

## STATE TAX LEGISLATIVE SUMMARY – JULY 2022

### Small Games of Chance (SGOC)

**Act 49 of 2022 (SB 1159)** – Act 49 made the following change to the Small Games of Chance Act:

#### *Club Licensee SGOC Proceed Usage*

- **Proceed Usage Extension:** Extends the ability of club licensees to utilize proceeds from SGOC for operating expenses without following the 60/40 split until December 31, 2022.

### Tax Reform Code Changes

**Act 53 of 2022 (HB 1342)** – Act 53 made the following changes to the Tax Reform Code:

#### *Corporate Net Income Tax*

- **Rate Reduction:** The Corporate Net Income Tax rate will decrease as follows:

Tax Year	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>CNIT Rate</b>	8.99%	8.49%	7.99%	7.49%	6.99%	6.49%	5.99%	5.49%	4.99%

- **Market Sourcing of Intangibles:** This legislation codifies market sourcing rules applicable to intangible related receipts and provides specific guidance to taxpayers regarding how to source various items of intangible income. These include sourcing of royalties on intangibles used in Pennsylvania, such as patents and trademarks; sourcing of interest associated with loans to purchase land and buildings; sourcing of interest associated with vehicle loans; sourcing of credit card interest and fees; and a mechanism to handle all other types of intangible receipts.
- **Economic Nexus:** This legislation codifies the Department of Revenue-issued Corporation Tax Bulletin 2019-04, related to economic nexus, ensuring that businesses that are operating in Pennsylvania's economic marketplace, but located out of state, are subject to Pennsylvania taxation in a similar manner to businesses with physical operations in Pennsylvania.

#### *Insurance Premiums Tax*

- **Fire Insurance Tax Fund (FITF)/Municipal Pension Aid Fund (MPAF) Modernization:** All insurance premiums taxes are to be deposited into the General Fund before being transferred to FITF and MPAF. Amounts transferred will be the greater of \$85 million or 8.5% for FITF and \$345 million or 38% for MPAF.

#### *Personal Income Tax*

- **Section 179 Deductions:** Section 179 property placed into service after December 31, 2022, may be treated as a deductible expense only to the extent allowable under Section 179 of the Internal Revenue Code, which currently is set at \$1 million.

Current language caps deductible expenses at \$25,000. Pennsylvania will follow all future federal changes to Section 179 automatically.

- **Like-Kind Exchanges:** Effective January 1, 2023, the deferral of tax due on gains from like-kind exchanges of property are allowed.

### ***Sales Tax***

- **Peer-to-Peer Car Sharing:** Applicable to sales at retail or uses beginning January 1, 2023, peer-to-peer car-sharing programs are subject to PA Sales and Use tax.
- **Computer Data Center Sales Tax Exemption Program:** The window of benefits received by certified data centers is expanded from 15 to 25 years.

### ***Table Games Tax***

- **General Fund Transfer:** Effective July 1, 2022, tax revenue from table games shall be deposited into the General Fund rather than the Property Tax Relief Fund. The Title 4 provision under §13A62(C) was repealed, which required the transfer to the Property Tax Relief Fund when the Budget Stabilization Fund balance is higher than \$750 million.

### ***Incentives, Credits and Programs***

- **Airport Land Development Zones:** Airport Land Development Zones and corresponding airport development tax credits are established.
  - The amount of the tax credit shall be equal to \$2,100 for each full-time equivalent employee in excess of the number of full-time equivalent employees prior to January 1, 2021. The amount of credit per job may not be changed by the legislature before June 30, 2025.
  - Tax credits may be applied against personal income (excluding employer withholding), corporate net income, bank and trust company shares, title insurance companies shares, and mutual thrift institutions taxes.
  - The Department of Community and Economic Development will be the lead agency for the program.
- **Dependent and Child Care Enhancement Program:** The Pennsylvania Dependent and Child Care Enhancement Tax Credit is established, which creates a refundable personal income tax credit calculated at 30% of the federal child and dependent care tax credit for those who qualified for the federal program.
- **City Revitalization & Improvement Zone:** The following changes are made to the City Revitalization & Improvement Zone (CRIZ) Program:
  - DOR is required to notify each contracting authority of all CRIZ report non-filers.
  - A CRIZ authority is permitted to provide financial assistance in the form of a grant.
  - Strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.

- **Keystone Opportunity Expansion Program:** The application deadline for the additional zones is extended from October 1, 2022, to October 1, 2023. The approval deadline is extended from December 31, 2022, to December 31, 2023.
- **Keystone Opportunity Zone Program:** The following changes are made to the Keystone Opportunity Zone (KOZ) Program:
  - Qualified businesses that receive an additional 10 years of KOZ benefits are able to extend the benefits to affiliates located within the same zone.
  - Any affiliate of a qualified business located within a zone that relocates to this zone will also qualify for the program.
  - Extensions will remain in effect if the original business that made the investment and jobs moves out of the zone if an affiliate remains.
- **Neighborhood Improvement Zone:** Strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.
- **Waterfront Development Tax Credit:** The total aggregate amount of tax credits available in any fiscal year for the Waterfront Development Tax Credit shall increase to \$5 million from \$1.5 million. The total aggregate amount of tax credits may not be changed by the legislature before June 30, 2025.
- **Research and Development Tax Credit:** The total aggregate amount of tax credits available for fiscal year award was increased to \$60 million from \$55 million. The credit maintains the 80/20 split for small businesses. Further, the total aggregate amount of tax credits may not be changed by the legislature before June 30, 2025.
- **Entertainment Production Tax Credit:** The following changes are made to the Entertainment Production Film Tax Credit Program:
  - The total aggregate amount of tax credits available in any fiscal year under the program shall increase to \$100 million from \$70 million. The total aggregate amount of tax credits may not be changed by the legislature before June 30, 2025.
  - Multi-film taxpayers or affiliates are allowed to submit alternative films to maintain DCED contracts under the program.
  - Productions by Pennsylvania film producers are allotted \$5 million of the cap. If no applications are approved, the allotment will be available for any approved applicant.
- **Entertainment Economic Enhancement Program:** The total aggregate amount of tax credits available in any fiscal year for the Entertainment Economic Enhancement Program (EEEP) Concert Tax Credit shall increase to \$24 million from \$8 million. The legislature cannot change the amount of tax credits that may be awarded under this program before June 30, 2025.

### ***Inheritance Tax***

- **Additional Transfer Exemption:** Transfers of property at death by a member of the military on active duty shall be exempt from inheritance tax. Effective September 6, 2022.

### ***Public Transportation Assistance Fund Car Sharing Daily Fee***

- The rate schedule for rentals of less than a day has been modified. The \$1.25 fee now applies to rentals of more than three but less than six hours; the \$2.00 fee applies to rentals of 6 hours or more.
- Peer-to-peer car sharing programs are now subject to the fee.

### **Fiscal Code Changes**

**Act 54 of 2022 (HB 1421)** – Act 54 made the following changes to the Fiscal Code:

- **One-Time Supplemental Property Tax Rent Rebate (PTRR):** Claimants who were approved for a rebate for property taxes or rent paid in 2021 will automatically receive a one-time supplemental rebate in addition to the original approved rebate. The one-time supplemental rebate shall be equal to 70% of the claimant's previously approved claim amount for the 2021 PTRR claim year.
- **Military Installation Remediation Projects:**
  - Strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.
  - Makes changes to the terms and qualifications for members of the authority's board.

### **Public School Code Changes**

**Act 55 of 2022 (HB 1642)** – Act 55 made the following changes to the Public School Code:

- **Educational Improvement Tax Credit:** The total aggregate amount of all tax credits available in a fiscal year increases to \$340 million from \$225 million.
- **Opportunity Scholarship Tax Credit:** The total aggregate amount of all tax credits available in a fiscal year increases to \$65 million from \$55 million.

### **Title 3 (Agriculture) Changes**

**Act 74 of 2022 (HB 2157)** – Act 74 made the following changes to the Fireworks Law:

- **Fireworks Law Changes:** The Act removes the Fireworks Tax provisions from the Tax Reform Code and moves them to Title 3. In addition, Act 74 makes the following changes:
  - The 12% fireworks tax is now calculated on the purchase price only, rather than after sales and use tax has been applied.
  - The 12% fireworks tax revenues no longer remain in the General Fund and will instead be transferred to the following programs:

- \$1.5 million to EMS Grant Program
  - \$250,000 to Online Training Educator and Training Reimbursement Account
  - \$1 million to PHEAA for Loan Forgiveness and Tuition Assistance to active volunteer firefighters and volunteer EMS providers
  - \$1 million to Department of Health for EMS Training
  - \$500,000 to Office of the State Fire Commissioner for Emergency Services Training Center Capital Grants
  - \$500,000 to Office of the State Fire Commissioner for Career Fire Dept. Capital Grants
  - \$250,000 to Office of the State Fire Commissioner for Public Safety Campaign
  - \$500,000 to Office of the State Fire Commissioner for FBI-Accredited PA Bomb Squad Reimbursement
  - Any remaining money shall be equally divided and transferred as follows:
    - 50% to EMS Grant Program
    - 50% to Fire Company Grant Program
- Because of the effective date of this change, the first fiscal year for the new transfers will be 2023-24. Fireworks tax revenue will remain in the General Fund for 2022-23.