of the many resources on the Department's Web site. You can download forms and access the PA Personal Income Tax Guide, which provides detailed explanations of complex issues and questions that arise when completing Personal Income Tax returns. To locate a topic, select the chapter you want to review then use the search within that chapter. If you do not know the chapter, select the entire guide and then do your search.

The e-Services Center is where you can file tax returns using **pa.direct.file**, make payments, including estimated payments with a credit card, check the status of a return or refund, update information and file an appeal.

Tax Update

**FAST FILE – QUICK, EASY, PAPERLESS**

Filing electronically is safe because the Department protects all information with the latest security safeguards. It is easy because the system performs the math calculations. Plus, taxpayers get instant confirmation upon receipt of the return. It is faster because the Department processes electronic refunds quicker and the refund can be deposited directly into a checking or savings account. Direct deposit is not available for paper filed returns. If tax is due, taxpayers have the option of filing early and paying later. The payment can be deducted electronically from a checking or savings account on a specific date, up to the April 15 deadline.

Electronic filing is the most cost-effective method of filing a tax return. Last tax season, about two million taxpayers used an electronic service to file their return, a 34 percent increase over the previous year.

Taxpayers can visit the Department of Revenue's new e-Services Center at **www.revenue.state.pa.us** to file

returns using **pa.direct.file**; make payments including estimated payments; check the status of a return or refund; update information; pay any tax due by credit card and access the Online Customer Service Center.

**The Department encourages all practitioners to register as an Electronic Return Originator (ERO).** EROs who previously registered with the Department will not have to reregister. All new EROs planning to file Pennsylvania electronic returns for the first time must register by sending the Department a copy of the IRS approval letter showing acceptance into the IRS's e-file program. This is a one-time registration. Fax the letter to the Electronic Filing Help Desk at (717) 772-4193 or (717) 787-2840 or mail to:

PA Department of Revenue  
Bureau of Individual Taxes  
Dept. 280507  
Harrisburg, PA 17128-0507

**CREDIT CARD PAYMENTS**

The Department of Revenue is once again offering taxpayers the convenience of paying their Personal Income Tax by credit card. Estimated payment extension and delinquent payments are also accepted. Credit card payments can be made over the Internet at **www.officialpayments.com** or by telephone at 1-800-2PAYTAX (272-9829).

Official Payments Corporation charges a convenience fee of 2.5 percent of the tax amount due, or a \$1.00 minimum charge for processing the transaction. Master Card, Visa, Discover and American Express cards are accepted. Taxpayers continue to have the option of making their payments by electronic funds withdrawal or check.

**Cards**