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## GOVERNOR CORBETT SIGNS BUDGET THAT CONTROLS SPENDING WITHOUT INCREASING TAXES

On June 30, Governor Tom Corbett signed the 2012-13 budget, strengthening the state's economy and education system, while continuing his commitment not to increase taxes for the citizens of Pennsylvania.

The \$27.66 billion budget was signed on time for the second consecutive year.

"Our taxpayers deserve government that works for them," Corbett said. "Today we re-affirm our commitment to job growth, to education, to the needy and to the taxpayers."

"While times are still difficult and we wish we had more to spend, our revenues have improved, allowing us to increase funding to some important areas of our final budget."

Along with the budget, the legislature agreed to adopt several of Corbett's major initiatives such as improvements to the criminal justice system, an education reform package and eliminating the agriculture inheritance tax.

This budget also continues the phase-out of the capital stock/foreign franchise tax and guarantees critical tax credit incentives for companies committed to bringing business and jobs to Pennsylvania.

Corbett was able to increase spending from his originally proposed budget because state revenues increased in recent months, a result of following the course of reform, restraint and responsibility.

Highlights of the 2012-13 budget include:

### Education

- This budget restores, or in some cases, increases funding for early, basic and higher education, for a total

*Continued on Page 2*

### FAST FACT:

*The continued phase-out of the capital stock/foreign franchise tax, as preserved in the budget Governor Corbett recently signed, is expected to save businesses \$336.2 million in fiscal year 2012-13.*

*Continued from Page 1*

of \$11.35 billion. State-related and state system universities will receive \$1.58 billion, the same amount of funding as last year.

- Funding for school districts is increased over last year and the Accountability Block Grant is funded at \$100 million, supporting full-day kindergarten in many school districts.
- The current educator evaluation system, which has been unchanged for more than 40 years, will undergo across-the-board reforms, based in part upon multiple measures of student achievement.
- The state's successful Educational Improvement Tax Credit (EITC) program, which uses business donations to provide scholarships to low- and moderate-income students in exchange for a tax credit, is expanded.

### **Economic Growth**

The governor's budget continues to lower taxes on businesses and will preserve critical tax credit programs, including a new manufacturing tax credit, which will help create tens of thousands of jobs.

- Long-term tax incentives are provided for companies committed to bringing business and jobs to Pennsylvania. Companies can earn tax credits over a span of 25 years proportional to the industry's activity in the state.
- For example, Shell Chemical announced in March that it was considering building a petrochemical complex in Beaver County, which would turn by-products of natural gas to ethylene. Ethylene is used to produce a variety of items from tires to toys, food packaging to footwear.
- In April, Delta Air Lines' wholly-owned subsidiary, Monroe Energy LLC, acquired a Delaware County refinery, preserving hundreds of direct jobs and thousands of jobs in related industries. To make this possible, Delta received a grant from the Department of Community and Economic Development, contingent upon the company investing at least \$350 million at the project site and employing at least 402 full-time workers on-site for at least five years.

- Programs are created 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.
- Employer-driven, on-the-job training opportunities are provided for unemployed workers through a new program called Keystone Works. This program will allow jobless Pennsylvanians to keep receiving unemployment benefits while being retrained and helps employers identify the best candidates before they hire.

### **Human Services**

This budget sets in motion responsible reforms to the Department of Public Welfare that will safeguard assistance programs for our neediest residents, now and into the future. It also transforms the way state government works with county governments in the funding of local assistance programs. For example:

- The Human Services Block Grant pilot program, including up to 20 counties, will combine several funding appropriations such as child welfare, mental health, drug and alcohol, into one. Not only will this allow counties greater discretion in spending the money, but it also streamlines reporting requirements into one, unified document. The program will allow for more personalized services to those in need while providing the flexibility counties need to provide services during times of reduced funding.
- Foster children will receive support until the age of 21. Previously, foster care ended at the age of 18, removing the children from a support system during a critical period in their lives.
- The budget increases funding for state programs for people with intellectual disabilities, addressing vulnerable populations currently on the waiting list.
- Healthcare providers for those in need, including nursing homes and hospitals, will receive full funding in this budget.

To review the budget in entirety, visit

[www.budget.state.pa.us](http://www.budget.state.pa.us).

## 2012 TAX CHANGE HIGHLIGHTS

- This budget provided for the performance-based Pennsylvania Resource Manufacturing Tax Credit, a powerful incentive that will revitalize Pennsylvania's manufacturing industry, create thousands of good-paying Pennsylvania jobs and secure long-term economic benefits for Pennsylvania residents and communities.
- This budget continues Governor Corbett's commitment to phasing out the capital stock/foreign franchise tax, dropping the tax rate one more mill to 0.89 in 2013, then completely eliminating the unfair and burdensome tax on the value of a business in 2014. The phase out is expected to save businesses \$336.2 million in fiscal year 2012-13.
- This budget moves to 100 percent single sales factor for corporate net income tax apportionment purposes, finally eliminating consideration of property and payroll factors beginning in 2013 and saving businesses an estimated \$12 million in fiscal year 2012-13. Moving to 100 percent single sales factor strengthens the commonwealth's business climate, improves the bottom line for companies and increases their ability to create and retain jobs by providing incentive for a company to expand its Pennsylvania presence or locate a headquarters in Pennsylvania.
- The budget eliminates the Pennsylvania inheritance tax for farming families, previously levied when property was transferred from one generation to the next or between family members. The change is effective for estates of decedents dying after June 30, 2012.
- To address business community concerns regarding sales tax prepayment requirements, each sales/use tax licensee whose actual tax liability for the third calendar quarter of the preceding year is between \$25,000 and \$100,000 is now provided with an alternative payment option to the requirement of paying 50 percent of the tax liability for the same month of the preceding calendar year. The licensee may remit an amount that is equal to or greater than 50 percent of the actual tax liability required to be reported for the same month in the current year.
- To facilitate the expansion of research and jobs, this budget provides for the improvement of various tax credit incentive programs, removing the sunset date of the Research & Development Tax Credit; expanding the applicability of the Film Production Tax Credit to additional tax types; increasing the cap on the Educational Improvement Tax Credit and complementing it with a secondary scholarship tax credit; creating a new Historic Preservation Incentive Tax Credit and Community Based Services Tax Credit; and expanding criteria and applicability for the Job Creation Tax Credit and Neighborhood Assistance Tax Credit, respectively.
- Given the proven success of dollars dedicated to enhanced enforcement efforts, additional audits and more scrutinized evaluation of tax refund requests, this budget allocates \$10 million in Enhanced Revenue Collection Account funding each year. This investment will result in an estimated \$100 million in additional tax revenue for fiscal year 2012-13.
- The negotiated budget provided for significant reform to Pennsylvania's tax appeals process, changes that capitalize on national best practices to reduce issues that result in appeals, make the appeals process more fair for taxpayers and improve Pennsylvania's ranking in multi-state reviews of tax appeals processes.
- The budget provided the Department of Revenue the authority 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.
- Two initiatives that will result in greater efficiencies and annual cost savings of nearly \$1 million for the department were authorized: the payment threshold for which electronic funds transfer (EFT) payments are required was lowered from \$20,000 to \$10,000, and certain department requirements to send taxpayer notices via certified mail were repealed.

## E-FILE MANDATE FOR PAID THIRD-PARTY PREPARERS FOR PA MOTOR FUELS TAXES, SALES/USE TAX AND EMPLOYER WITHHOLDING EFFECTIVE JAN. 1, 2013

In an effort to increase the rate of electronic filing, the fastest and most cost-effective way for the Department of Revenue to process tax reports, the department will require third-party preparers who prepare at least 50 Pennsylvania Liquid Fuels Reports (REV-1096); 50 Sales, Use and Hotel Occupancy Tax Returns (PA-3); or 50 Employer Quarterly Returns of Income Tax Withheld (PA-W3) for tax years beginning on or after Jan. 1, 2012, to file clients' tax reports electronically during calendar years beginning on or after Jan. 1, 2013.

In determining if a paid tax preparer prepared at least 50 reports or returns, a third-party preparer must include all returns the preparer or his or her members or employees prepare or submit to the department. This amount includes all original or amended, full-year or part-year returns to the extent that such returns can be e-filed with the department. If a third-party preparer has multiple business locations, the combined total of all the returns for all locations are included.

If the tax software of a preparer required to e-file cannot support electronic filing, such software must be acquired. Once a third-party preparer is subject to this filing mandate, the third-party preparer will continue to be subject to the mandate regardless of how many REV-1096, PA-3 or PA-W3 reports/returns he or she prepares during the year.

Exceptions to the e-file requirement include the following:

- A paid tax preparer may file a paper report when a taxpayer specifically directs the preparer to do so. This directive must be in a written form, signed by an officer of the corporation and provided to the department upon request.
- A paid tax preparer using tax software that does not support electronic filing of a required attachment to a report may file that attachment in a paper form.
- A tax preparer who proves electronic filing would place undue hardship on the preparer may submit a written request for a waiver from the department by Nov. 1 of the preceding calendar year for which the waiver is required. The request must clearly explain why the filing method causes an undue hardship, and it must be mailed to the appropriate taxing bureau for consideration.

Third-party tax preparers not subject to the electronic filing requirements include volunteer, unpaid preparers; people who provide only support such as typing; employees of a business who prepare tax reports for other employees and officers of the business; and fiduciaries who prepare reports for the trusts and estates they serve.

These most recent e-filing mandates accompany similar e-filing mandates for corporate tax reports and personal income tax reports implemented in 2011.

## 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.

## 2012 FALL TAX SEMINAR SCHEDULE

SPONSOR	DAY	DATE	CONTACT PERSON	CONFERENCE LOCATION
Lehigh Valley PSPA	Friday	09-21-2012	<b>Sherry DeAgostino</b> 1-800-270-3352 execdir@pspa-state.org	<b>Breinigsville Holiday Inn Conf. Center</b> 7736 Adrienne Drive Breinigsville, PA 18013
CPE Forum of Central PA	Thursday	09-27-2012	<b>Kelly Park</b> 814-695-1558 kelly.park@wfadvisors.com	<b>The Casino at Lakemont Park</b> 300 Lakemont Park Blvd. Altoona, PA 16602
Harrisburg PSPA	Tuesday	10-02-2012	<b>Sherry DeAgostino</b> 1-800-270-3352 execdir@pspa-state.org	<b>Radisson Penn Harris Hotel &amp; Convention Ctr.</b> Camp Hill Bypass and US 15 Camp Hill, PA 17011
Alvernia University	Tuesday	10-16-2012	<b>Alan D. Ross, C.P.A.</b> 610-372-9911 ARoss@RossCpa.com	<b>Alvernia University</b> 400 St. Bernadine St. Reading, PA 19607
Philadelphia Tri-County Chapter PSPA	Thursday	10-18-2012	<b>Andy Piernock</b> 267-318-7510 andrewpiernock@comcast.net	<b>Springfield Country Club</b> 400 W. Sproul Road (Route 320) Springfield, PA 19064
Pittsburgh PSPA	Wednesday	10-24-2012	<b>Sherry DeAgostino</b> 1-800-270-3352 execdir@pspa-state.org	<b>Four Points Sheraton - Cranberry Township</b> 910 Sheraton Drive Mars, PA 16046
Duquesne University School of Bus. And Admin.	Tuesday	10-30-2012	<b>Dr. Erroline M. Williams</b> 412-396-5631 williamse976@duq.edu	<b>Duquesne Union Hall Duquesne University Campus</b> Pittsburgh, PA 15282-0104
Wilkes University Continuing Education Dept.	Thursday	11-1-2012	<b>Margaret Petty</b> 570-408-4460 Margaret.Petty@wilkes.edu	<b>The Woodlands Inn and Resort</b> 1073 Highway 315 Wilkes-Barre, PA 18702
Neumann University Division of Business & Information Mgt.	Thursday	11-15-2012	<b>Janet Massey</b> 610-558-5588 jmassey@neumann.edu	<b>Neumann University</b> Thomas A. Bruder, Jr. Life Center Bldg. 1 Neumann Drive Aston, PA 19014
Penn State University	Wednesday	12-19-2012	<b>Theresa Bloom</b> 215-881-7402 tmb17@psu.edu	<b>Penn State University Abington Campus</b> 1600 Woodland Road Abington, PA 19001

## 2012 FALL TAX SEMINAR AGENDA

*See Page 5 for Seminar Schedule Dates*

TIME	TOPIC	PRESENTER
8 - 9:15 A.M.	<b>INTRODUCTION &amp; PERSONAL INCOME TAX UPDATES</b> <ul style="list-style-type: none"> <li>➤ 2012 Tax Law Changes</li> <li>➤ PA Forms Changes</li> <li>➤ Miscellaneous Issues</li> </ul>	<b>David A. Braden, CPA</b> <b>or R. Lee Lewis</b> <i>Bureau of Individual Taxes</i>
9:15 - 9:30 A.M.	<b>Break</b>	
9:30 - 10:30 A.M.	<b>PASS-THROUGH BUSINESS UPDATES</b> <ul style="list-style-type: none"> <li>➤ Resident Credits</li> <li>➤ Common Errors</li> <li>➤ Current Litigation</li> <li>➤ Legislation Updates</li> </ul>	<b>Jane McCurdy, CPA or</b> <b>Linda Paterson, CPA</b> <i>Pass-Through Business Office</i>
10:30 - 11:30 A.M.	<b>CORPORATION TAXES UPDATES</b> <ul style="list-style-type: none"> <li>➤ Legislative Changes</li> <li>➤ Reporting Issues</li> <li>➤ Electronic Initiatives</li> </ul>	<b>Michael Answine, Joseph Clover,</b> <b>Jeffrey A. Creveling, John</b> <b>Naccarato or Greg Skotnicki</b> <i>Bureau of Corporation Taxes</i>
11:30 A.M. - 12:15 P.M.	<b>LOCAL INCOME TAX - ACT 32</b> <ul style="list-style-type: none"> <li>➤ Overview of Act 32</li> <li>➤ Act 511 vs. Act 32</li> <li>➤ Employer Requirements Under Act 32</li> <li>➤ Avoiding Common Errors</li> </ul>	<b>Jim Hunt</b> <i>Berkheimer Tax Administrators</i>
12:15 - 1:15 P.M.	<b>Lunch</b>	
1:15 - 2 P.M.	<b>INHERITANCE TAX</b> <ul style="list-style-type: none"> <li>➤ Common Filing Errors</li> <li>➤ Forms Changes</li> <li>➤ Discount</li> <li>➤ Other General Inheritance Tax Issues</li> </ul>	<b>Holly Moore or Brian Belskey</b> <i>Bureau of Individual Taxes</i>
2 - 3 P.M.	<b>REVENUE MODERNIZATION PROJECT</b> <b>INTEGRATED TAX SYSTEM CONVERSION UPDATE</b> <ul style="list-style-type: none"> <li>➤ Overall Status of Modernization Project</li> <li>➤ Visible Changes</li> <li>➤ Procedural Changes</li> <li>➤ Practitioner Post-Implementation Support</li> </ul>	<b>Donald Sheridan or</b> <b>Thomas L. Van Kirk</b> <i>Integrated Tax System Business</i> <i>Operations Office</i>
3 - 3:15 P.M.	<b>Break</b>	
3:15 - 4:15 P.M.	<b>BUSINESS USE TAX AND VOLUNTARY</b> <b>COMPLIANCE INITIATIVES</b> <ul style="list-style-type: none"> <li>➤ Stimulating Voluntary Compliance</li> <li>➤ Voluntary Compliance Programs</li> <li>➤ Discovery Programs</li> <li>➤ Other Compliance and Collections Initiatives</li> </ul>	<b>James Foster, Kevin Milligan,</b> <b>William Hartman, CPA, or</b> <b>Mark Balistrieri, CPA</b> <i>Bureau of Enforcement Planning,</i> <i>Analysis and Discovery</i>

**In compliance with the Americans with Disabilities Act, the department will make every effort to provide seminar content in an alternative format to persons with disabilities.**

## DEPARTMENT INTRODUCES PERSONAL INCOME TAX FAX COVER SHEET

In conjunction with the new fax technology introduced in the last quarter of 2011, the Bureau of Individual Taxes has developed a new **fax cover sheet, DEX-93**, to ensure faxed information is correctly identified and processed to the appropriate account.

Practitioners are encouraged to use the fax cover sheet to send information for electronically filed returns or for correspondence in response to a department request.

## BUREAU OF MOTOR FUELS BEGINS E-ALERTS FOR FUELS AND LIQUID FUELS LICENSEES

To improve customer service and the exchange of information, the Department of Revenue will begin sending motor fuels alerts to registered liquid fuels distributors and alternative fuels dealers/users.

In mid-July, Class 1 – 5, Class 6 – 6A and Class 7 license accounts will begin receiving Revenue e-Alerts regarding gasoline, diesel fuel and administrative

updates through AlertPA. Registered accounts will be notified regularly of license cancellations, license awards and license renewal deadlines.

To create an Alert PA account or customize notifications from the Department of Revenue and other Pennsylvania state and local authorities, practitioners are encouraged to visit [Alert.PA.gov](http://Alert.PA.gov).

## DEPARTMENT OF REVENUE CLARIFIES INHERITANCE TAX POLICY CONCERNING MINERAL RIGHTS AND NATURAL GAS INTERESTS

Inheritance Tax Bulletin 2012-01 clarifies the Department of Revenue's policy concerning the taxation of mineral rights and natural gas interests for Pennsylvania inheritance tax purposes, in order to achieve a consistent valuation method for mineral and natural gas rights without excessive cost or burden for a decedent's estate.

The taxable value of mineral and natural gas rights must be determined using the same methodology used to value any real property or tangible personal property interest. The bulletin provides inheritance tax valuation guidance for the following:

**Mineral Rights:** The taxable value is based upon the price paid in a bona fide sale. If the transfer is for no or nominal consideration, the estate must calculate the value by applying the common level ratio to the assessed value of the mineral rights. If there is no sale or calculated value, the taxable value is the actual monetary worth of the interest.

**Natural Gas Rights:** The taxable value is based upon the price paid in a bona fide sale. If there is no bona fide sale, natural gas rights can be determined from a

credible appraisal. Because natural gas rights do not have assessed values, absent a bona fide sale, an appraisal or other credible evidence to the contrary, the value of natural gas rights is determined as follows:

- For leased and producing properties, the value should be reported as the sum of all payments received for production of natural gas interests during the 12 months prior to the date of death, multiplied by two.
- Interests in leased, non-producing properties should be reported at zero value unless at the time of death the gas rights are generating fixed future payments. In such cases, value is calculated by reducing the fixed future payments to present value at the time of death using IRS actuarial tables.
- Interests in non-leased, non-producing properties are valued at zero.

## FISCAL YEAR 2011-2012 COLLECTIONS

Pennsylvania collected \$2.8 billion in General Fund revenue in June, which was \$170.1 million, or 6.5 percent, more than anticipated, Secretary of Revenue Dan Meuser reported.

Fiscal year 2011-12 General Fund collections totaled \$27.7 billion, which was \$162.8 million, or 0.6 percent, below estimate. The fiscal year ended June 30.

Sales tax receipts totaled \$777.7 million for June, \$45.5 million below estimate. Sales tax collections for the fiscal year totaled \$8.8 billion, which was \$15.8 million, or 0.2 percent, less than anticipated.

Personal income tax (PIT) revenue in June was \$995.3 million, \$25.7 million above estimate. This brought fiscal-year PIT collections to \$10.8 billion, which was \$199.1 million, or 1.8 percent, below estimate.

June corporation tax revenue of \$651 million was \$180.4 million above estimate. Fiscal-year corporation tax collections totaled \$5 billion, which was \$38.8 million, or 0.8 percent, above estimate.

Inheritance tax revenue for the month was \$71.5 million, \$4.9 million below estimate. This brought the

fiscal-year total to \$827.7 million, which was \$10.4 million, or 1.2 percent below estimate.

Realty transfer tax revenue was \$28.8 million for June, \$300,000 above estimate, bringing the fiscal-year total to \$292.2 million, which was \$800,000, or 0.3 percent, more than anticipated.

Other General Fund tax revenue, including cigarette, malt beverage, liquor and table games taxes, totaled \$139.1 million for the month, \$400,000 below estimate and bringing the fiscal-year total to \$1.5 billion, which was \$1.6 million, or 0.1 percent, above estimate.

Non-tax revenue totaled \$119.6 million in June, \$14.4 million above estimate, bringing the fiscal-year total to \$529.5 million, which was \$21.3 million, or 4.2 percent, above estimate.

In addition to the General Fund collections, the Motor License Fund received \$199.9 million for the month, \$12.7 million above estimate. Fiscal-year collections for the fund – which include the commonly known gas and diesel taxes, as well as other licenses, fine and fee revenues – totaled \$2.4 billion, which was \$2.2 million, or 0.1 percent, below estimate.