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2009-10 BUDGET INCLUDES NO NEW BUSINESS TAXES, MAINTAINS BUSINESS TAX CUTS

Governor Edward G. Rendell, realizing that raising business taxes during this time of economic instability could cause a reduction in much-needed spending and business investment, included no new business taxes in the 2009-10 budget he proposed to the General Assembly on Feb. 4. He remains dedicated to making Pennsylvania businesses more competitive by protecting the business tax cuts enacted since 2003.

"The budget I propose is designed to keep Pennsylvanians working, put more residents to work, relieve the impact of the recession on hard-working families and keep down the cost of state government," Rendell said during his budget address. "My budget does not require a tax increase on families, it does not require a personal tax increase, a state sales tax increase or an increase in business taxes.

"I recognize that inequities still exist in our business tax system, I believe it is vital to protect the \$1.6 billion in business tax cuts that we have enacted since 2003. I propose to continue the phase-out of the capital stock and franchise tax for this year, which will boost our total business tax reductions to \$2 billion annually."

Continued Phase-out of Capital Stock/Foreign Franchise Tax

The capital stock/foreign franchise tax declined by another one mill to 1.89 mills in 2009, resulting in a \$239.1 million estimated savings to businesses. The 2009-10 budget proposes to continue the phase-out at the currently scheduled rate of reduction (0.89 mills beginning Jan. 1, 2010). The tax will be completely eliminated in 2011.

Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2009-10 total more than \$6.1 billion, including \$4.4 billion in cumulative savings

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FAST FACT:

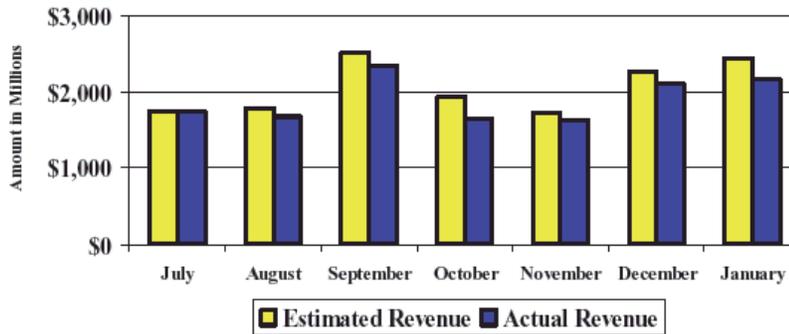
The \$26.6 billion budget Governor Rendell proposes for fiscal year 2009-10 includes no broad-based tax increases.

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The Governor's proposal will help put more Pennsylvanians to work, rebuild the state's infrastructure, shore up key industries, make businesses more competitive, and, ultimately, position the state to emerge stronger from the challenging times.

2008-09 General Fund Revenues

Estimated versus Actual Revenue Collections



After the first seven months of the 2008-09 fiscal year, revenue collections were \$1.076 billion lower than estimated (down 7.5 percent).

Continue Rebuilding Pennsylvania

Governor Rendell's 2009-10 proposed budget continues Pennsylvania's job-creating infrastructure investments with \$537 million for Rebuild PA projects that include:

- \$200 million for bridge repairs;
- \$294.5 million for water, sewer, flood control and dam projects;
- \$42.5 million for rail and aviation improvement projects; and
- Another \$1.9 billion in base Motor License Funds will be directed to bridge and highway repairs.

The repair work he proposes to more than 5,000 miles of roads and 450 bridges could put 84,000 Pennsylvanians to work.

The vast freight rail expansions planned by CSX and Norfolk Southern together will spend more than \$2.7 billion to improve their capacity to move more goods through Pennsylvania and provide permanent good-paying jobs to more than 2,000 residents.

Support for Business Programs and Projects that Work

The Governor's budget proposal also extends the commonwealth's commitment to helping communities and state-owned universities undertake job-creating construction projects and attract new businesses by providing:

- \$130 million — double the current fiscal year's appropriation — to support capital projects at the Pennsylvania State System of Higher Education's 14 universities.
- \$100 million in funding for important campus projects at the University of Pittsburgh, the Pennsylvania State University, Lincoln University and Temple University.
- \$60 million to reinvigorate the successful Business in Our Sites Program so more shovel-ready sites can be developed across the state that attract new businesses.

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- \$40 million to support water and wastewater infrastructure projects related to economic development.
- \$10 million to build upon the successful Infrastructure Facilities Improvement Grant Program and begin clearing the pipeline of eligible projects awaiting support. Every \$1 million of funding for this program creates approximately 2,000 new jobs.

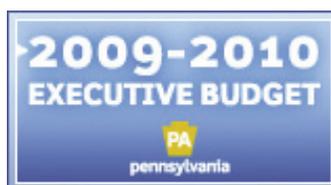
Moving Closer to Energy Independence

Beyond investments in communities, infrastructure and brick and mortar projects, Governor Rendell reiterated that Pennsylvania must make new investments in how energy is produced and used. He praised a bi-partisan plan to strengthen the Alternative Energy Portfolio Standards Act by increasing the use of solar energy and other renewable energy sources and developing new technologies that will reduce greenhouse gas emissions from fossil fuel-generated energy. The law mandates that by 2021, at least 18.5 percent of all electricity sold at retail in Pennsylvania be generated from alternative and renewable sources.

Higher Education as an Economic Engine, Tool for Future Growth

The budget proposal includes two new initiatives designed to make college more affordable for the state's families. Once implemented, more than 170,000 students would benefit. The Governor's plan would:

- Restore \$35 million in cuts that would have occurred next year because of PHEAA's reductions to education grant programs.
- Increase funding for enrollment at community colleges across the state by \$15 million. Of this amount, \$10 million will make it possible for 10,000 more students to receive grants to study in community colleges next fall.
- Provide critically needed college tuition assistance to Pennsylvania families earning less than \$100,000 a year through the Pennsylvania Tuition Relief Act. All incoming students who qualify and seek to attend public or community colleges will pay what they can afford in accordance with established financial aid practices.



(Click for full details)

NEW TAX PROPOSALS:

Other Tobacco Products

Pennsylvania is the only state in the U.S. that does not impose a tax on tobacco products other than cigarettes.

The Governor's proposal would place a new tax on tobacco products, including smokeless tobacco (snuff and chewing tobacco), cigars, cigarillos, roll your own tobacco, pipe tobacco and any other tobacco products other than cigarettes.

As proposed, the tax on cigars or cigarillos would be 36 cents per 10 cigars or cigarillos and 36 cents per ounce on smokeless and loose tobacco.

Wholesalers and unclassified importers would be required to file monthly reports by the 20th day of the month following the purchase of tobacco products from manufacturers. Only the first sale or possession of tobacco products in PA would be taxable and used in calculating the tax.

The new tax would be imposed beginning Oct. 1, and is projected to generate new tax revenue of \$37.9 million in fiscal year 2009-10 and \$53.4 in 2010-11, the first full fiscal year for the tax.

Cigarette Tax Increase – 10 Cents Per Pack

The Governor has also proposed raising the state tax on cigarettes by 10 cents per pack to \$1.45 per pack.

At the current tax rate of \$1.35 per pack, PA ranks 21st among all U.S. states and Washington D.C., with regard to cigarette tax rates, as of January 2009. Increasing the cigarette tax by 10 cents per pack would give PA the 19th highest state cigarette tax rate. The projected new tax revenue from this increase is \$60.8 million in fiscal year 2009-10 up to \$66.5 million in fiscal year 2013-14.

The Governor also proposes eliminating the cigarette tax transfer to the Health Care Retention Provider Account, thereby providing an additional \$199 million in cigarette tax revenue to the General Fund each year.

Under the Governor's proposal, cigarette tax revenue would be dedicated to the following funds and the General Fund:

- \$30.73 million annually to the Children's Health Insurance Program (CHIP), which provides health insurance to uninsured children and teens not eligible for or enrolled in Medical Assistance; and

- \$20.485 million annually to the Agricultural Conservation Easement Purchase Fund, which helps preserve Pennsylvania farmland.

Natural Gas Severance Tax

Pennsylvania sits atop much of a geologic formation believed to hold immense natural gas resources that has attracted unprecedented interest from developers. This formation, the Marcellus Shale, lies beneath much of Pennsylvania and portions of New York and West Virginia at a depth of 5,000 to 8,000 feet.

As part of his proposed fiscal year 2009-10 budget, Governor Rendell is proposing a small tax on the natural gas resources extracted from the Earth.

This proposed tax is identical to the one that has been on the books in West Virginia since 1987. According to West Virginia Governor Manchin, the severance tax approach did not inhibit gas extraction, it is continuing at a record pace and it is reaping critically needed revenues so the state can provide services to its citizens.

According to Pennsylvania State University, the Marcellus Shale is believed to hold nearly 363 trillion cubic feet of natural gas, and the economic value of this formation is estimated at \$1 trillion. If Pennsylvania extracts just 10 percent of the natural gas existing below ground in the Marcellus, it would be enough to supply the natural gas needs of the entire U.S. for two years.

As part of his 2009-10 budget proposal, Governor Rendell proposes a severance tax of 5 percent of the value of natural gas at the wellhead, plus 4.7 cents per 1,000 cubic feet of natural gas severed.

The tax would be remitted to the Department of Revenue on a monthly basis as of Oct. 1, and is projected to generate more than \$100 million in fiscal year 2009-10 and up to \$632 million in fiscal year 2013-14.

Elimination of 1 Percent Sales Tax Discount

Governor Rendell has proposed eliminating the existing 1 percent sales tax discount.

Currently, any business with a PA sales tax license is eligible for the 1 percent discount, when the business submits its sales tax return and full payment on or before the due date.

Pennsylvania offers no discount for timely filing or remittance of employer withholding or any other

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business taxes, and the 1 percent sales tax discount is no longer warranted.

The 1 percent sales tax discount was initiated in 1954, when the sales tax was enacted, as a way to compensate business owners for the time and trouble of recording and remitting sales tax to the commonwealth. When the discount was enacted, business owners kept records by hand, an arduous and time-consuming practice.

While these businesses collected 6 percent state sales tax from customers, the discount allows them to legally keep one percent of that tax and remit the remaining 99 percent to the commonwealth.

According to Good Jobs First, a national policy research center, Pennsylvania ranks third-highest among states

sacrificing the most public funds through sales tax discounts. Pennsylvania lost \$72.3 million to the discount in fiscal year 2008-09 alone.

With current electronic cash registers, computerized accounting systems and professional accountants, record-keeping and tax remittance is much easier and less expensive for businesses.

In fiscal year 2007-08, the top 50 recipients of the Pennsylvania discount received nearly a third of the total discount. Considering about 325,000 businesses hold Pennsylvania sales tax licenses, it becomes clear that the largest businesses in Pennsylvania – those for which economies of scale make compliance costs much lower, as compared to mom-and-pop businesses – are the businesses benefiting most from this discount.

TUITION RELIEF & VIDEO POKER

As part of an economic recovery strategy to deliver much-needed relief to Pennsylvanians as quickly as possible, Governor Rendell proposes tuition relief starting this fall for families earning up to \$100,000 a year who have students attending any of Pennsylvania's 14 community colleges or the 14 public universities in the Pennsylvania State System of Higher Education.

The Governor's plan would start this fall with incoming freshmen and benefit more than 170,000 students in college once it is fully implemented. The plan will also help approximately 10,000 students who would not otherwise be able to afford college or who would have left Pennsylvania to attend college.

This plan would make college more affordable for the majority of Pennsylvanians. A family that earns \$45,000 a year will save 77 percent if they send their child to a State System university, and will pay 15 percent less if they enroll their child in a local community college.

Tuition relief would reach nearly \$550 million by the time the program is fully in place. It would be funded through revenues collected from the legalization and regulation of video poker, which is already widespread in bars and clubs across Pennsylvania.

Bars, taverns, restaurants and private clubs – establishments that have liquor licenses – would be eligible to have up to five video poker machines.

"This is not an expansion of gaming – it is the recognition that video poker is already a thriving industry in Pennsylvania," said acting Revenue Secretary Stephen H. Stetler. "Legalizing this form of entertainment will generate more than half a billion dollars annually to support the tuition relief plan. By taxing this existing practice, we will generate enough revenue to support Pennsylvania tuition relief."

The Rendell Administration encouraged the General Assembly to act quickly to enact tuition relief outside of budget discussions, so that families whose college savings accounts have been devastated by economic factors out of their control will be able to afford to send students to college this fall. It is estimated that there are at least 17,000 video poker machines in operation – all illegally – right now across the state. Legalization of this existing business would free up law enforcement resources better dedicated to the prevention and investigation of serious crimes including murder, sexual assault and drug sales.

PROPERTY TAX RELIEF

Under Governor Rendell's 2009-10 budget proposal, nearly \$908 million in property tax relief from slots gaming and Lottery funds will be provided to homeowners, delivering greatest relief to low-income seniors and people with disabilities. Through the continuation of last year's historic reduction in the amount of property tax paid by each Pennsylvania homeowner, property tax relief will provide the greatest benefit for communities with weak tax bases and high tax burdens.

The Taxpayer Relief Act – signed into law in 2006 – has already eliminated school property taxes for more than 113,000 older Pennsylvanians. In the coming year, Pennsylvania homeowners, on average, will continue to receive nearly \$200 in state-funded property tax relief – with even more savings for older adults who have the most urgent need.

The 2009-10 budget provides nearly \$908 million in property tax relief, including \$612.9 million in broad-based property tax relief and \$143.4 million in expanded property tax and rent rebates for Pennsylvania's senior

citizens. In addition, seniors who pay a significant portion of their income in property taxes or who live in high property-tax areas will receive additional targeted property tax relief totaling \$30.6 million in 2009-10. Further, Lottery revenues will provide \$120.9 million for property tax and rent rebates next fiscal year.

When fully in place, this tax reform will cut property taxes by more than \$1 billion each year.

The Property Tax/Rent Rebate program, administered by the Department of Revenue, will provide property tax and rent rebates for 624,000 senior citizens and people with disabilities earning less than \$35,000 a year. This program funds tax relief for 412,000 homeowners and 212,000 renters. These residents will receive additional property tax relief through the broad-based property tax relief eligible to all homeowners.

Pennsylvania's favorable business and tax climate, along with property tax reductions that are the direct result of the successful implementation of expanded legalized gaming, puts the commonwealth in a strong position to attract and retain jobs.

Estimated Property Tax Relief Funded by Lottery and Slots Gaming

Type of Tax Relief	Tax Relief in 2009-10
Relief for all homeowners from gaming revenue (wage tax relief in Philadelphia)	\$612.9 million
Lottery-funded property tax and rent rebates	\$120.9 million
Enhanced property tax rebates funded by gaming (higher rebates for more eligible seniors and disabled residents)	\$143.4 million
Higher rebates for senior citizens with a high tax burden or those living in cities with a high tax burden	\$30.6 million
TOTAL	\$907.8 million