

# Recent Changes to Individual and Business Taxes – Act 48 of 2009

# Pennsylvania State Taxes

Tips for filing 2009 income tax returns

## Tax amnesty program

Act 48 creates a tax amnesty program from April 26, 2010, through June 18, 2010. The program will temporarily supplant the Volunteer Disclosure Program. This program will waive half the interest and all penalties on eligible taxes (including all Pennsylvania taxes administered by the Department of Revenue) that are delinquent as of June 30, 2009. This program also applies to unknown liabilities for five years prior to June 30, 2009.

## Tax credits

Act 48 makes changes to the Education Improvement Tax Credit (EITC) program. It increases the maximum annual household income limit for student eligibility in 2011-2012 to \$60,000 and increases the income allowance in 2011-2012 to \$12,000. The law also adds an annual consumer price index (CPI) adjustment for both, beginning in July 2012. A multiplier is also included to the annual household income for families with disabled students. The law also expands the eligible pre-K program to allow programs that operate over the summer recess to qualify for the EITC program.

Act 48 reduces the amount of tax credits awarded for the next two fiscal years. All tax credit programs are affected.

## Corporate Net Income tax

Act 48 changes the Corporate Net Income (CNI) tax by expanding the net operating loss carry-forward deduction to 15 percent in 2009 and 20 percent in 2010 and thereafter; and by providing an increase in the apportionment formula for business income to increase the weighting of the sales factor to 83 percent in tax year 2009 and 90 percent in tax year 2010 and thereafter.



## Sales tax

Beginning May 31, 2011, Act 48 accelerates sales tax payments from any licensee who reported or should have reported at least \$25,000 in sales tax for the third calendar quarter in the preceding year. The licensee would have to file semi monthly returns.

## Employer withholding

Beginning May 31, 2010, Act 48 accelerates the payment schedule for personal income tax remittances for employers whose aggregate withholding for the calendar year can reasonably be expected to equal \$20,000 or more.

These are just a few highlights of some of the tax differences between Pennsylvania and federal tax laws, as well as recent changes to individual and business taxes. Tax laws vary from state to state, and sometimes even from county to county. More information is available in the Personal Income Tax Guide available on the Pennsylvania Department of Revenue Web site, [www.revenue.state.pa.us](http://www.revenue.state.pa.us).

If you have questions about your tax return, check with your CPA. If you do not have a trusted advisor, visit [www.IneedaCPA.org](http://www.IneedaCPA.org) for access to a free, online Ask a CPA service or to find a CPA in your area.

Note: Due to the complexity and volatility of tax law, consult your CPA before acting on any of the information provided in this brochure.

# Personal Income Taxes



## Who must file?

You must file a tax return if your Pennsylvania taxable income exceeds \$33 during the taxable year, or if you incurred a loss from any transaction as an individual, sole proprietor, partner in a partnership, or shareholder of an S corporation. Wages earned from work performed in Pennsylvania by residents of Indiana, Maryland, New Jersey, Ohio, Virginia, or West Virginia are not subject to Pennsylvania state income tax. If Pennsylvania taxes were improperly withheld from residents of these states, a return should be filed to obtain a refund.



## Does Pennsylvania follow federal tax law?

No. Pennsylvania income tax is not based on federal law. Under federal law, everything is taxable income unless it is specifically exempted, excluded, or deducted. In Pennsylvania, an item is taxable only if it fits into an enumerated category. Pennsylvania imposes a flat tax on eight enumerated classes of gross income instead of a graduated tax on net income. However, there are special tax forgiveness provisions for certain low-income taxpayers whose income does not exceed \$6,500 (single filing) or \$13,000 (married filing separately or jointly), plus \$9,500 for each additional dependent. Married persons may file for joint tax forgiveness. A single parent with one child or a couple with two children will owe no tax on eligible income up to \$16,000 and \$32,000, respectively.



## What is Pennsylvania's income tax rate?

The personal income tax rate is 3.07 percent for 2009.

## When are returns due?

Tax returns are due April 15 for individuals and other calendar-year taxpayers. Extensions for filing are available, but the amount of tax you owe is still due by April 15, whether you request the extension or not.

## Are joint tax returns accepted?

Yes, but only for taxpayers' convenience. There are no special joint return rates. One spouse's losses or deductions may not be used to offset the other spouse's income or gains. In the year of a spouse's death, separate returns must be filed. Separate returns are also required if either spouse individually claims an Employment Incentive Credit, Jobs Creation Credit, Research & Development Credit, Pennsylvania Film Production Credit, or Organ and Bone Marrow Donor Credit.

## Are some types of income taxable in Pennsylvania, but not for federal purposes?

There are a few income sources that are taxable on the state level, but not on the federal level.

- Municipal bond interest from jurisdictions outside Pennsylvania
- Gain on like-kind exchanges
- Employee contributions to employer-established retirement, profit sharing, or deferred compensation plans
- Installment sales of intangible property

## Are some types of income taxable for federal purposes, but not for Pennsylvania?

There are a few income sources that are taxable at the federal level, but generally not taxable at the state level.

- Income from pension plans, Social Security, Supplemental Security or SSI, railroad retirement, veterans pensions, IRAs, and 401(k)s
- Alimony

## What is the Capital Stock and Franchise Tax rate?

The rate for 2009 is 2.89 mills. (Note: A mill is 1/10 of one cent). The fixed formula deduction for tax year 2009 is \$150,000 and \$160,000 for tax year 2010.

## Which types of income are taxable in Pennsylvania?

Below are the income types that are taxed in the Commonwealth:

- Compensation
- Interest (interest income derived from business working capital is generally characterized as business income, and interest income derived from an installment sale is generally characterized as capital gain)
- Dividends (includes capital gain distributions and actual cash and property distributions from the earnings of any non-Pennsylvania S corporations that have not elected Pennsylvania S corporation status)
- Net profits from a business, profession, or farm, including interest income from business working capital
- Net gain from the sale or disposition of property (gains and losses from sales of business assets are generally characterized as trade or business income/loss); through the gain on the sale of a personal residence, may be excluded if residency requirements are met
- Net income from rents, royalties, patents, and copyrights
- Income from estates and trusts
- Gambling and lottery winnings, except Pennsylvania state lottery prizes, including winnings from Powerball tickets purchased in Pennsylvania

