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**GOVERNOR CORBETT'S BUDGET FOCUSES ON FISCAL RESTRAINT, FREE ENTERPRISE**

On Feb. 7, Governor Tom Corbett presented his 2012-13 budget to the General Assembly, asking legislators to continue the path of fiscal restraint and to encourage free enterprise for a more prosperous Pennsylvania.

The \$27.14 billion proposal maintains Corbett's commitment to balance the state budget. The budget closes a projected revenue shortfall of more than \$700 million and reduces spending by more than \$20 million. It meets the state's pension obligations and does not raise taxes for residents or businesses.

"Every dollar taken in tax is one less dollar in the hands of a job-holder or a job creator," Corbett said. "We will not spend more than we have to. We will not raise taxes. We can't ask people to travel the road to recovery and then turn around and add the burden they must carry along the way."

The proposed budget focuses on five key areas: economic opportunities, education, human services, public safety and streamlining government.

**Economic Opportunities**

"Business creates jobs where it feels welcome. Citizens live best when they are employed and don't live in the constant fear that what they earn will be taxed away," Corbett said.

Some initiatives include:

- Continuing the phase-out of the capital stock/foreign franchise tax, which impacts the competitiveness of virtually every company in the state.
- Maintaining tax credit programs such as the Research and Development Tax Credit, Job Creation Tax Credit, Film Production Tax Credit and Neighborhood Assistance Tax Credit.

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**FAST FACT:**

*The Governor's 2012-13 budget continues the phase out of the capital stock/foreign franchise tax, saving more than 100,000 businesses \$390.7 million over fiscal years 2011-12 and 2012-13.*

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- Continuing the work on the Delaware River channel, which encourages business growth to the Port of Philadelphia and surrounding areas of the southeast.
- Encouraging energy-producing businesses that will generate jobs. As a side benefit, the state's abundant supply of natural gas reduces home-heating costs for Pennsylvanians who use the clean fuel.
- Creating programs that will support employers and workers, such as JOBSFirst PA, which invests in small and large businesses, offering initiatives to cultivate and create new industries and jobs.
- Providing employer-driven, on-the-job training opportunities for unemployed workers through a program called Keystone Works.

"Pennsylvania competes with every state in the union for factories, offices and corporate headquarters," Corbett said. "The shorter we make the journey from the drawing board to the ribbon cutting, the better our chances of growing jobs."

## Education

The proposed budget provides a slight increase to funding Basic Education through consolidation of several programs. The result is to give spending discretion back to the local school districts.

Other initiatives include:

- Funding for student, teacher and administrator assessments and evaluations that will ultimately result in better schools. This new accountability system includes public school districts, career and technical centers, charter schools and cyber charter schools.
- Increasing funds to improve data collection, so that state money will be correctly sent to the school based on current enrollment and actual student attendance.
- Reducing funding for Pre-K Counts program, through administrative savings and program modifications. The reductions do not impact the number of children served. Funding is increased for Early Intervention programs to \$206.2 million.
- Providing more than \$50 million for libraries across the state.

Additionally, Corbett has created an advisory panel on higher education to evaluate the system in Pennsylvania. It will make recommendations on what is needed or not needed, and how Pennsylvania universities can best serve the students and the citizens.

## Police and Public Safety

This budget includes:

- Funding for a new Pennsylvania State Police cadet class of 115 troopers and to maintain civilian support staff.
- Level funding for Department of Corrections for the first time in more than a decade. Corrections will implement numerous cost containment programs, including better overtime management and a partial hiring freeze.
- Funding to the state Fire Commissioner to expand training activities for volunteer fire companies.
- Homeland security operations have been integrated into the Pennsylvania State Police, consolidating intelligence and law enforcement technology.
- Increased funding for PA Board of Probation and Parole personnel, which supports the transition from incarceration to community, while still protecting the public.

## Health, Welfare and Human Services

The budget is built to transform the public welfare system, to streamline it into a performance-and accountability-based operation that will provide a safety net for those who truly need it.

By merging several separate budget lines into one block grant, the state will give counties the flexibility they need to identify their most pressing needs and apply funds as they know best.

This includes:

- An increase of 4.4 percent, or \$101.6 million, to the Children's Health Insurance Program, providing health insurance to nearly 200,000 children.
- Using increased federal funds to support young adults, aged 18 to 21, in foster care, and implementing a \$1.7 million program to protect physically and cognitively impaired adults.
- Saving \$149 million by eliminating cash assistance benefits and saving \$170.3 million by revising eligibility criteria for medical assistance benefits. Changes include minimum work requirements and tightened definitions of medical conditions.
- Saving \$168.4 million by consolidating multiple human services programs into a single block grant, giving counties the flexibility to move funds where they are needed most.
- Implementing a system to identify waste, fraud and abuse in high-cost cases, saving \$50 million.

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For older Pennsylvanians, the budget includes \$4.7 billion for home and community-based services as well as nursing home care; \$244.8 million for pharmaceutical assistance; \$286.1 million for the Property Tax/Rent Rebate program, \$81 million for transportation programs and \$2.1 million for fresh food coupons.

### Streamlining Government

"Reform means understanding this simple truth: when you don't have enough to spend, you spend less," Corbett said. "These tough decisions will lay the groundwork for the prosperity of tomorrow. We cannot allow the debts of today to crowd out the dreams of tomorrow. If we don't act to reconfigure government and revamp how it provides services, we will find ourselves trapped in this same box every year."

That means:

- Public improvement projects for state-owned buildings and facilities will be reduced by 50 percent,

to slightly under \$200 million. Spending can be prioritized to where it's most needed and to projects that will have the greatest impact on Pennsylvania's economy.

- The Department of Community and Economic Development will be combining data and information relating to local property taxes and municipal pensions.
- In the area of criminal justice, the Department of Corrections, Probation and Parole, Pennsylvania State Police and the PA Commission on Crime and Delinquency are combining resources in research.
- The budget continues efforts begun last year to streamline government through merging, consolidating and realigning a number of programs and agencies.
- Revenue, which in the past went into specific projects, will now be redirected to fund other programs.

## DEPARTMENT PURSUES FURTHER TAX APPEALS REFORM

Following administrative improvements to the tax appeals process that streamlined operations and improved taxpayer service in 2011, the department is pursuing a legislative package to further reform the tax appeals process.

Such changes capitalize on national best practices and are expected to improve the department's ranking in multi-state reviews of tax appeals processes.

The department is seeking the following taxpayer-friendly changes designed to reduce issues that result in appeals and make the appeals process more fair for taxpayers:

- Accept refund petitions after assessment up to the latter of six months after audit or three years from payment.

- Extend the time period for filing a federal report of the change with the department from 30 to 180 days, so that companies audited by the IRS have sufficient time to accurately update state filings.
- Automatically grant a state extension of time to file a corporate return when a federal extension is granted, eliminating taxpayer confusion and extraneous department processing.
- Allow taxpayers to contest changes that do not affect tax in the current year but may change tax liabilities in future years, so that taxpayers have the opportunity to address issues through appeals up front, rather than waiting years until the tax impact is realized.

## 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.

## SMALL GAMES OF CHANCE ACT AMENDED

On Feb. 2, Governor Tom Corbett signed into law Act 2 amending the Local Option Small Games of Chance Act to create new definitions, increase prize limits, provide additional licensing rules and regulations for organizations and amend enforcement provisions.

Effective March 3, 2012:

- The individual prize limit increases from \$500 to \$1,000, and the maximum amount of prizes that may be awarded during an operating week increases from \$5,000 to \$25,000.
- Club licensees are permitted to use up to 30 percent of proceeds (the difference between gross revenue collected from a games of chance and prizes paid) from small games of chance for operational expenses. No less than 70 percent of proceeds must be used for public interest purposes in the calendar year in which the proceeds were obtained.
- Each license application must include the results of a criminal history record information check, obtained by from the Pennsylvania State Police, on the executive officer and secretary of the eligible organization making the application.

The amendments to the Small Games of Chance Act made no changes regarding entities eligible for Small Games of Chance licenses.

The Department of Revenue has updated its Small Games of Chance Overview, available online at [www.revenue.state.pa.us/SGOC](http://www.revenue.state.pa.us/SGOC), to reflect many of the changes to the law.

Beginning Feb. 1, 2013, eligible organizations must electronically file annual reports with the department for the preceding calendar year, and club licensees – those organizations with liquor licenses that hold licenses to conduct small games of chance – are required to electronically file semi-annual reports with the department.

Additional reporting information will be posted online as it becomes available, and the department anticipates its electronic reporting system will be accessible online sufficiently in advance of the Feb. 1, 2013, filing deadline. For additional information, please visit [www.revenue.state.pa.us/SGOC](http://www.revenue.state.pa.us/SGOC).

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## PROPERTY TAX/RENT REBATE PROGRAM APPLICATIONS NOW AVAILABLE

Application forms for the Department of Revenue's Property Tax/Rent Rebate Program are now available for eligible residents to begin claiming rebates on property taxes or rent paid in 2011.

The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The income limit is \$35,000 a year for homeowners and \$15,000 annually for renters, and half of Social Security income is excluded.

The maximum standard rebate is \$650, but supplemental rebates for qualifying homeowners can boost rebates to \$975.

Each resident who received a rebate last year should have received in February either a 2011 application form or a letter from the department, if last year's claim was prepared using computer software rather than the PA-1000 booklet, reminding the resident to apply for a 2011 rebate.

Application forms and assistance are available at no cost from Department of Revenue district offices, local Area Agencies on Aging, senior centers and state legislators'

offices. Applications are also available online at [www.revenue.state.pa.us](http://www.revenue.state.pa.us) or by calling 1-888-222-9190.

Older adults must reapply for rebates every year because rebates are based on property taxes or rent paid each year and annual income.

The deadline to apply for a rebate on property taxes or rent paid in 2011 is June 30, 2012. Rebates will be distributed beginning on July 1, as specified by law.

More than \$283.5 million in property tax and rent rebates have been sent to more than 602,000 homeowners and renters across the state for taxes and rent paid in 2010.

The department wants all eligible Pennsylvanians to apply for and receive rebates through this program, but it cautions that fraudulent or falsified rebate claims will result in denial of rebate.

The Property Tax/Rent Rebate Program is one of five programs supported by the Pennsylvania Lottery. Since the program's 1971 inception, older adults and adults with disabilities have received \$4.8 billion in property tax and rent rebates. Revenue from slots gaming also funds the Property Tax/Rent Rebate program.

## PAPER FILING OPTION AVAILABLE FOR PREPARERS WHOSE SOFTWARE WON'T E-FILE LLC RCT-101 REPORTS

It has come to the attention of the Pennsylvania Department of Revenue that third-party preparers using certain software packages are unable to electronically file the PA Corporate Tax Report (RCT-101) for a single-member limited liability company whose income is reported on the personal income tax return of a member.

Any preparer experiencing this problem must file a signed paper original of the report along with all required

schedules. If a preparer is required to electronically file all corporate tax reports, the preparer must also include with the paper report a statement as to why the report was not filed electronically. This procedure is in accordance with the penalty waiver subparagraph (a)(2) of the Method of Filing; Pennsylvania Corporate Tax Report, RCT-101 Notice published in the Pennsylvania Bulletin on Sept. 3, 2011.

## KEYSTONE OPPORTUNITY ZONE PROGRAM EXPANDED

On Feb. 14, Governor Corbett signed into law Act 16, an expansion of the Keystone Opportunity Zone program that authorizes designation of new zones, extensions of tax-benefit for certain unoccupied parcels and additional acreage for certain zones. The KOZ program was developed in 1999 to revitalize communities across Pennsylvania by providing tax incentives for job creation and economic development.

The most notable program changes are as follows:

- Deteriorated, underutilized or unoccupied parcels in zones that expire in 2013 and beyond may be granted tax benefits for an additional seven to 10 years, if application for extension is received within three months of a zone's expiration date.

- Fifteen new Keystone Opportunity Expansion Zones 10 to 350 acres in size are authorized for designation, plus four unused zones authorized in 2009 may be designated.
- Existing zones may expand by 15 acres, if expansion is expected to increase job creation or capital investment.
- Additional reporting requirements are imposed on businesses regarding capital investment and job creation and retention data.

For additional information, please contact the Department of Community and Economic Development at 717-346-0327.

## 2011-2012 General Fund Revenues

*Estimated versus Actual Revenue Collections (in millions)*

*Fiscal year 2011-12 collections through February total \$15.5 billion, which is \$481.6 million, or 3 percent, below estimate.*

