

2014 Pennsylvania Tax Update

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Synopsis

- Exciting News
- Legislation
- Forms and instructions changes
- Miscellaneous issues



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Exciting News - Revenue Modernization

Integrated Tax System – Corporations

- All corporation taxes returns are being processed in the system
- All correspondence is being mailed

Common Return Issues:

- Taxpayer Identification
- Taxpayer errors
 - Using 'None' on apportionment schedule
 - RCT-101 Amended return: incomplete data submitted in one or more of the original tax types.
 - Gaps in the History of Earnings.
 - Incomplete returns.
 - Software errors.
- Duplicate filings



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Exciting News - Revenue Modernization

Integrated Tax System – Trust Fund

- Went live November 17th
- Tax Types Impacted:
 - Sales, Use, Hotel Occupancy, Employer Withholding, Malt Beverage Tax, Vehicle Rental Tax, Public Transportation Assistance Fund, Small Games of Chance, Cigarette Licenses, Unstampable Little Cigar

Identification Numbers:

- License & account number for the impacted tax types will not change
- Entities will be assigned a Revenue ID however Tax account specific number will remain the primary identifiers for the new ITS tax types.



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Exciting News – our website

Commonwealth websites are all moving to a new platform by 2016. In September 2014 Revenue redesigned its website providing some exciting improvements over our old site:

- Modern, progressive and visually appealing design consistent across agencies
- More intuitive navigation
- Enhanced search capabilities (fully functional in October)
- Responsive design that makes the site more accessible and easy-to-use from mobile devices.



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Debuting Later this Year

Responsive Design: Site adjusts automatically to the device the user is on.



Act 52 of 2013

NEW BOARD OF FINANCE AND REVENUE EXPECTED TO IMPROVE TAX APPEALS PROCESS

- The new board consists of three members: two appointed by the Governor and confirmed by the Senate, plus the state Treasurer (designee), who serves as board chairman.
- Under the new statute, both the taxpayer or their representative and the Department of Revenue are entitled to present oral and documentary evidence to BF&R in support of their positions.
- BF&R can facilitate the compromise settlement of issues on appeal. A compromise settlement may be ordered by BF&R only with the agreement of both the petitioner and the Department of Revenue.
- All BF&R decisions are required to be published on a publicly accessible Internet website



Act 52 of 2013

(See the Fall Tax Seminar Booklet on the CD for additional/specific info.)

- Section 303(a)(2) revised to allow direct expensing of start-up costs
- Section 303(a.8) - added language the capitalization of intangible drilling and development costs, unless the taxpayer elects to currently expense the costs for Federal income tax purposes under section 263(c) of the IRC
- Section 314(a) - Eliminates the Resident Credit for taxes paid to foreign countries, effective for tax years beginning after Dec. 31, 2013
- Section 315 - Created two new donation organizations for 2014 tax year
 1. PA Children's Trust Fund
 2. American Red Cross



Act 52 of 2013

- Section 324(a) – Requires estates or trusts with PA-source income to make nonresident withholding payments on behalf of nonresident beneficiaries
- Section 335(c) Estates or Trusts...
 - with resident beneficiaries required to file a PA-41
 - are required to include copy of federal return with PA-41
 - are required to provide beneficiary a PA Sch RK-1 or NRK-1
 - are required to maintain accurate list of beneficiaries, and
 - Failure to keep an accurate list can result in tax, penalty and interest of estate or trust being the tax, penalty and interest of the trustee
 - failing to file a return as required is subject to \$250 penalty for each failure



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PA-40 Forms and Instructions Changes

General Instructions Changes Include:

- Schedules C-EZ, G-R and G-S have been discontinued or eliminated;
- Line 17 will also show nonresident beneficiary withholding from estates and trusts;
- Use tax table has been revised for PA-taxable income levels above \$200,000;
- Line 32 -36 instructions revised for use of codes to identify donation organizations and additional information for the two new donation organizations;
- Same-sex married individuals may file joint returns



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PA-40 Forms and Instructions Changes

PA-40 Form Changes

- Page 2 - Charitable donation of your overpayment is now done by using donation codes.

DONATIONS	32. Refund donation line. Enter the organization code and donation amount. See the instructions.	32.
	33. Refund donation line. Enter the organization code and donation amount. See the instructions.	33.
	34. Refund donation line. Enter the organization code and donation amount. See the instructions.	34.
	35. Refund donation line. Enter the organization code and donation amount. See the instructions.	35.
	36. Refund donation line. Enter the organization code and donation amount. See the instructions.	36.



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PA-40 Forms and Instructions Changes

PA-40 Schedule A and B Changes

Both the schedule A and B now requires you to start with the respective federal income amount then requires additions and subtractions to bring reporting into line with PA Tax law.

- Schedule A now required only if amounts on Lines 2 through 15 of the schedule regardless of amount of PA-taxable interest income
- Schedule B now required only if amounts on Lines 2 through 9 of the schedule regardless of amount of PA-taxable dividends and capital gains distributions income
- If only entry for either schedule is the federal amount on Line 1, you are not required to submit the form even if income amount is \$2,500 or more.



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PA-40 Forms and Instructions Changes

Schedule D Instructions Changes:

- No longer requires the input for each gain or loss transaction.
- We now permit summary input from broker statements or other prepared statements if the property is listed on an exchange.

Schedule SP Instructions Changes

- Additional instructions were added to include what types of nontaxable income is not included in eligibility income
 - Social Security and Railroad Retirement benefits;
 - Pensions;
 - Sick pay and disability benefits;
 - Damage awards;
 - Personal use of employer property if not included in federal taxable income;
 - Civil service annuity payments.



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PA-41 Form and Instructions Changes

- Nonresident beneficiary withholding instructions inserted.
 - W/H tax is not required to be included with estimated tax payments and **not subject to EUP**.
 - W/H tax is paid with filing of return or with an extension of time to file and is therefore subject to late filing or late payment penalties plus interest
- Amended return instructions were revised for changing residency status for an existing trust.



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PA-41 Form and Instructions Changes

General.....

- When you must include the PA Sch D-1 (REV-1689).
- You can no longer report income using federal Sch. E.
- Credits for taxes paid to other foreign countries is no longer allowed.
- You are allowed to use a brokerage or other summary statement for Schedule D.



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PA-41 Form and Instructions Changes

- Two new lines added to the form: (See new instructions for more details)
 - Line 11, Tax Withheld for Nonresident Beneficiaries
 - Line 12, Total PA Tax Liability
- New filing requirements added and there is now a \$250 penalty for failure to file a PA-41 return, plus an additional \$250 penalty for each RK-1 or NRK-1 that is not filed.
 - Nonresident estate or trust w/ PA resident beneficiary must file a PA-41
 - Complete copy of federal 1041 is required
 - Accurate list of beneficiaries is required



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PA-41 Schedules Changes

PA-41 Schedules A & B

- Similar to their respective PA-40 Schedules. You start with federal income amount and add and subtract per PA Tax law.

PA-41 Schedule N - New

- Calculates PA-source income and tax withholding for nonresident beneficiaries for Line 11.
- Estates and trusts with nonresident beneficiaries use Schedule N to determine the amount of total Pennsylvania-source income, the Pennsylvania-source distributed or distributable income to nonresident beneficiaries and the amount of the tax withheld for nonresident beneficiaries on their shares of distributed or distributable income.

PA-41 Schedule DD, NRK-1 and RK-1

- Because of the new Sch. N these forms and instructions have minor changes to so that income is reported properly and only once.



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PA-1000 Form and Schedules Changes

PA-1000 Form

- Filing on Behalf of a Decedent oval added to Part B
- Line 11g now also includes annualized income amount for claims filed on behalf of decedents

PA-1000 Schedule A

- Now Schedule A only
- Now uses number-of-days method instead of number-of-months method for pro rata tax calculations
- Now also used for claims filed on behalf of decedents

PA-1000 Schedule B

- Now uses number-of-days method instead of number-of-months method for pro rata tax or rent calculations



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PA-1000 Form and Schedules Changes

PA-1000 Schedule G

- Calculates annualized income for decedent owners and renters to verify eligibility
- Uses number-of days-method
- Use of alternative reporting method is permitted when claimant has significant income that is not earned in equal amounts during the year
 - Worksheet using alternative method must be included
 - Worksheet must clearly reflect how the alternative method of annualized income was determined
 - Worksheet must provide explanation of reason for deviating from Schedule G



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PA-1000 Form and Schedules Changes

Deceased Claimant

- Defined as: "A claimant who died during the claim year who would otherwise be an eligible claimant [as a claimant age 65 or older; claimant under age 65, with a spouse age 65 or older who resided in the same household; widow or widower, age 50 to 64; or permanently disabled and age 18 to 64.]"
- No longer required to have lived an entire year to file a claim. However, is required to have lived at least one day and paid rent or taxes to have a claim filed on behalf of a deceased claimant
- A personal representative may also file a claim on behalf of a decedent. (We will still allow name changes on checks.)
- Copy of death certificate is required to be included with claim form

Filing Tip:

- Surviving spouses should file their own claim if eligible under the program.



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Miscellaneous Issues

Fraud Prevention

Identity Validation

- 1,050 identity validation letters sent
 - 547 valid responses received
 - 299 no responses
 - 61 invalid responses received
 - 143 outstanding letters at time of seminar preparation
- Savings of over \$112,000



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Why Am I Getting This Notice? (PTE)

- Claiming income is not taxable due to reciprocity
 - PA has reciprocal agreement with: IN, MD, NJ, OH, VA, WV
 - Reciprocity = one state will not tax the others' residents on employee compensation subject to employer withholding
 - Agreements apply to **COMPENSATION** only and not to such things as Schedule C income or income from pass-through entities
- Claiming excess resident credit
 - Cannot take credit on more income in any class of income than was taxed by PA
 - Cannot take credit on more income for an entity than was reported to the taxpayer by the entity and taxed on the PA-40
 - Provide detail of income subject to tax in other state/(country prior to 2014) by source and by class
 - Provide copies of returns filed in other state/(country prior to 2014)



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Why Am I Getting This Notice? (PTE)

- Claiming federal charitable contribution as additional PA business deduction
 - PA PIT rules allow a deduction for expenses that are ordinary, necessary and reasonable and to the extent the payments are directly related to and necessary for the production and marketing of the taxpayer's products, goods and services
 - Federal charitable contributions cannot meet this definition.



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Other Important Stuff

How/where to obtain copies of previously filed returns:

- PA Department of Revenue
Bureau of Administrative Services
12th Floor Strawberry Square
Harrisburg, PA 17128-1200
- REV-677, Power of Attorney and Declaration of Representative, required if other than taxpayer making the request;
- Additional evidence required for deceased taxpayer information.



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Contact Information

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