

STATE TAX SUMMARY: JULY 2019

Tax Reform Code Changes

Act 13 of 2019 (HB 262) – Act 13 made the following changes to the Tax Reform Code:

Sales Tax

- **Marketplace Sales:** Beginning July 1, 2019, vendors who have no physical presence but whose direct sales and facilitated marketplace sales attributed to Pennsylvania exceed \$100,000 must register to collect and remit Pennsylvania sales tax. The act suspended the Act 43-2017 election and notice requirements.
- **Animal Housing Facility:** The sale at retail of building materials and supplies used for the construction or repair of an animal housing facility is exempt from sales and use tax beginning January 1, 2020.
- **Sales by PA Breweries:** Beginning October 1, 2019, Pennsylvania manufacturers of malt or brewed beverages are required to remit use tax on sales of malt beverage produced by the manufacturer. The use tax base is 25% of retail purchase price of all malt or brewed beverages sold directly to the ultimate consumer for consumption on or off premises. Local drink taxes apply to the retail price of these sales.
- **Volunteer Firemen's Organization Food Sales:** Beginning January 1, 2020, volunteer firemen's organizations do not have to charge sales tax on food and beverages sold to raise funds.
- **Youth Center Food Sales:** Beginning January 1, 2020, youth centers do not have to charge sales tax on food and beverages sold to raise funds.
- **Sales Tax Absorption:** Beginning July 1, 2019, sellers are permitted to include sales tax in the retail price of an item. When including the tax in the retail price sellers are required to list the sales tax paid on behalf of the purchaser on any receipt or sales documentation.

Inheritance Tax

- **Child Rate Reduction:** The rate of inheritance tax upon the transfer of property to or for the use of a child 21 years of age or younger from a parent who dies after December 31, 2019 shall be 0%.

Personal Income Tax

- **Olympic Prize Exemption:** Effective July 1, 2019, the value of a medal awarded by or prize money received from the United States Olympic Committee on account of competition in the Olympic Games or Paralympic Games are exempt from personal income tax.
- **PA-41 Combined Return:** Applicable to tax years beginning after December 31, 2019, a fiduciary may make and file a joint tax return for an estate and trust for the taxable years when trust income is reported as part of estate income.

- **Preparer Tax Identification Number:** Beginning January 1, 2020, each paid tax return preparer is required to sign and list their IRS preparer tax identification number (PTIN) on each Pennsylvania personal income tax return they prepare.
- **Veterans' Trust Fund Checkoff:** Beginning in tax year 2020, the Department of Revenue shall provide personal income taxpayers the option to voluntarily designate a contribution from their tax refund to the Veterans' Trust Fund.
- **Federal Opportunity Zone Program:** Applicable to tax years beginning after December 31, 2019, net gains or income, net losses, and dividends which are excluded from federal income in a Federal Opportunity Zone are also excluded from PA personal income tax.

Realty Transfer Tax

- **Qualified Beginner Farmer Exemption:** Beginning July 1, 2019, any transfer of real estate that is subject to agricultural conservation easement to a qualified beginner farmer is exempt from realty transfer tax (RTT).

Insurance Taxes

- **Independent Public School Exemption:** Beginning July 1, 2019, charter schools, regional charter schools, and cyber charter schools will not be subject to Surplus Lines Tax to the same extent as a school district.

Table Games Tax

- **Sunset Date Extension:** The additional 2% state tax on casino table games is extended until August 1, 2021. This keeps the total state tax on table games at 14% through the extension period.

Tax Credits and Deductions

- **City Revitalization and Improvement Zone (CRIZ) Program:** A contracting authority may now use CRIZ funds to make improvements within and outside of the zone without state approval for the expended funds on utilities, water, sewer, storm water, parking, road improvements, or telecommunications. Additionally, CRIZ funds may be utilized to establish a revolving loan for a qualified business.
- **Coal Refuse Energy and Reclamation Tax Credit:** Beginning July 1, 2019, the total amount of credits that can be awarded increases from \$10 million to \$20 million per fiscal year. The commonwealth may reduce the amount of credits awarded to applicants that participate in a similar Federal Coal Refuse Reclamation Tax Credit Program that has yet to be created. Additionally, the sunset date of the program is extended to December 31, 2036.
- **Computer Data Center Equipment Incentive Program:** The total aggregate amount of state tax refunds approved in any fiscal year for the Computer Data Center Equipment Incentive Program increases to \$7 million from \$5 million, effective July 1, 2019.
- **Entertainment Production Tax Credit:** Applicable to fiscal years beginning on or after July 1, 2019, numerous changes were made to these tax credit programs.

- Under the Entertainment Economic Enhancement Program (EEEP), eligible postproduction and rehearsal expenses and qualified taxpayers are expanded. Further, the cap structure was amended, and total credits available will increase to \$8 million from \$4 million.
- The Film Production Tax Credit Program cap will increase to \$70 million from \$65 million. Special procedures are created for sale, assignment, and usage of credits within the same federal consolidated group. For Film Production Tax Credit districts, the size, investment, and technical requirements for the districts are amended.
- **Historic Preservation Tax Credit:** A number of changes are made to this credit program effective July 1, 2019. Among the changes, the credit is expanded to include non-commercial and workforce housing projects. The total aggregate amount of tax credits available in any fiscal year for the Historic Preservation Tax Credit shall increase to \$5 million from \$3 million. The deadline to file an application for credit requires the payment of a processing fee and requires applications to be submitted between October 1 and October 31. No applications will be accepted after February 1, 2031.
- **Keystone Opportunity Expansion Zone Program:** Three additional Keystone Opportunity Expansion Zones may be established. Applications that meet population criteria within this expansion must be received prior to October 1, 2021.
- **Mixed-use Development Tax Credit:** The total aggregate amount of tax credits available in any fiscal year for the Mixed-used Development Tax Credit shall increase to \$3 million from \$2 million.
- **Neighborhood Assistance Tax Credit:** Effective July 1, 2019, youth and adolescent development services have been added as a defined activity by a neighborhood organization. Business firms may contribute to a neighborhood organization which engages in the activities of providing youth and adolescent development services. No more than \$2 million of the total aggregate amount of tax credits available may be used towards youth and adolescent development services. While not part of the 2019-20 budget, Act 100 of 2018 increased the Neighborhood Assistance Tax Credit cap from \$18 million to \$36 million, effective July 1, 2019.
- **Qualified Manufacturing Innovation and Reinvestment Deduction:** Applicable to tax years beginning after December 31, 2019, manufacturers that invest between \$60 million and \$100 million in the creation of new or refurbished manufacturing capacity may deduct up to 7.5% of capital investment from taxable income for corporate net income tax purposes annually for ten years, up to a maximum of 37.5% of the investment. Manufacturers that invest more than \$100 million are still permitted to deduct up to 5% of capital investment annually for ten years, for a maximum of 25% of the investment.
- **Resource Enhancement and Protection (REAP) Tax Credit:** The total aggregate amount of tax credits available in any fiscal year for the REAP Tax Credit shall increase to \$13 million from \$10 million, with \$3 million to be used for projects in the Chesapeake Bay watershed area. Additionally, the program now permits joint filing for utilization of the credit. Changes are effective July 1, 2019.

- **Rural Jobs and Investment Tax Credit:** Numerous changes were made to this tax credit program effective July 1, 2019. The total amount of tax credits available in any fiscal year for the Rural Jobs and Investment Tax Credit is increased to \$6 million from \$1 million. Total awards, in the aggregate, may not exceed \$30 million.
- **Strategic Development Area Program:** Applicable to tax years beginning on or after January 1, 2019, certain items used within and outside of a designated Strategic Development Area (SDA) by a business qualified for the program are exempt from state and local sales and use tax when exclusively used by an employee assigned to a location in the SDA.
- **Tax Credit for New Jobs:** DCED may not approve applications for the Tax Credit for New Jobs after June 30, 2020.

Administrative Code Changes

Act 15 of 2019 (HB 1461) – Act 15 made the following changes to the Administrative Code:

- **IRS Publication 1075 Requirements:** The Act provided technical changes to the Pub. 1075 requirements previously adopted in Act 40 of 2017. The requirements provide that all executive branch state agencies or political subdivisions that use federal tax information (FTI) are to require any current or prospective employee or contractor whose duties and responsibilities require access to FTI to submit to fingerprinting and a criminal history background check.

School Code Changes

Act 16 of 2019 (HB 1615) – Act 16 made the following changes to the Public School Code:

- **Educational Improvement Tax Credit (EITC):** The total aggregate amount of tax credits available in any fiscal year for the EITC increases to \$185 million from \$160 million beginning July 1, 2019.
- **Opportunity Scholarship Tax Credit (OSTC):** The total aggregate amount of tax credits available in any fiscal year for the OSTC increases to \$55 million from \$50 million beginning July 1, 2019.
- **Qualified Subchapter S Trusts:** Beginning July 1, 2019 and applicable to tax year 2019, a qualified subchapter S trust is considered a pass-through entity for EITC/OSTC purposes.

Beginning Farmer Tax Credit

Act 65 of 2019 (SB 478) – Act 65 established the following tax credit:

- **Beginning Farmer Tax Credit:** An owner of agricultural assets may take a tax credit against tax due for the sale or rental of agricultural assets to a beginning farmer equal to 5% of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of \$32,000, or 10% of the gross rental income in each of the first, second, and third years of a rental agreement, up to a maximum of \$7,000 per year. No more than \$5 million shall be allocated for the taxable year beginning after December 31, 2019, and no more than \$6,000,000 for the taxable years beginning after December 31, 2020.