2010 - 2011
ESTIMATE DOCUMENTATION

pennsylvania
DEPARTMENT OF REVENUE

Bureau of Research
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DOP-12 (02-10)

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GENERAL FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2009-10 Revised	2010-11 Budget	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
TOTAL - GENERAL FUND	**28,299.7**	**27,515.1**	**28,629.7**	**29,786.5**	**30,911.1**	**32,124.5**
TOTAL - TAX REVENUE	**25,541.1**	**26,553.9**	**28,111.6**	**29,241.6**	**30,387.7**	**31,571.0**
TOTAL - Corporation Taxes	**5,072.0**	**4,947.4**	**5,043.2**	**4,927.8**	**4,736.6**	**4,679.7**
Corporate Net Income	1,854.8	1,794.2	1,875.6	1,988.9	2,020.3	2,020.5
Capital Stock & Franchise	960.3	852.2	777.2	462.8	143.3	5.3
Selective Business Total	2,256.9	2,301.0	2,390.4	2,476.1	2,573.0	2,653.9
Utility Gross Receipts	1,473.5	1,541.3	1,603.7	1,672.1	1,749.4	1,815.1
Utility Property	45.5	48.2	51.4	53.5	56.0	58.6
Insurance Premiums	515.0	484.9	506.2	520.7	537.5	554.9
Financial Institutions	208.1	211.1	212.8	212.7	212.1	206.4
Other	14.8	15.5	16.3	17.1	18.0	18.9
TOTAL - Consumption Taxes	**9,380.6**	**10,038.9**	**10,518.2**	**11,211.6**	**11,775.1**	**12,292.7**
Sales and Use	8,090.5	8,624.0	9,088.3	9,766.0	10,313.1	10,813.5
Cigarette	979.8	1,091.2	1,092.2	1093.2	1,094.2	1,095.2
Malt Beverage	26.0	26.0	26.0	26.0	26.0	26.0
Liquor	284.3	297.7	311.7	326.4	341.8	358.0
TOTAL - Other Taxes	**11,088.5**	**11,567.6**	**12,550.2**	**13,102.2**	**13,876.0**	**14,598.6**
Personal Income	10,005.4	10,378.8	11,114.2	11,550.7	12,227.2	12,865.3
Realty Transfer	295.2	292.8	350.1	381.7	413.7	441.9
Inheritance	779.2	794.8	982.2	1,075.1	1,140.8	1,197.1
Table Games	0.0	92.5	95.0	86.0	85.6	85.6
Minor and Repealed	8.7	8.7	8.7	8.7	8.7	8.7
TOTAL - NONTAX REVENUE	**2,758.6**	**961.2**	**518.1**	**544.9**	**523.4**	**553.5**
Liquor Store Profits	105.0	105.0	80.0	80.0	80.0	80.0
Licenses, Fees & Miscellaneous Total	2,633.3	836.0	417.9	444.7	423.2	453.3
Licenses and Fees	320.8	124.2	124.2	124.2	124.2	124.2
Miscellaneous	2,312.5	711.8	293.7	320.5	299.0	329.1
Fines, Penalties & Interest Total	20.3	20.2	20.2	20.2	20.2	20.2
F, P & I On Taxes	17.0	17.0	17.0	17.0	17.0	17.0
F, P & I Other	3.3	3.2	3.2	3.2	3.2	3.2

* Individual accounts may not sum to totals due to rounding.

GENERAL FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2009-10 Revised	2010-11 Budget	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
TOTAL - GENERAL FUND	**10.8%**	**-2.8%**	**4.1%**	**4.0%**	**3.8%**	**3.9%**
TOTAL - TAX REVENUE	**1.0%**	**4.0%**	**5.9%**	**4.0%**	**3.9%**	**3.9%**
TOTAL - Corporation Taxes	**4.9%**	**-2.5%**	**1.9%**	**-2.3%**	**-3.9%**	**-1.2%**
Corporate Net Income	-6.3%	-3.3%	4.5%	6.0%	1.6%	0.0%
Capital Stock & Franchise	21.9%	-11.3%	-8.8%	-40.5%	-69.0%	-96.3%
Selective Business Total	9.4%	2.0%	3.9%	3.6%	3.9%	3.1%
Utility Gross Receipts	7.0%	4.6%	4.0%	4.3%	4.6%	3.8%
Utility Property	8.6%	5.9%	6.6%	4.1%	4.7%	4.6%
Insurance Premiums	19.4%	-5.8%	4.4%	2.9%	3.2%	3.2%
Financial Institutions	4.8%	1.4%	0.8%	0.0%	-0.3%	-2.7%
Other	5.0%	4.7%	5.2%	4.9%	5.3%	5.0%
TOTAL - Consumption Taxes	**2.2%**	**7.0%**	**4.8%**	**6.6%**	**5.0%**	**4.4%**
Sales and Use	-0.6%	6.6%	5.4%	7.5%	5.6%	4.9%
Cigarette	29.9%	11.4%	0.1%	0.1%	0.1%	0.1%
Malt Beverage	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquor	6.7%	4.7%	4.7%	4.7%	4.7%	4.7%
TOTAL – Other Taxes	**-1.7%**	**4.3%**	**8.5%**	**4.4%**	**5.9%**	**5.2%**
Personal Income	-1.9%	3.7%	7.1%	3.9%	5.9%	5.2%
Realty Transfer	0.2%	-0.8%	19.6%	9.0%	8.4%	6.8%
Inheritance	0.9%	2.0%	23.6%	9.5%	6.1%	4.9%
Table Games	N/A	N/A	2.7%	-9.5%	-0.5%	0.0%
Minor and Repealed	-32.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL - NONTAX REVENUE	**1072.9%**	**-65.2%**	**-46.1%**	**5.2%**	**-3.9%**	**5.8%**
Liquor Store Profits	-16.0%	0.0%	-23.8%	0.0%	0.0%	0.0%
Licenses, Fees & Miscellaneous Total	2819.4%	-68.3%	-50.0%	6.4%	-4.8%	7.1%
Licenses and Fees	165.8%	-61.3%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	7682.0%	-69.2%	-58.7%	9.1%	-6.7%	10.1%
Fines, Penalties & Interest Total	1.5%	-0.5%	0.0%	0.0%	0.0%	0.0%
F, P & I On Taxes	-1.2%	0.0%	0.0%	0.0%	0.0%	0.0%
F, P & I Other	17.9%	-3.0%	0.0%	0.0%	0.0%	0.0%

* Figures reflect changes in unrounded receipts.

MOTOR LICENSE FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2009-10 Revised	2010-11 Budget	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
TOTAL - MOTOR LICENSE FUND	**2,601.0**	**2,619.1**	**2,735.0**	**2,803.6**	**2,851.4**	**2,881.3**
TOTAL - LIQUID FUELS TAXES	**1,179.3**	**1,180.6**	**1,183.1**	**1,186.7**	**1,191.5**	**1,197.5**
Liquid Fuels	555.9	556.4	557.6	559.2	561.5	564.3
Fuels	145.4	145.5	145.8	146.3	146.8	147.6
Motor Carriers / IFTA	39.7	39.9	40.1	40.3	40.5	40.7
Alternative Fuels	0.6	0.6	0.6	0.6	0.6	0.6
Oil Company Franchise	437.8	438.2	439.1	440.4	442.2	444.4
TOTAL - LICENSES & FEES	**843.5**	**844.5**	**896.3**	**936.4**	**954.4**	**964.7**
Special Hauling Permits	18.3	18.8	19.3	19.8	20.3	20.8
International Registration Plan (IRP)	72.4	74.4	76.6	78.8	81.0	83.3
Operators' Licenses	62.3	59.1	62.6	62.6	63.5	60.2
Vehicle Registration & Titling	659.1	659.7	704.3	740.5	753.6	763.1
Other Fees - Bureau of Motor Vehicles	31.4	32.5	33.6	34.8	36.0	37.2
TOTAL - OTHER MOTOR	**578.2**	**593.9**	**655.6**	**680.5**	**705.5**	**719.2**
Revenue/Gross Receipts Tax	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Code Fines/Clearing Account	30.2	30.2	30.2	30.2	30.2	30.2
Miscellaneous - Treasury	24.0	27.2	76.2	88.1	99.7	99.7
Miscellaneous - Transportation	22.6	22.5	22.4	22.2	22.1	21.9
Miscellaneous - General Services	1.0	1.0	1.0	1.0	1.0	1.1
Miscellaneous - Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Turnpike Payments	500.0	512.5	525.3	538.4	551.9	565.7
Clearing Account	0.5	0.5	0.5	0.5	0.5	0.5

* Individual accounts may not sum to totals due to rounding.

MOTOR LICENSE FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2009-10 Revised	2010-11 Budget	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
TOTAL - MOTOR LICENSE FUND	**1.7%**	**0.7%**	**4.4%**	**2.5%**	**1.7%**	**1.0%**
TOTAL - LIQUID FUELS TAXES	**1.4%**	**0.1%**	**0.2%**	**0.3%**	**0.4%**	**0.5%**
Liquid Fuels	6.8%	0.1%	0.2%	0.3%	0.4%	0.5%
Fuels	-2.8%	0.1%	0.2%	0.3%	0.3%	0.5%
Motor Carriers / IFTA	0.0%	0.5%	0.5%	0.5%	0.5%	0.5%
Alternative Fuels	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oil Company Franchise	-3.3%	0.1%	0.2%	0.3%	0.4%	0.5%
TOTAL - LICENSES & FEES	**-4.6%**	**0.1%**	**6.1%**	**4.5%**	**1.9%**	**1.1%**
Special Hauling Permits	-4.4%	2.7%	2.7%	2.6%	2.5%	2.5%
International Registration Plan (IRP)	-31.9%	2.8%	3.0%	2.9%	2.8%	2.8%
Operators' Licenses	1.5%	-5.1%	5.9%	0.0%	1.4%	-5.2%
Vehicle Registration & Titling	-0.8%	0.1%	6.8%	5.1%	1.8%	1.3%
Other Fees - Bureau of Motor Vehicles	-3.2%	3.5%	3.4%	3.6%	3.4%	3.3%
TOTAL - OTHER MOTOR RECEIPTS	**13.4%**	**2.7%**	**10.4%**	**3.8%**	**3.7%**	**1.9%**
Revenue/Gross Receipts Tax	NA	NA	NA	NA	NA	NA
Vehicle Code Fines/Clearing Account	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous - Treasury	-149.6%	13.3%	180.1%	15.6%	13.2%	0.0%
Miscellaneous - Transportation	-4.4%	-0.4%	-0.4%	-0.9%	-0.5%	-0.9%
Miscellaneous - General Services	-10.0%	0.0%	0.0%	0.0%	0.0%	10.0%
Miscellaneous - Revenue	NA	NA	NA	NA	NA	NA
Turnpike Payments	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Clearing Account	-80.9%	0.0%	0.0%	0.0%	0.0%	0.0%

* Figures reflect changes in unrounded receipts.

Tax revenues are affected by legislative and judicial modifications on both the national and state levels. The following is a list of recently enacted significant changes in state law that may affect unrestricted General Fund and Motor License Fund revenues.

ACT #1 of January 7, 2010 made the following changes:

To Table Game Taxes and Assessments:

- Table Game Tax – Established a 12 percent table game tax imposed on gross table game revenue; however, for 2 years following commencement of table game operations at a facility, the rate is 14 percent. The funds from these taxes are deposited to the General Fund until such time as, on the last day of the fiscal year, the balance in the Budget Stabilization Reserve Fund is certified by the Secretary of the Budget to exceed $750,000,000. Thereafter, the funds from this tax are deposited to the Property Tax Relief Fund.
- Local Share Assessment – Established a 2 percent local share assessment imposed on gross table game revenue. These funds are deposited to the State Gaming Fund. Quarterly, the Department of Revenue distributes the local share assessment to counties and municipalities hosting a licensed facility authorized to conduct table games. The exact distribution and uses are prescribed by the Act and are based upon the classification of the county and municipality in which the facility resides.

To Non-Tax Revenues:

- Licenses, Fees & Miscellaneous – Established various fees related to table games, including a table games certificate fee and supplier and manufacturer license fees. The table games certificate fee for Category 1 and 2 facilities is a one-time fee of $16,500,000 if paid on or before June 1, 2010, or $24,750,000 if paid after June 1, 2010. The table games certificate fee for Category 3 facilities is a one-time fee of $7,500,000 if paid on or before June 1, 2010, or $11,250,000 if paid after June 1, 2010. However, the certificate fee for any Category 1 or 3 facility that holds a slot machine license issued after June 1, 2010, is $16,500,000 or $7,500,000, respectively.
- Transfers – Amounts from the Pennsylvania Race Horse Development Fund will be transferred to the General Fund, beginning January 1, 2010, and continuing through fiscal year 2012-13. January 1, 2010, through the end of fiscal year 2009-10, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 34 percent to General Fund and 66 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula. In fiscal years 2010-11 through 2012-13, funds from the Pennsylvania Race Horse Development Fund will be distributed as follows: 17 percent to the General Fund and 83 percent to active and operating Category 1 licensees conducting live racing apportioned in accordance with a prescribed formula.
- Transfer – A one-time transfer will be made to the General Fund in fiscal year 2009-10 from amounts previously appropriated to the Pennsylvania Gaming Control Board.

ACT #10A of October 9, 2009 made the following changes:

To Non-Tax Revenues:

- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10: Higher Education Assistance Fund; Keystone Recreation, Park and Conservation Fund; Dog Law Restricted Revenue Account; Oil & Gas Lease Fund.

ACT #48 of October 9, 2009 made the following changes:

To the Sales and Use Tax:

- Exclusion – The sale at retail of helicopters and similar rotorcraft are excluded from sales and use tax. In addition, repairs to and the sale of replacement parts for helicopters and similar rotorcraft are exempt from sales and use tax.
- Returns and Remittances – Sales tax licensees reporting a total tax liability of $25,000 or more for the third calendar quarter of the preceding year are required to report and remit payment to the department on a semi-monthly basis. For the period of the first day of the month through the 15th day of the month, the return and remittance are due on or before the 25th day of the month. For the period from the 16th day of the month to the last day of the month, the return and remittance are due on or before the 10th day of the following month. This change will be effective for reporting periods beginning after May 31, 2011.

To the Personal Income Tax:

- Check-offs – The sunset dates for the following check-offs on the Personal Income Tax return have been extended to Jan. 1, 2014: Wild Resource Conservation, Organ and Tissue Donation Awareness, and Military and Family Relief Assistance. The sunset dates for the check-offs for Breast and Cervical Cancer Research and Juvenile Diabetes Cure Research Funds have been extended indefinitely.
- Employer Withholding Reports and Remittances – An employer that can reasonably anticipate that its employer withholding will be $20,000 or more in a calendar year will be required to report and remit the tax on a semi-weekly schedule. This change requires the largest employers to submit withheld taxes to the department on a schedule similar to the one used by the IRS. This change is effective for periods beginning after May 31, 2010.

To the Corporate Net Income Tax:

- Sales Factor – For tax years beginning after December 31, 2008, the sales factor used in calculating the Corporate Net Income Tax will increase from 70 percent to 83 percent. The sales factor weight will be further increased from 83 percent to 90 percent for tax years beginning after December 31, 2009.
- Net Operating Loss – The cap on the net operating loss will increase to the greater of $3 million or 15 percent for tax years beginning after December 31, 2008, and $3 million or 20 percent for tax years beginning after December 31, 2009.

To the Capital Stock and Franchise Tax:

- The standard deduction used in calculating the Capital Stock and Franchise Tax will increase from $150,000 to $160,000 for tax years beginning after December 31, 2009.
- The tax rate has been set as 2.89 mills for tax years beginning in 2009 through 2011, and then declines by one mill per year until eliminated for tax years beginning after December 31, 2013.

To the Gross Receipts Tax:

- A tax of 59 mills is imposed upon each dollar of gross receipts received by Managed Care Organizations pursuant to a contract with the PA Department of Public Welfare.

To the Cigarette Tax:

- Increases the excise tax from $1.35 on a pack of twenty cigarettes (6.75 cents per stick) to $1.60 per pack (8 cents per stick). (Effective November 1, 2009)
- A floor tax will be due on inventories of previously-stamped cigarette packs for the difference of the tax. The floor tax return and payment is due January 29, 2010.
- Reduces the commission paid to cigarette stamping agents for services and expenses incurred in affixing cigarette stamps from 0.98 percent to 0.87 percent. (Effective November 1, 2009)
- Repeals the 18.52 percent transfer of proceeds from cigarette tax receipts to the Health Care Provider Retention Account. (Effective November 1, 2009)
- Little Cigars – The definition of cigarettes was expanded to include little cigars, weighing less than four pounds per thousand. Beginning November 1, 2009, little cigars in packages of 20 or 25 per pack are required to be tax stamped like cigarettes. Little cigars in packages other than 20 or 25, which are determined to be “unstampable”, become taxable at the same rate of 8 cents per stick on January 4, 2010.
- Retailers will be required to calculate a floor tax on “unstampable” little cigars in inventory on January 4, 2010. The floor tax return and payment will be due by January 29, 2010.
- Taxpayers who have not sold cigarettes prior to November 1, 2009, but sell little cigars, will be required to obtain a cigarette dealers license. Shippers are required to report to the department the weight, brand name, number per package and to whom the little cigars were shipped.

To the Research and Development Tax Credit:

- The current one-year holding period for the transfer or assignment of the R&D tax credit has been removed. For fiscal year 2009-10, the annual credit cap will be $20 million. For fiscal year 2010-11, the cap will be $18 million.

To the Educational Improvement Tax Credit:

- This credit language has been relocated from the Public School Code to the Tax Reform Code. The maximum annual household income to qualify will be $50,000 until July 1, 2011, and $60,000 thereafter. For fiscal year 2009-10, the annual credit cap will be $60 million. For fiscal year 2010-11, the cap will be $50 million.

To the Film Production Tax Credit:

- For fiscal year 2009-10, the annual cap will be $42 million. For fiscal year 2010-11, the cap will be $60 million.

To the Alternative Energy Production Tax Credit:

- For fiscal years 2009-10 and 2010-11, the annual credits available have been reduced to $0.

To the Other Tax Credits:

- For the following tax credits, the total amount available for award to eligible taxpayers will be 50 percent of the total amount otherwise available for award in fiscal year 2009-10, and 45 percent of the total amount otherwise available for award in fiscal year 2010-11. This applies to the Call Center Credit, Employment Incentive Payments, Job Creation Tax Credit, Neighborhood Assistance Tax Credit, Resource Enhancement and Protection Tax Credit, and the First Class Cities Economic Development District Credit.

ACT #50 of October 9, 2009 made the following changes:

To Non-Tax Revenues:

- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10 and 2010-11: Health Care Cost Containment Council; Tobacco Settlement Fund; Tobacco Endowment Account for Long-Term Hope; Health Care Provider Retention Account; Medical Care Availability And Reduction of Error Fund; Budget Stabilization Reserve Fund.

ACT #79 of July 10, 2008 made the following changes:

To the Keystone Opportunity Zones:

- Expands the Keystone Opportunity Zone (KOZ) program. Under this legislation, KOZs that are set to expire within the next five to ten years will have the option of extending benefits for seven to ten years. Zones that expire in January of 2008 will be given until June 2009 to apply for the extension.
- The Department of Community and Economic Development (DCED) may designate up to 15 additional zones beginning on January 1, 2010. These newly designated zones must be sponsored by a political subdivision. Moreover, a political subdivision may be able to swap underutilized zones for new locations within the political subdivision. Applications must be received by DCED by December 31, 2008.
- Under this legislation, contractors, pursuant to a contract with a qualified business, landowner or lessee, may purchase, exempt from Sales and Use Tax, any tangible personal property or services for use in the zone by the qualified business.
- The formula for calculating the taxable income of a corporation is only based upon the payroll and property factors. The sales factor has been eliminated from the calculation.
- The bill further prohibits a person or business from knowingly employing an illegal alien. Those found to be in violation may be required to repay all tax benefits received for a two-year period while being located within the zone.

ACT #1 of the Special Session of July 9, 2008 made the following changes:

To the Alternative Energy Production Tax Credit:

- Taxpayers that develop or construct alternative energy production projects located within the Commonwealth, which have a useful life of at least four-years, may apply to the Department of Environmental Protection (DEP) for a credit beginning in September 2009. The amount of the credit may be up to 15% of the amount paid for the development and construction of alternative energy production project but may not exceed $1,000,000 per taxpayer. Unused portions of the credit may be carried forward for up to five taxable years from the year in which the credit is awarded. Credits may not be applied to previous tax years. Additionally taxpayers may, upon approval by the DEP, sell or assign an unused credit after one year from the date that the credit was approved. The total amount of credits that may be awarded annually is as follows:
  - $5 million for Fiscal Years 2008-09 through 2011-12;
  - $7 million in Fiscal Year 2012-13;
  - $10 million in Fiscal Years 2013-14 through 2014-15; and
  - $2 million in Fiscal Year 2015-16.

ACT #66 of July 9, 2008 made the following changes:

To the Volunteer Responder Retention and Recruitment Tax Credit:

- Qualified active volunteer ambulance, fire and rescue personnel are eligible for a credit of up to $100 to be used against their Pennsylvania Personal Income Tax liability. The credit is available for Tax Years beginning after December 31, 2007 and ending before January 1, 2009. Eligibility of volunteers for the credit will be determined based upon certification by their designated supervisor or chief under a point system approved by the State Fire Commissioner and State EMS Director. If the entire credit cannot be used against the volunteer's tax liability for the year in which it was awarded, it may be carried forward to succeeding tax years. The amount of credits awarded cannot exceed $4,500,000.

To the Personal Income Tax:

- Monies from the check-offs for breast and cervical cancer research will now be transferred to the Pennsylvania Breast Cancer Coalition, rather than the Department of Health.

ACT #61 of July 9, 2008 made the following changes:

***To the Educational Improvement Tax Credit*:**

- Makes Subchapter S corporations and other pass-through entities eligible for the Education Improvement Tax Credit (EITC) program, which allows business firms to receive tax credits for certain contributions made to non-profit, scholarship and education improvement organizations. Business firms applying for tax credits for a second year of a two-year commitment may apply beginning on May 15. Other business firms applying for tax credits may apply beginning on July 1. Pass through entities may apply beginning on July 7. The bill also increases the annual credit limit per taxpayer from $200,000 to $300,000 for scholarship and education improvement organizations, and increases the annual credit limit for contributions to pre-kindergarten scholarship organizations from $100,000 to $150,000.

ACT #42 of July 4, 2008 made the following changes:

To the Cigarette Fire Safety and Firefighter Protection Act:

- Beginning July 1, 2009, only self-extinguishing cigarettes that have been tested, certified and stamped may be sold in Pennsylvania. Cigarette manufacturers must submit certifications to the Department, with a $1,000 fee per brand, stating that the cigarettes offered have been tested pursuant to the standards set forth in the Act. The Department, the State Fire Commissioner and the Attorney General are charged with enforcing the Act. Manufacturers, wholesalers and stamping agents found in violation may be subject to a penalty not to exceed $10,000 per sale; $25,000 for subsequent offenses. Retailers found to be in violation may be subject to fines of up to $500; $5,000 for subsequent offenses.
- Certification fees collected will be deposited into the Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund to support the processing, testing, enforcement and oversight duties under the Act. Monies received from penalties will be deposited into the Fire Prevention and Public Safety Fund to support fire safety and prevention programs administered by the State Fire Commissioner.

ACT #32 of July 2, 2008 made the following changes:

To the Local Earned Income and Net Profits Tax:

- Consolidates on a county-wide basis the collection of the local earned income and net profits taxes. Each tax collection district will have one appointed tax collector. The number of local collectors will be reduced from 560 to 69 beginning January 1, 2010. Municipalities are included in the tax collection district in which its school district is located. Local taxing districts may enter into an agreement with the Department for the exchange of information necessary for the administration and enforcement of local tax collection. Furthermore, the DCED, in consultation with the Department shall develop forms and regulations for local tax collection.

ACT #77 of December 18, 2007 made the following changes:

To the Hazardous Sites Cleanup Fund:

- Permits the State Treasurer to transfer $40 million of capital stock franchise tax revenue to the Hazardous Sites Cleanup Fund for fiscal years 2008-09 and beyond (Effective immediately).

ACT #55 of July 25, 2007 made the following changes:

To the Personal Income Tax:

- The check-off for breast and cervical cancer research will no longer have an expiration date. Extends the expiration date for wild resource conservation and organ and tissue donor awareness to December 31, 2009. (Effective immediately)

To the Bank Shares Tax:

- Permits banks involved in mergers or acquisitions to deduct goodwill from the book value of total equity capital generated as a result of combinations.
- Applicable to combinations occurring after June 30, 2001 and to the returns due on March 15, 2008.

To the Film Production Tax Credit:

- Establishes the Film Production Tax Credit for certain production expenses of the producers of feature films and certain television commercials or shows intended for a national audience. In order to qualify, 60% of total production expenses must be incurred in Pennsylvania and compensation paid to individuals or payments made to entities representing individuals for services provided in the film may not exceed $15 million. The tax credit is equal to 25% of qualified film production expenses and may be used against the PIT, CNIT, or CSFT. (Effective immediately)

To the Neighborhood Assistance Tax Credit:

- Extends the Neighborhood Assistance Tax Credit (NATC) to include pass-through entities.
- The credit may now be sold or assigned.
- Increase the amount of the NATC awarded to a taxpayers and private companies by 5%.
- The amount of credits awarded annually cannot exceed $500,000 (increased from $250,000) for contributions or investments for single projects.
- NATC provisions are effective immediately.

To the Resource Enhancement and Protection Tax Credit:

- Establishes the Resource Enhancement and Protection (REAP) tax credit for the cost of agricultural operations that enhance farm production and protect natural resources. Dependent on the type of project, a tax credit in the amount of 75% of the eligible project or 50% of the project costs may be awarded up to a maximum amount of $150,000 for each eligible applicant or project. This tax credit may be use against personal income tax, corporate net income tax, capital stock and franchise tax, bank shares tax, title insurance company premiums tax, insurance premiums tax, and mutual thrift institutions tax.
- REAP tax credit provisions effective October 23, 2007, except credits for legacy sediment which cannot be issued prior to July 1, 2008.
- The total amount of credits that can be awarded in a fiscal year is $10 million.

To the Sales and Use Tax:

- Includes the remanufacturing of locomotive parts in the manufacturing exemption. (Effective immediately)
- Repeals SUT exclusion for the production of commercial motion pictures effective October 1, 2007.
- Expands refund for bad debt to include private label credit cards from retailers. Applies to amounts deducted as bad debts on Federal income tax returns required to be filed after January 1, 2008.

Miscellaneous Provisions:

- Provides a nexus exemption for the customers of powered metallurgy parts manufacturers. Exemption is applicable to taxable years beginning after December 31, 2004, as well as taxable years as to which there is an appeal prior to the effective date of this act.

ACT #45 of July 20, 2007 made the following changes:

To the Education Improvement Tax Credit:

- Increases the annual cap on credits from $59 million to $75 million. This change increases the amount available for contributions to scholarship organizations from $8.7 million, and the amount available for contributions to educational improvement organizations from $4.3 million to $22.3 million. The total amount of credits available for kindergarten organizations will now be $8 million per year, an increase of $3 million. (Effective immediately)

ACT #44 of July 18, 2007 made the following changes:

To Operation of the Turnpike Commission:

- Turnpike Commission will enter into a 50-year lease agreement with PennDOT, requiring the Commission to make payments to PennDOT. In return, the Commission will be allowed to toll and operate Interstate-80.
- Authorizes the Commission, in consultation with PennDOT, to prepare a civil engineer's report, financial analysis, and application to US Department of Transportation for the conversion of Interstate 80 to a toll road pursuant to any Federal program for which it may be eligible. This action requires explicit approval from the General Assembly prior to conversion of Interstate 80 to a toll road.
- Moves up the date of increasing fares on the turnpike to 2009. Fares were originally slated to be increased by 25% in 2010. Fares will continue to increase at a rate of 3% annually after 2009.

To Transportation Funding:

- Replaces the current funding for transit agencies with a revenue neutral dedicated portion of the SUT, which is equal to 4.4% of collections.

To Local Taxation:

- Permits Allegheny county to levy a tax on liquor by the glass of up to 10% or a rental car tax of $2 a day to cover their local share of transportation funding.

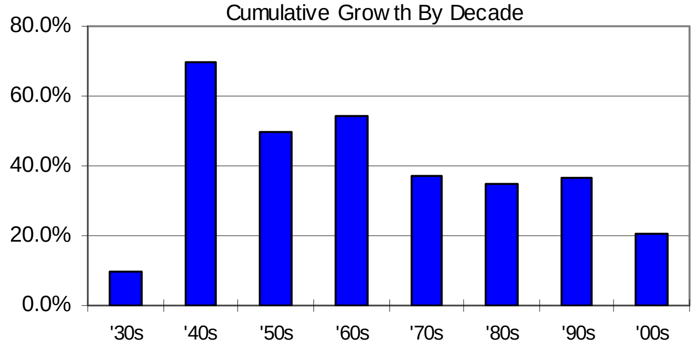
ECONOMIC OUTLOOK

In constructing their tax revenue estimates, the Pennsylvania Department of Revenue and the Office of the Budget are assisted by economic forecasts provided by two main sources of forecast data: 1) IHS Global Insight, Inc., of Lexington, Massachusetts, and 2) Moody's Economy.com, Inc., of West Chester, Pennsylvania. Both of these firms are private economic forecasting and consulting firms that provide forecast data to the commonwealth and other customers. Various projections from IHS Global Insight's national forecast, as well as a recent forecast produced by Moody's Economy.com, were used to develop the revenue estimates in this document for the budget year and other future fiscal years. Analyses and discussion in this section, as well as the revenue estimates used in the budget, are based on a combination of data from each source and further analysis from the Department of Revenue and the Office of the Budget.

Recent Trends

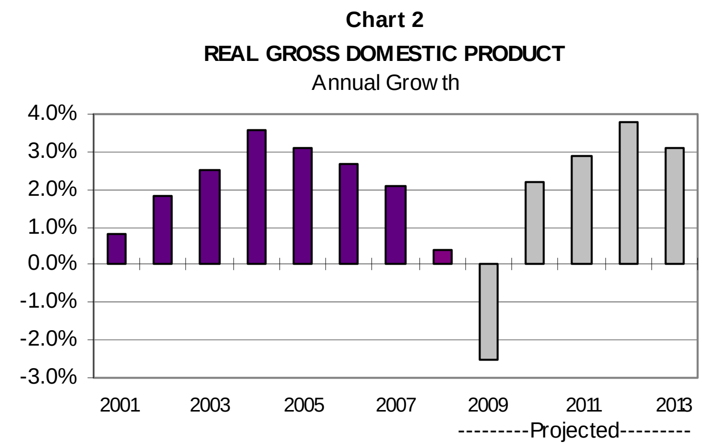
As the curtain closed on the first decade of the 21st century, early indications are that it was a decade worth forgetting, at least from an economic perspective. During that decade, the national economy weathered the bursting of two economic bubbles. The first was the dot-com technology bubble, which burst in 2001 and wrought a considerable amount of economic damage. More recently, the bursting of the housing bubble has crippled our economy and shaken the financial base of the country. The years from 2000 to 2009 brought forth: two recessions – the short one of 2001 and the current one, or the "Great Recession," which is the longest and deepest recession since the Great Depression; a terrorist attack on the World Trade Center – the heart of the financial world; separate wars in Iraq and Afghanistan; and a seemingly never-ending "global war on terror." Net employment growth was virtually non-existent, as the decade produced just 0.1 percent net new jobs, or a mere 100,000 net new jobs. The minimal level of growth in net new jobs during the decade occurred despite a nearly 8 percent increase in the national labor force – more than 10 million people. Moreover, economic growth for the decade, as measured by change in real gross domestic product (GDP), was anemic, reaching only 2 percent annually or 20 percent in total for the full decade. This sluggish rate of growth makes 2000-2009 the decade with the slowest economic growth since the 1930s, as seen in Chart 1. Despite the impact of the Great Depression, the 1930s were still able to manage growth at about 10 percent for the decade. Further, annual economic growth in the post-World War II period averaged 4.75 percent through 1969 and 3.5 percent from 1970 through 1999. Finally, the total return of the S&P 500 Index from the end of 1999 to December 2009 was minus 9 percent and the S&P 500 has lost more of its value than it did in the 1930s. All in all, an economic decade well worth forgetting.

Chart 1
REAL GROSS DOMESTIC PRODUCT
Cumulative Growth By Decade



The U.S. economy, which had been slowing since 2004, officially entered recession in December 2007. Chart 2 displays actual growth in real GDP from 2001 to 2008 and projected growth for 2009-2013.

By the fall of 2007, the U.S. economy was beginning to feel the first effects of the housing and financial crisis that was about to unfold. Housing construction and sales of new and existing houses began to slide precipitously. In 2008 new home construction saw its largest decline in fifty years, off 40.5 percent from 2007 levels. The declines in new home construction in 2007, 2008 and 2009 are the three largest declines since the government began keeping such records in 1959. Existing home sale prices fell in 2007 for the first time on record, and then plunged another 12 percent in 2008. New home starts peaked at 1.7 million units annually in 2005; since then, new home starts plunged to 439,000 new starts in 2009 – a decline of nearly 75 percent over the same period.



Problems related to housing construction, housing sales and housing finance spread to other areas of the economy, infecting the credit markets and ravaging Wall Street in late 2008 and early 2009. The availability of easy and cheap credit since 2001 had led to a housing boom, aggressive consumer spending and rising debt levels. Home values increased by double-digit rates seemingly every year and housing construction exploded. Historically low interest rates led to many mortgages that were approved for borrowers with less-than-perfect credit (also known as "subprime" mortgages), based on the assumption that home values would continue to rise. Subprime mortgages were peddled extensively in high-growth areas such as California, Arizona, Nevada, Florida and Texas. Invariably, the subprime mortgages were adjustable-rate mortgages, which were affordable to the borrowers only because of their low introductory rates. As interest rates rose and mortgages began to reset at higher rates, many homeowners could no longer afford to make their payments. Defaults and foreclosures began to accelerate in late 2006 and continued through 2009.

As the housing crisis deepened, it rippled through other areas of the economy. Formerly attractive asset-backed securities and mortgage-backed bonds began to lose value as the underlying cash flows from homeowners started to wane. Investment banks and the broader financial markets have been hardest hit by the bursting of the housing bubble, as they have been forced to write down more than $1.7 trillion dollars in losses -- primarily based on the crashing values of these asset-backed housing securities. In response to mounting losses associated with housing, financial institutions have significantly tightened their lending standards and access to credit has virtually dried up for all but the top consumer and business borrowers. Unprecedented losses by financial institutions have resulted in either the merger, bankruptcy or government bailout of such venerable Wall Street firms as Bear Stearns, Merrill Lynch, Lehman Brothers and Wachovia. Similarly, major mortgage firms such as Countrywide, Washington Mutual, IndyMac and AIG Insurance have faced bankruptcy only to be sold at fire-sale prices or rescued by the U.S. government.

Perhaps most important, housing finance giants Freddie Mac and Fannie Mae were placed in conservatorship by the U.S. government to prevent their collapse in September 2008. Combined, these two government-created firms have lent or underwritten more than $5.3 trillion of the estimated $12 trillion in U.S. mortgages – or roughly 45 percent of the mortgage market. These events, combined with the collapse of Lehman Brothers investment bank on September 15, 2008 and the federal rescue of AIG Insurance two days, later sent the financial markets into a harrowing dive. By December 1, 2008, the National Bureau of Economic Research announced what was already painfully obvious – the U.S. economy had been in a recession since December 2007.

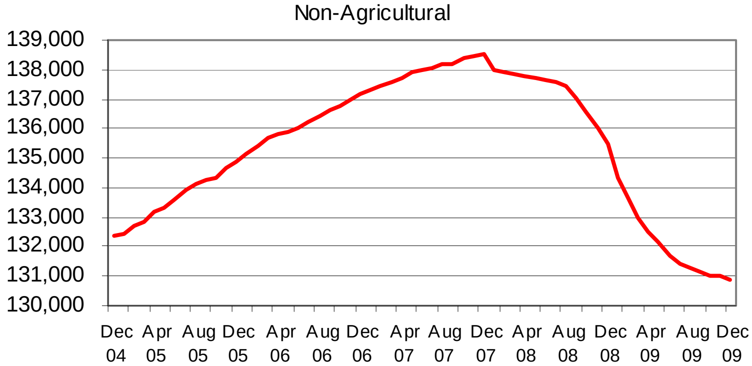
At 25 months as of January 2010, the current contraction is the longest recession since the Great Depression, which lasted 43 months. It is also more than double the 10-month length of the average postwar recession. Furthermore, the depth of this recession is much steeper than the two most recent recessions of 2001 and 1991. If forecasters are correct, peak-to-trough declines in real GDP have exceeded those of the 1973-75 and 1980-82 recessions, when the peak-to-trough declines in real GDP were 3.1 percent and 2.6 percent, respectively. In addition, unlike many other recessions, the current recession was not caused by a downturn in a few specific industries. It started with a housing bust and metastasized into a full-blown credit crisis that eventually threatened to destabilize the entire U.S. financial system.

The credit boom of the past decade masked a troubling trend: During that time, strong U.S. productivity growth coincided with declining real incomes for most Americans. The credit crisis has likely dispelled the notion that the U.S. economy can expand while its manufacturing base dwindles. Before the current crisis, the presumption had been that innovation and productivity gains would create wealth and new jobs. Over the past 10 years, growth in real GDP has averaged 2.7 percent annually but, according to many calculations, U.S. consumers rang up nearly $3 trillion in excess borrowing and spending over the same period. Thus, the consumption that occurred over the past decade and that supported the economic expansion was made possible not by income growth but by consumer borrowing. Without this artificial boost to spending, real GDP would likely have been considerably lower.

Similarly, the global economic boom was fueled by unsupported and out-of- control borrowing by consumers, businesses and nations. As such, the housing market was not the only sector of the global economy that was not in balance with its underlying fundamentals. Essentially, the entire economy was outspending its resources. Data from the federal Bureau of Labor Statistics supports this premise. Over the past 10 years, U.S. productivity has risen a total of 29.7 percent while real wages have grown only 2 percent. Real wages and salaries peaked in the U.S. in early 2003. Historically, real wages and productivity have gone up in tandem. Rampant borrowing and spending by consumers masked underlying problems in the economy. Excluding personal consumption, real economic growth averaged only 1.3 percent during the 10 years ending in 2007 – the slowest rate since the 1950s. Therefore, if consumption had not been artificially inflated with excess borrowing, the economy would have appeared much weaker.

From 2001 through 2007, the three main pillars of the U.S. economy were consumer spending, business investment and exports. Consumers continued spending following the bursting of the dot com bubble around 2000. They increased their spending following the terrorist attacks and recession of 2001, and continued straight through to the first two quarters of 2008, as seen in Chart 8 below. However, it appears that American consumers have finally been overwhelmed by the erosion of their financial base – the value of their homes – because consumer spending has fallen dramatically since the summer of 2008. It is estimated that households have lost more than $14 trillion in net worth since the fall of 2007 due to falling home equity and stock prices. That drop exceeds the $4.2 trillion decline after the 2000 stock market plunge. The result has been a dramatic drop in consumer spending. What started as a housing-led recession is now

Chart 3
US EMPLOYMENT
Non-Agricultural

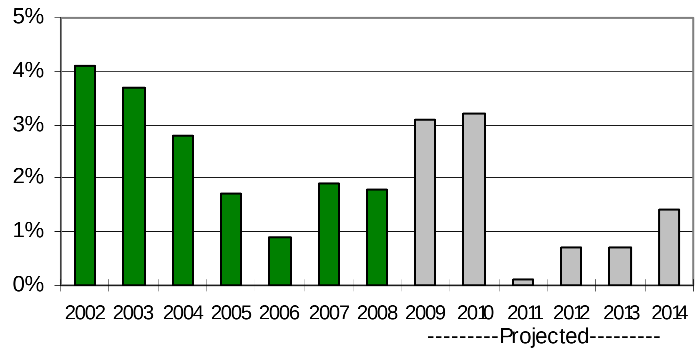


a full-scale consumer-led recession, which brings all of the textbook problems of prior recessions: decreased demand, the slashing of inventories and capital investment, layoffs and so on.

The recovery from the 2001 recession created more than 8.2 million jobs. Chart 3 shows that there was significant growth in U.S. employment from January 2004 to late 2007. Since peaking in December 2007, employment levels have been declining significantly. By the summer of 2008, job losses began to occur more frequently. Monthly claims for unemployment compensation have averaged 400,000 nationally since September 2008. All told, the U.S. economy has lost 7.6 million jobs since December 2007. The growth in the U.S. unemployment rate accelerated significantly during 2009, rising from 7.4 percent in January 2009 to 10.1 percent by October 2009, before declining to 10.0 percent by December 2009.

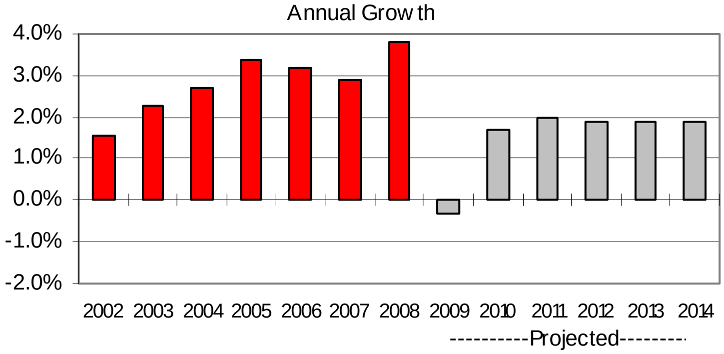
As the national economy entered recession in December 2007, businesses again were looking to gains in productivity to soften the impact. Chart 4 provides data on productivity gains from 2002 through 2008 and a forecast of productivity gains for 2009 through 2014. Gains in productivity achieved in 2007 and 2008 were well below the 3 percent to 4 percent annual gains seen during the last "jobless recovery" of the 2002-04 period. Once again, productivity gains are occurring at the expense of job creation, as productivity reached 3.1 percent in 2009 and similar such growth is forecast for 2010.

Chart 4
PRODUCTIVITY GAINS
Annual Growth



Gains in productivity combined with declining wages, massive job losses and declines in consumer and business spending have rendered moot any discussion of inflation in the near term. However, rising energy prices in 2007 and early 2008 contributed greatly to the current recession. Every postwar recession has been preceded by a spike in oil prices, and the current recession is no different, as the price of a barrel of oil reached $150 by mid-2008. Led by surging energy costs, inflation peaked at 3.8 percent in 2008, as shown in Chart 5. The 2008 peak level of inflation was the highest rate since the 1991 recession, when it was 5.4 percent. Since the collapse of the credit and equity markets in the fall of 2008, consumption has declined, wages are depressed and oil prices have moderated, resulting in an inflation rate of -0.3 percent in 2009.

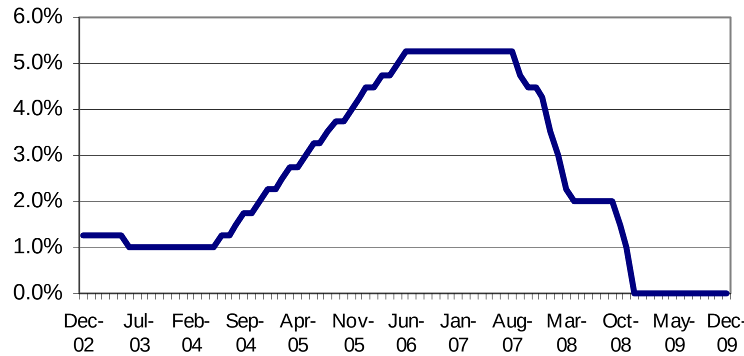
Chart 5
INFLATION-CONSUMER PRICE INDEX
Annual Growth



A slowing economy, lower job growth and a significant recession in the housing market led the Federal Reserve Board to restart its interest rate cuts in an attempt to keep the broader U.S. economy out of recession during 2007. That year, the Fed lowered the federal funds rate by a full percentage point late in the year. The Fed started with a half-point reduction in the federal funds rate in September, followed by quarter-point reductions in October and December. These reductions were combined with corresponding reductions in the discount rate – the rate the Federal Reserve charges to make direct loans to banks. Further, the Fed and the European Central Bank have injected trillion of dollars and euros into the world financial markets to try to ease liquidity constraints and avoid a depression. By January 2008, the Fed dramatically lowered the federal funds rate by three-quarters of a point, in response to the deepening housing recession, the continued credit crunch and plunging global financial markets. The same day, the Fed also lowered the discount rate by a corresponding three-quarters of a point. The surprise rate cut is the first monetary policy action taken by the Federal Open Markets Committee between scheduled meetings since September 17, 2001. Chairman Ben Bernanke and the Federal Reserve continued to lower the federal funds rate throughout 2008, finally reaching "a target rate" of between 0.0 and 0.25 percent in December 2008, as shown in Chart 6.

Further, the Federal Reserve and other central banks throughout the world have been injecting massive amounts of liquidity into the global financial system in an effort to avoid a depression. The amount of this fiscal stimulus is staggering. To date, the Fed and other U.S. agencies have lent, spent or guaranteed \$8.2 trillion in emergency funds to stimulate the economy. The Fed has dramatically expanded its balance sheet to inject more than \$2 trillion in liquidity into the financial markets in order to stem the credit crisis. U.S. public debt has surged to \$7.7 trillion, up \$1.3 trillion from a year ago and from an average of \$5 trillion in 2007. All of this fiscal stimulus has been a coordinated attempt to mitigate the adverse effects of the current recession.

Chart 6
FEDERAL FUNDS RATE



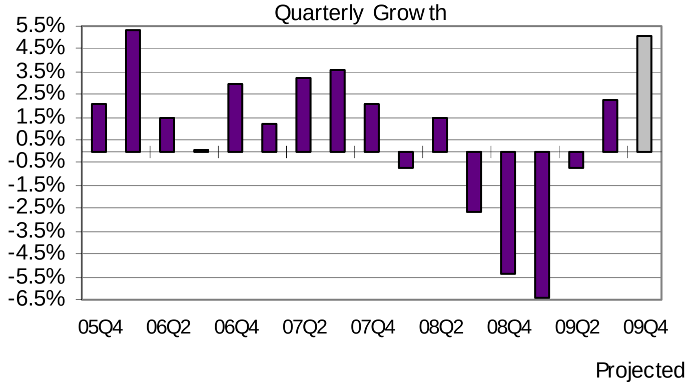
In addition to extensive monetary policy moves orchestrated by the Federal Reserve, the federal government was also aggressive in enacting new legislation to combat the recession. These actions began under President George W. Bush in 2008 and continued with the Obama administration in 2009. With the U.S. economy in recession in early 2008, Congress enacted the Economic Stimulus Act of 2008. The act provided an estimated \$152 billion in tax breaks and tax incentives for individuals and businesses. Additionally, the act attempted to assist the housing market by expanding the upper limit on home mortgages eligible for government insurance. Shortly after the stunning collapse of Lehman Brothers on September 15, 2008, Congress enacted the Emergency Economic Stabilization Act of 2008, which created the Troubled Assets Relief Program or TARP. This program authorized the U.S. Treasury to purchase up to \$700 billion in "troubled assets" – largely mortgage-backed securities – and to make direct investments into banks. Additional provisions of the act permitted the Federal Reserve to make higher interest payments to banks for deposits held in reserve. In response, banks immediately began to increase their reserves, from \$10 billion in August 2008 to \$880 billion by January 2009. Other programs enacted by Congress provided for mortgage and foreclosure assistance and an increase in federal insurance on bank deposits. Finally, in February 2009 Congress enacted the \$787 billion American Recovery and Reinvestment Act to assist the economy. The act provides: \$288 billion in tax relief (\$237 billion for individuals and \$51 billion for businesses); \$144 billion in state and local government fiscal relief; \$111 billion in enhanced infrastructure and science spending; \$147.7 billion for health care benefits and programs; and \$90 billion for enhanced education programs.

Current Conditions

The U.S. economy entered the current recessionary period in December 2007. The economic slowdown was triggered by a nationwide crash in the housing market, which caused a dramatic tightening of credit. This credit crunch sapped consumer spending power, leading to a rapid decline in consumer consumption. The slowdown in spending and the lack of available credit affected the business community, which responded by laying off workers. At the same time, the crises in housing and credit were quickly reflected in the financial markets, with investors ranging from multi-billion-dollar municipal pension funds to individual workers saving for retirement suffering huge losses in their investment portfolios. This sharp decline in the value of investments further reduced consumer spending, leading to more business closings and more layoffs in many sectors of the economy. So goes the circular pattern of a classic recession in which various recessionary forces build strength, feeding off each other as the economy slides downward. For all the talk of a new economic paradigm having developed over the past two decades, the underlying fundamentals of the U.S. economy remain the same: jobs, income and wealth, and consumer spending.

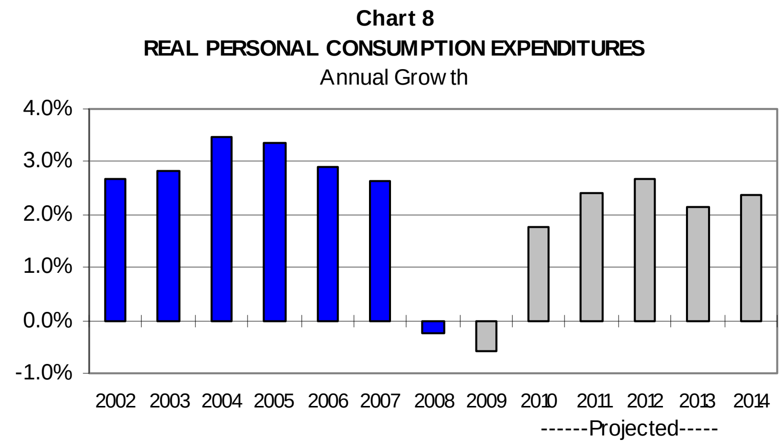
Overall real GDP growth for 2009 is expected to finish at -2.5 percent for the year, as shown in Chart 2 earlier. The contraction of the U.S. economy during 2009, as measured by annual growth in real GDP, was the deepest such contraction since the Great Depression. Only eight other times since the Great Depression has annual real GDP growth been negative for a full year, and each such occurrence was associated with a recession. However, in seven of the eight instances, the annual contraction of real GDP was -0.5 percent or less. Only during the recession of 1982 did the annual loss in real GDP rival the -2.5 percent loss of 2009. In the depths of the 1982 recession, annual real GDP growth was -1.9 percent for 1982. An examination of real GDP on a quarterly basis, as shown in Chart 7, reveals that the depths of the 2009 recession may have been reached in early 2009. Discounting the short-term effects of the 2008 tax rebates, the U.S. economy has contracted in five of the past six quarters between January 2008 and June 2009. In particular, the economy experienced a 5.4 percent contraction in the fourth quarter of 2008 and a 6.4 percent contraction in the first quarter of 2009. The contraction of -6.4 percent during the first quarter of 2009 was the third-highest quarterly level since the Great Depression, and the 5.4 percent loss was the seventh-highest quarterly loss. The four continuous quarters of losses from September 2008 to June 2009 are the first time since the Great Depression that real GDP declined for four quarters.

Chart 7
REAL GROSS DOMESTIC PRODUCT
Quarterly Growth



Employment in the U.S. peaked in December 2007 just as the recession was beginning, as shown in Chart 3. Since that time, job losses have been mounting. During all of 2009, U.S. employers eliminated 4.5 million jobs, cutting 3.7 million in the first six months of the year alone. These staggering job losses pushed the October 2009 unemployment figure to 10.1 percent, the highest figure since June 1983. As result, the labor markets have not been this gloomy since the 1980-82 recession, when unemployment hit 10.8 percent. The loss of jobs has been widespread throughout the economy but the manufacturing and construction sectors have been hardest hit. During 2009, more than 1.5 million manufacturing jobs have been lost and construction jobs are down nearly 1 million from 2008 levels. Slumping retail sales have led to the loss of nearly 600,000 retail jobs since December 2008. The professional and business services sector lost nearly 1 million jobs in 2009.

Employment in the financial services area has fallen by 400,000 jobs in 2009. In fact, the only major economic sector adding jobs in 2009 was health care, which added nearly 400,000 positions in the past 12 months.



Job losses, declines in household wealth and tighter credit are just a few of the factors adversely affecting consumer spending. Widely regarded as the main engine of the U.S. economy and accounting for fully two-thirds of GDP, consumer spending has been in a tailspin since the recession deepened in the summer of 2008. It is estimated that households had lost more than $14 trillion in net worth since the summer of 2007 due to falling home equity and stock prices. These stunning losses account for the large-scale retreat in consumer spending as shown in Chart 8, which shows the annual average growth in real personal consumption expenditures for the period 2002 though 2008, with forecasts for 2009 to 2014. With consumers no longer able to tap into growing equity in their homes and unemployment levels at 10 percent, consumer spending plunged in both 2008 and 2009. The 2009 decline was the largest since 1974. Furthermore, annual growth in real consumer expenditures has declined only twice before in the post-war period.. Declines also occurred in 1974 and 1980, but in the post-war period there have never been two consecutive years of declines before. When looking at real consumer spending on a monthly basis, consumption has declined in 14 of the past 22 months – making it the worst-performing period since the Great Depression.

Early data from 2009 shows that the U.S. housing market may have bottomed out during 2009. New home starts peaked at 1.7 million units annually in 2005, and since then new home starts have plunged to 439,000 new starts in 2009, a decline of nearly 75 percent over the same period. The enactment of – and then an extension to – the federal first-time homeowner tax credit boosted home sales and new housing starts during the second half of 2009. New single-family residential housing starts jumped 73.4 percent, as measured on an annual basis, during the third quarter of 2009 and then grew another 24 percent during the fourth quarter. Further, sales of existing homes grew 11.2 percent during the third quarter of 2009 and 14.8 percent during the fourth quarter of 2009,

Monetary policy efforts by the Federal Reserve to date have been aimed at the financial markets generally and the mortgage industry in particular. Reductions to the federal funds rate, as shown in Chart 5, have been extraordinary in scale and frequency. The Fed's December 2008 announcement that it was lowering its target federal funds rate to a range of 0.0 to 0.25 percent is the lowest in the history of the Federal Reserve, which was founded in 1913. Additionally, the Fed has bought large volumes of "tainted mortgages" in an effort to stabilize the mortgage industry.

Previously, the Federal Reserve had concentrated on interest rate reductions as its main monetary policy tool. Now the Fed has adopted a policy it calls "quantitative easing," which pumps massive volumes of money into the financial system, $2.2 trillion to date, affecting the rates of interest on virtually all credit instruments. The implied goal of the Fed is to provide cheaper credit to all parts of the economy, starting with housing. While the federal funds rate cannot go below zero, the Fed has virtually unlimited power to stimulate the economy with monetary policy by buying up mortgage-backed securities, Fannie Mae and Freddie Mac corporate debt and other assets. Such actions have dramatically driven up the Fed's balance sheet, which currently stands at $2.2 trillion, up from $900 billion in September 2008. Expectations are that the Fed's balance sheet could reach $5 trillion by the end of 2010.

The elevated level of public debt will undoubtedly complicate any recovery. That is because, as the government participates at ever-increasing levels in the bond markets, it will be harder for private companies to issue debt of their own, either to expand or simply to get through the lingering effects of the credit crisis. This "crowding-out" dynamic, together with rising borrowing costs, could adversely affect job growth.

The Forecast

Since December 2007, the U.S. economy has been in the longest and most severe economic recession since the Great Depression. During 2009, the economy is estimated to have contracted 2.5 percent – the largest such contraction in the post-war period. The economy contracted during five of the six quarters between January 1, 2008 and June 30, 2009, as shown in Chart 7. Moderate growth of 2.25 percent returned during the third quarter of 2009 and strong growth of 5.1 percent is estimated to have occurred during the fourth quarter of 2009. Economic growth in the range of 2.0 to 2.5 percent is forecast for the national economy through at least the first quarter of 2011, according to a combination of data from both IHS Global Insight and Moody's Economy.com economic forecasts.

Annual growth in real GDP is projected to be 2.2 percent in 2010. A combination of data from both forecasting sources is highlighted in Table 1. This table presents actual data for 2008 and forecasts for the 2009-2011 period for several national economic indicators. As noted, both real and nominal GDP contracted during 2009. Similarly, corporate profits and real personal consumption expenditures also contracted in 2009. The current forecast anticipates that the recession will likely have ended in mid-to-late 2009 but the recovery will likely be subdued, as it was during the 2001 recession. Modest growth is forecast for 2010 and beyond.

Table 1
Forecast Change in
Key US Economic Indicators
Annual Percentage Growth*

Indicator	2008	2009p	2010p	2011p
Nominal GDP	2.6	-1.4	3.4	4.5
Real GDP	0.4	-2.5	2.2	2.9
Real Personal Consumption	-0.2	-0.6	1.8	2.4
Corporate Profits (After Tax)	-11.5	-6.3	14.3	2.7
Unemployment Rate (Rate)	5.8	9.3	10.2	9.6
CPI	3.7	-0.3	1.7	1.9
Federal Funds (Rate)	1.9	0.2	0.2	1.7

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2010-11 fiscal year revenue estimates.

p=projected

Declines in housing construction and housing finance led the economy into recession. Until the housing markets stabilize, any recovery will be uneven. Residential housing construction experienced annual declines of 23.2 percent and 20.4 percent in 2008 and 2009, respectively. However, enactment of federal tax breaks for first-time homebuyers boosted activity during the third and fourth quarters of 2009. The extension of these tax breaks into 2010 will likely boost activity during the first half of 2010 before a slowdown in the latter half of the year. For all of 2010, residential construction is expected to grow just 5.8 percent on an annual basis. Further, sales of existing homes rose in 2009 for the first time in four years. Still, median existing housing prices plunged more than 12 percent last year – the sharpest fall since the Great Depression. Overall median existing housing prices are expected to continue to grow minimally in 2010 and 2011, at annual rates of 1.3 percent and 1.2 percent, respectively.

Declining wealth from home values and stock market losses in 2008 had erased an estimated $14 trillion in household wealth since 2007, although 2009 stock market gains likely recouped about one-third of that loss. Nevertheless, the lingering effects of those losses, combined with declining real wages and dramatically rising unemployment, have caused U.S. consumers to drastically reduce their spending since the middle of 2008, as shown in Chart 8. Real consumer spending is expected to have declined for two straight years through December 2009. During the post-war period, the nation has witnessed only two other years in which real consumer spending declined –1974 and 1980 –and the decline in each of those years was precipitated by an energy crisis. While spending declined on an annual basis during 2009, the last two quarters of 2009 did provide positive growth as real consumer spending grew an estimated 2.9 percent and 1.7 percent, respectively. The forecast for 2010 includes projected growth of 1.8 percent in real consumer expenditures. Beyond 2010, real consumer spending is expected to grow only moderately, in the low 2.0 percent range through 2014. These levels are well below the average annual growth in real consumer spending of 3.6 percent experienced from 1992-2007. It is expected that consumer spending will be constrained by chronically high unemployment, tight credit, diminished household wealth and potentially rising federal income tax rates in 2011.

Personal income growth experienced similar annual declines in 2008 and 2009, declining 0.4 percent and 1.6 percent, respectively.. Despite rising unemployment, growth in real personal income is expected to rebound in 2010, growing 1.7 percent annually. Stronger personal income growth is forecast from 2011 through 2013, as shown in Chart 11 below, as unemployment eases.

The U.S. economy has shed nearly 7.6 million jobs during the current recession. More than 4.5 million jobs were lost in 2009, with most of the losses occurring during the first two quarters. The U.S. unemployment rate in December 2009 was 10.0 percent; economists estimate it will peak at 10.4 percent during the first quarter of 2010. As during the previous recession, job growth will likely be minimal during the recovery. Unemployment rates are expected to remain elevated at 10.2 percent and 9.6 percent in 2010 and 2011, respectively. December 2007 saw peak employment at 138 million people; economists estimate that it will be at least until 2012 before that figure is reached again.

As trillions of dollars have been spent trying to keep the global economy from sinking into depression, fears are now growing that massive debt accumulated during the Great Recession will complicate any recovery for years to come. A consensus of economists believes that the Fed will not begin to raise interest rates until at least the third quarter of 2010. At present, the recovery is too weak to risk raising interest rates, which could kill off any growth. The problem with raising interest rates in the current environment is knowing when to pull the trigger. Doing so too early would undermine the recovery and bring about a greater possibility of a double-dip recession. Wait too long to raise interest rates and the flood of cheap money could again fuel a new asset bubble. In addition, the Fed must begin to unwind more than a half-dozen lending and market-support programs currently in place. It also must drain more than a trillion dollars in excess reserves it has added to the system in the past year to avoid inflationary pressures. The first such indicator of any tightening will likely come in March 2010 when the Fed is expected to end its program to purchase up to $1.45 trillion in mortgage-backed securities and other such debt.

Pennsylvania Outlook

The commonwealth's economic performance is largely dependent upon job growth. Pennsylvania's labor market, specifically the non-agricultural sectors, experienced considerable growth from January 2004 through December 2007 as nearly 200,000 jobs were created within the commonwealth. Continued job creation, combined with somewhat slower growth in the overall labor force, produced a decline in Pennsylvania's unemployment rate, to a low of 3.8 percent in March 2007. As the U.S. and state economies entered into recession in late 2007, employment in the commonwealth peaked in January 2008 at 5.811 million non-agricultural jobs. Since December 2007 and the start of the national recession, Pennsylvania has lost more than 212,000 jobs. The loss of jobs in Pennsylvania started slowly in early 2008 and initially was measured in a few thousand per month, as shown in Chart 9. Beginning in the fall of 2008, job losses began to accelerate, with 26,000 jobs lost in November and 28,000 jobs lost in December 2008. This reduction in jobs is the largest 12-month drop since the 1991 recession. Heavy job losses continued during February through April 2009, as an average of 31,000 jobs were lost in the commonwealth monthly. However, Pennsylvania's 12-month job loss (as measured from August 2008 to October 2009) rate of -3.2 percent is still better than the national average of -3.9 percent. Nationally, Pennsylvania ranked 23rd best in terms of fewest job losses during the current recession. In December 2009, the commonwealth's unemployment rate was 8.9 percent, its highest level since August 1984. The national unemployment for December 2009 was 10 percent. Pennsylvania's unemployment rate has now been equal to or below the national average for 83 of the past 84 months.

Chart 9
PENNSYLVANIA EMPLOYMENT
Non-Agricultural

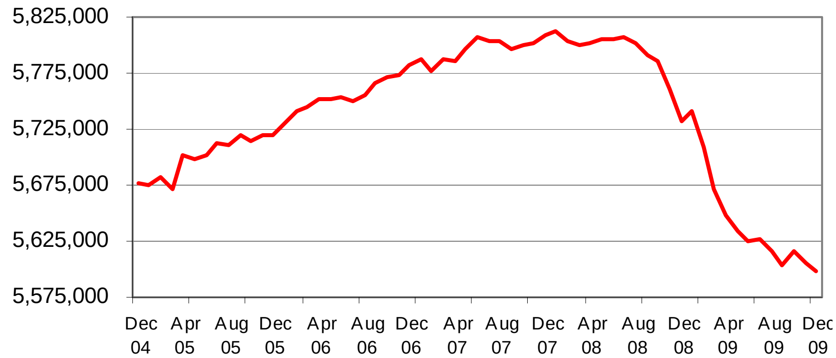
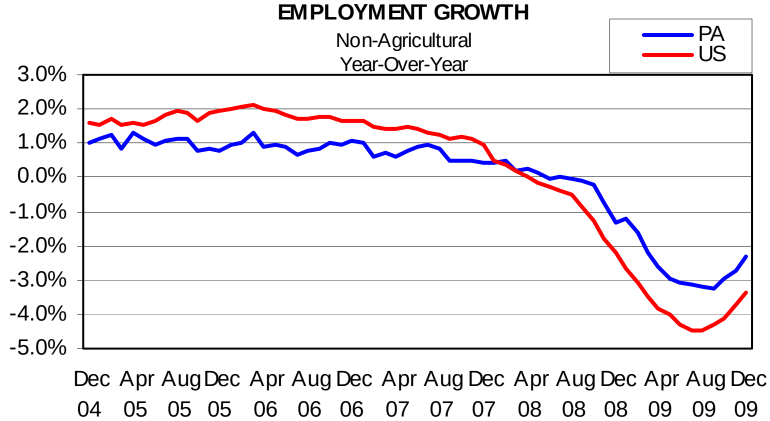


Chart 10
EMPLOYMENT GROWTH
Non-Agricultural
Year-Over-Year

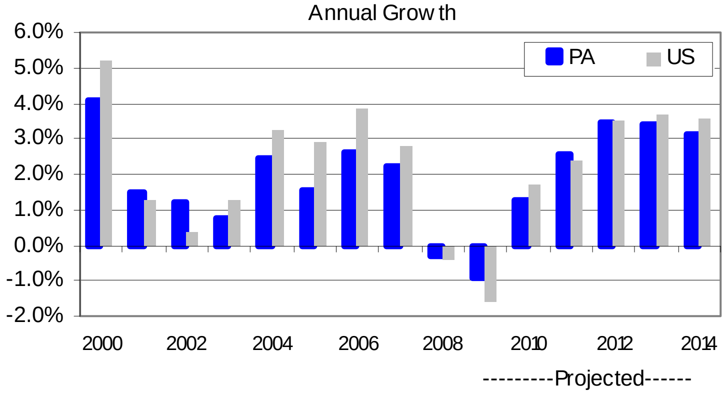


Pennsylvania's fiscal year 2009 job losses were lower than the national average, and remained less steep than those of the surrounding states of New Jersey, Delaware and Ohio. Further, among the ten largest states, only Texas, New York and Pennsylvania lost jobs at rates lower than the national average. As job losses were more subdued in Pennsylvania in 2008 and 2009, the commonwealth moved up to 19th in the ranking of average annual state growth in employment (with the first being the best). Pennsylvania has traditionally been around 40th or below in this ranking, even during periods of strong job creation. The comparatively low ranking, however, is somewhat deceptive: While the state does not generally produce as many new jobs when the economy is going strong, the commonwealth also does not suffer as much as the rest of the country as a whole during periods of economic contraction, as shown in Charts 10 and 11.

This pattern has been evident since the 1990s, following the significant diversification of the Pennsylvania economy in the previous 30 years. A reduced reliance upon manufacturing and mining employment has been part of this trend, along with the expansion of education and health care-related jobs in the commonwealth. Both of these sectors are less prone to recessions.

Employment in the commonwealth saw job losses across all sectors in 2009 except for the educational and health services sectors – which had job growth of 2.0 percent in 2009, and the government sector – which had job growth of 0.1 percent in 2009. The manufacturing and information technology sectors had the worst year-over-year rate of job losses in Pennsylvania in 2009, with manufacturing jobs down 10.3 percent and information technology jobs down 6.6 percent. The construction, natural resources and mining; financial services; and professional and business services sectors also saw significant job losses in 2009, with each sector experiencing year-over-year job losses in excess of 5.4 percent.

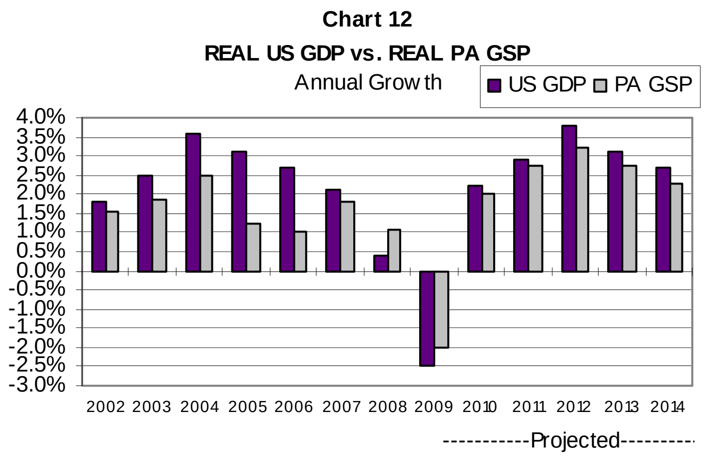
Chart 11
PA AND US REAL PERSONAL INCOME
Annual Growth



The annual change in employment levels in Pennsylvania is forecast at around -0.4 percent in 2010, while positive job growth is expected to return in 2011 at a rate of 1.5 percent annually. Slightly more robust job growth is forecast for the commonwealth in 2012, with job growth forecast at 2.2 percent. As the national economy begins to recover in 2010, the rate of job growth in Pennsylvania is expected to again lag behind the national average. Total peak-to-trough job losses for the commonwealth are expected to reach 231,000 and the state unemployment rate is expected to peak at 9.3 percent during early 2010, according to forecasts from IHS Global Insight.

Housing construction continued to slow in Pennsylvania in 2009, down from a high of 45,000 new units in 2005 to just under 20,000 units in 2009. Economic forecasts project that housing starts will rebound strongly in 2010 at an annual growth rate of 37.7 percent. Sales of existing homes, which declined by 17.5 percent during 2008 and 5 percent in 2009, are expected to also rebound, growing at an annual rate of nearly 10 percent from 2010 through 2012. Further, while home prices have been falling dramatically throughout the nation, home price appreciation in Pennsylvania has simply stalled since 2007. Home prices in the commonwealth are not forecast to grow more than a percentage point annually until 2012.

The inverse relationship of the U.S. and the commonwealth growth in personal income has re-emerged during the current recession. Chart 11 plots actual and projected annual real personal income growth for Pennsylvania and the United States for the years 2000 through 2014. As shown, growth in Pennsylvania real personal income exceeded the national average during the 2001 recession and the subsequent "jobless-recovery" period through mid-2003. As the national economy gained traction in late 2003, personal income in the U.S. began to exceed the Pennsylvania average – although Pennsylvania's personal income growth remained strong and positive. As the current recession has deepened, the rate of growth in real personal income plunged for the nation as a whole, as it did for the commonwealth. However, the decline in the rate of growth was less severe for Pennsylvania than for the rest of the nation. In fact, the commonwealth ranked 12th in the nation in terms of the percent change in personal income during 2008. Economists expect that the rate of growth in Pennsylvania real personal income will exceed the national average in 2011 and 2012. This strong performance is partially the result of the diversification of the Pennsylvania economy and a stronger state labor market. The growth of less recession-prone industries such as health care, pharmaceuticals, education and government has aided the commonwealth.



The short-term outlook for Pennsylvania is that its economy remains heavily dependent on the national economy. Economic growth in Pennsylvania has a high correlation with growth in the U.S. economy, as illustrated in Chart 12. As with trends in real personal income during expansionary periods, Pennsylvania's gross state product lags behind the rate of growth in U.S. gross domestic product. The greatest recent gap between the two rates of growth was in 2006. Since then, the commonwealth's rate of growth in gross state product has steadily gained on the rate of growth in U.S. gross domestic product. The commonwealth actually outperformed the national economy during 2008, growing at an annual rate of 1.1 percent while the national economy grew at a rate of only 0.4 percent. Similarly, during 2009, the state economy again outperformed the national economy by recording a lower loss – negative 2.0 percent for the commonwealth versus negative 2.5 percent for the broader U.S. economy. Beginning in 2010 through 2012, the gap between the two rates of growth is expected to re-emerge as the national economy expands.

Reprinted from the 2010-11 Governor's Executive Budget, pp. A1.4-A1.14

Economic Indicators [1/]

Quarterly Comparisons

	2010.1	2010.2	2010.3	2010.4	2011.1	2011.2
Percent Change Versus Year Ago In						
Nominal GDP	2.4	3.5	3.7	4.0	4.1	4.3
Real GDP $05	1.7	2.5	2.4	2.4	2.5	2.7
GDP Price Index	0.7	1.0	1.3	1.6	1.6	1.6
Consumption	3.1	3.5	3.4	3.4	3.9	4.3
Business Investment	-7.2	-4.2	-1.3	1.0	5.1	9.6
PA Wages & Salaries	0.0	2.2	3.1	4.0	4.4	4.5
3-Month T-Bill Rate	0.1	0.3	0.5	0.9	1.4	1.9
PA Unemployment Rate	8.9	8.6	8.4	8.2	8.0	7.8

Annual Comparisons

				Predicted July of 2009	
Percent Change In:	2009	2010	2011	2009	2010
Nominal GDP	-1.4	3.4	4.5	-1.2	2.6
Real GDP $05	-2.5	2.2	2.9	-2.8	1.5
GDP Price Index	1.2	1.2	1.6	1.5	1.1
Consumption	-0.4	3.3	4.1	-0.4	3.1
Business Investment	-18.1	-3.0	10.6	-17.9	-1.6
PA Wages & Salaries	-3.4	2.3	4.4	-0.7	1.8
3-Month T-Bill Rate	0.1	0.5	2.1	0.2	0.6
PA Unemployment Rate	8.3	8.5	7.7	8.3	8.8

[1/] Global Insight, US Macro Forecast, December 2009 Standard Scenario and July 2009 Standard Scenario.
PA Regional Forecast, December 2009 Standard Scenario and July 2009 Standard Scenario.

For the 2009-10 revised and 2010-11 budget estimates, three types of models were used: (1) econometric, (2) structural and (3) combined structural and econometric models. An econometric model assumes that tax revenues are a function of one or more economic factors. An example of such a model is the realty transfer tax model. Structural models forecast revenue based on the statutory requirements, on the timing of tax remittances, and on projected changes in aggregate liabilities. Projected changes in tax liabilities are estimated either from economic data or from historic patterns.

Econometric models are estimated using least squares regression. Regression analysis assumes a linear relationship where the dependent variable, y, equals the sum of the products of independent variables, x_n, and their respective coefficients, β_n, plus an error term, e:

$$y = \beta_0 + \beta_1 x_1 + ... + \beta_n x_n + e .$$

A regression equation, $y = \beta_0 + \beta_1 x_1 + ... + \beta_n x_n + e$, differs from the true equation by the error term, e. The method of least squares regression estimates values for the coefficients β_0, β_1, ..., β_n such that the sum of the squared error terms is minimized. Once a regression equation is determined, a projection of future estimates may be derived using forecasts of the independent variables.

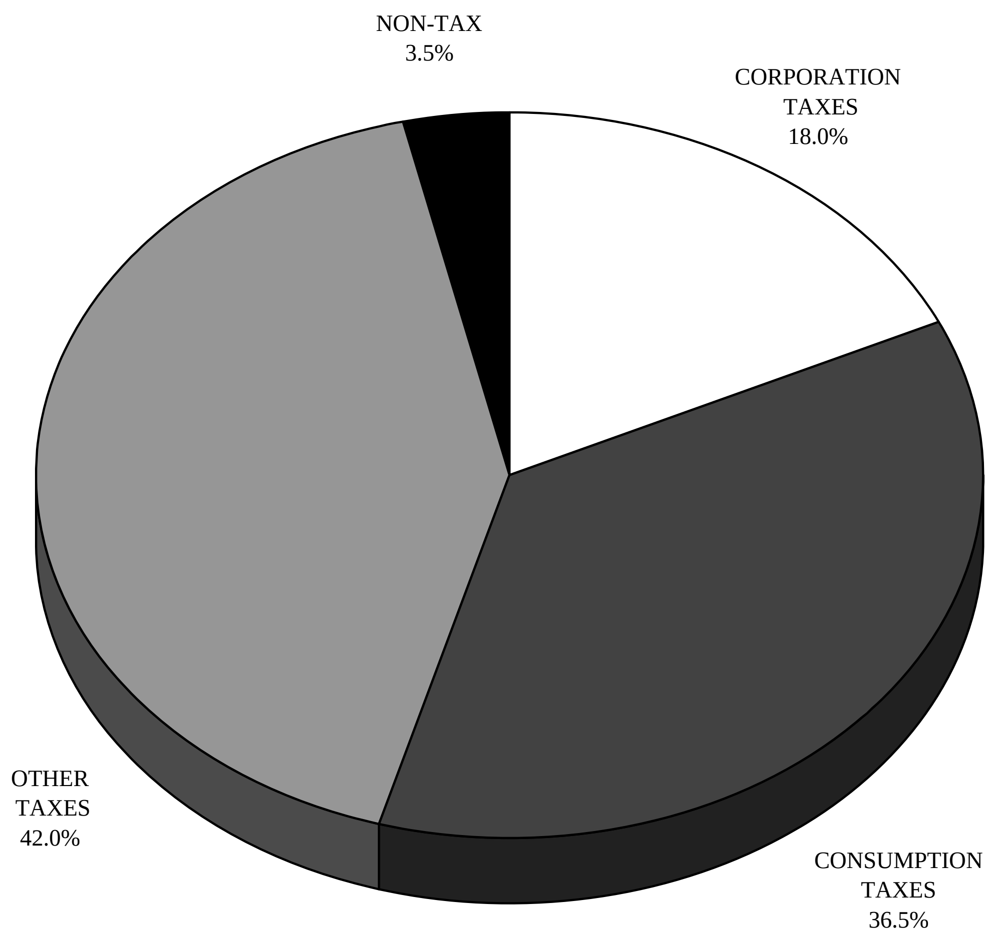
Certain econometric models need to be adjusted for a serial correlation bias. The autoregressive coefficient of the residual, ρ (rho), is used to adjust these forecasts. The corrected forecast equals:

$$Forecast\ Value_{n+t} + (e_n \times \rho^t),$$

where t equals the number of observations into the forecast period and n equals the last period of actual data. All models, for which a value of ρ is given, are adjusted to correct for a serial correlation bias.

GENERAL FUND REVENUE

Fiscal Year 2010-11



CAPITAL STOCK AND FRANCHISE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	984.3	9.8%
2004-05	1,025.9	4.2%
2005-06	1,080.9	5.4%
2006-07	1,000.0	-7.5%
2007-08	1,019.9	2.0%
2008-09	787.7	-22.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	960.3	21.9%
2010-11	852.2	-11.3%
2011-12	777.2	-8.8%
2012-13	462.8	-40.5%
2013-14	143.3	-69.0%
2014-15	5.3	-96.3%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 2.2663 ZBAVE – 221.4392*

VARIABLES:

PAYMENTS - Annual CSFT payments. These amounts are rate adjusted to 12.75 mills.

ZBAVE - 5 year moving average of annual US corporate profits.

STATISTICS:

$\bar{R}^2$ = 0.890 DF = 12

F = 106.65 N = 14

COEFFICIENT T-STATS:

β_0 = 10.33 β_1 = -1.33

The estimates result from an econometric approach that uses tax year liabilities rate adjusted to 12.75 mills to predict annual capital stock and franchise tax. These standardized growth rates are then utilized in the structural cash flow model.

CAPITAL STOCK AND FRANCHISE TAX (Cont'd)

The cash flow model applies the growth rates from the econometric model to a tax year cash liability number (i.e., sum of cash payments in a tax year) with appropriate tax rates applied. The tax year cash liability numbers are transformed into a fiscal year cash flow with appropriate adjustments for tax base and apportionment changes affecting tax year 1995 and later.

Act 89-2002 suspended the CSFT transfers to the Hazardous Sites Cleanup Fund unless the Fund balance falls below $5 million. Act 77-2007 reinstated the transfers to the Hazardous Sites Cleanup Fund. Beginning in fiscal year 2008-09, the minimum of $40 million or all revenues collected under Article VI will be transferred.

Act 48-2009 set the CSFT rate at the following levels per tax year:

2009	2.89
2010	2.89
2011	2.89
2012	1.89
2013	0.89
2014	0.00

In addition, the Act also increased the standard deduction used in calculating the Capital Stock and Franchise Tax at $160,000.

Please refer to the Legislative Overview section for more details on other legislative changes affecting CSFT.

CIGARETTE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	856.4	3.6%
2004-05	784.4	-8.4%
2005-06	792.1	1.0%
2006-07	778.6	-1.7%
2007-08	784.0	0.7%
2008-09	754.2	-3.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	979.8	29.9%
2010-11	1,091.2	11.4%
2011-12	1,092.2	0.1%
2012-13	1,093.2	0.1%
2013-14	1,094.2	0.1%
2014-15	1,095.2	0.1%

MODEL: Structural

Act 48-2009 increased the cigarette tax rate to 8 cents per cigarette and included a floor tax due ninety days after the effective date of the Act. In addition, the definition of cigarettes was expanded to include little cigars, weighing less than four pounds per thousand.

Beginning in fiscal year 2002-03, a fixed amount of $30,730,000 is transferred to CHIP and a fixed amount of $20,485,000 is transferred to ACEP each year via two equal semi-annual payments in January and July. Act 48-2009 repealed the 18.52 percent transfer of proceeds from cigarette tax receipts to the Health Care Provider Retention Account.

CORPORATE NET INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	1,678.0	20.1%
2004-05	1,921.4	14.5%
2005-06	2,237.0	16.4%
2006-07	2,492.5	11.4%
2007-08	2,417.6	3.0%
2008-09	1,979.9	-18.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	1,854.8	-6.3%
2010-11	1,794.2	-3.3%
2011-12	1,875.6	4.5%
2012-13	1,988.9	6.0%
2013-14	2,020.3	1.6%
2014-15	2,020.5	0.0%

MODEL: Econometric and Structural

EQUATION: $\ln CNI = 0.9199 \ln PROFITS - 0.2328\ UTDUM + 1.4727$

VARIABLES:

CNI - Corporate net income tax receipts on a tax year basis for all corporations. These receipts have been adjusted to reflect an equally-weighted (33.3%) sales factor, no net operating loss provision, and a rate of 9.99%.

PROFITS - Annual US corporate profits.

UTDUM - Dummy variable that controls for the deregulation of utility companies.

STATISTICS:

$\bar{R}^2$ = 0.943 | DF = 16

F = 149.71 | N = 19

COEFFICIENT T-STATS:

β_0 = 14.42 | β_1 = -4.61

β_2 = 3.55

CORPORATE NET INCOME TAX (Cont'd)

The regression equation predicts tax year revenues for all corporations. These revenues are at a constant rate and are adjusted to exclude the impact of the changing treatment of net operating loss (NOL) carryforwards and the sales factor in the apportionment formula. Act 89-2002 increased the carryforward for net operating losses to 20 years, beginning with tax year 1998. Act 116-2006 increased the cap for net operating losses to the greater of 12.5% of taxable income or $3 million, and the sales factor used in the apportionment formula was changed to 70%. Act 48-2009 increased the cap for net operating losses to the great of 15% or $3 million, and the sales factor to 83% for tax year 2009. For tax year 2010, Act 48-2009 increased the cap for net operating losses to the greater of 20% or $3 million, and the sales factor used in the apportionment formula to 90%.

The UTDUM variable is incorporated for tax years following the deregulation of the utility industry. The addition of this variable controls for the deregulation and the subsequent restructuring of these companies. This variable is introduced into the econometric portion of the calculation for tax years 2001 and beyond.

A structural model is used to convert the tax year payments at constant rates to payments at rates, NOL provisions, and apportionment formulas applicable under current law. This model adjusts for any impact of federal tax law changes. The model then transforms tax year payments into fiscal year cash collections.

The Corporate Net Income Tax is also affected by the creation of the Stimulus Transition Reserve Fund. See that section for further detail.

FINANCIAL INSTITUTIONS TAXES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	Receipts	Growth	Year	Receipts	Growth
2003-04	217.6	1.5%	2009-10	208.1	4.8%
2004-05	208.9	-4.0%	2010-11	211.1	1.4%
2005-06	204.7	-2.0%	2011-12	212.8	0.8%
2006-07	213.6	4.3%	2012-13	212.7	0.0%
2007-08	191.9	-10.2%	2013-14	212.1	-0.3%
2008-09	198.5	3.4%	2014-15	206.4	-2.7%

EQUATION: *FIT = MTIT + BST*

VARIABLES:

FIT - Financial Institutions Tax

MTIT - Mutual Thrift Institutions Tax

BST - Bank and Trust Company Shares Tax and Title Insurance Company Shares Tax

MUTUAL THRIFT INSTITUTIONS TAX

MODEL: Structural

The mutual thrift institutions tax (MTIT) structural model estimates are flat during the projection period. MTIT collections are expected to remain flat for a number of reasons.

Little or no expansion is expected within the industry in the forecast period as the past trend in mergers and acquisitions has yielded to appeal litigation seeking to reduce or eliminate the tax liability of some taxpayers. Any successful appeals will decrease the MTIT base, thus no growth is projected over the forecast period.

Also, aggressive tax planning on the part of taxpayers is another reason for holding the forecasted MTIT flat. Shifting items between related companies or from one state to another can decrease the amount of tax due to Pennsylvania, thus reducing the MTIT collections.

FINANCIAL INSTITUTIONS TAX (Cont'd)

SHARES TAX

MODEL: Econometric

EQUATION: *BANKTAX = - 0.0371 GDP + 0.0327 SAV + 20.5160 TIME + 276.6517*

VARIABLES:

BANKTAX	-	Fiscal year bank shares tax collections.
GDP	-	Gross domestic product, fiscal year level.
SAV	-	Gross savings, fiscal year level.
TIME	-	Time variable, increments of one.

STATISTICS:

$\bar{R}^2$	=	0.928	*DF*	=	15
F	=	77.807	*N*	=	19

COEFFICIENT T-STATS:

β_0	=	-6.54	β_1	=	3.21
β_2	=	6.98	β_3	=	9.24

The bank shares tax estimate results from an econometric approach using US gross domestic product and gross savings annual rates as well as a time variable to model the bank shares tax collections.

FINES, PENALTIES, AND INTEREST

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	35.1	0.6%
2004-05	32.0	-8.8%
2005-06	35.5	11.0%
2006-07	41.7	17.5%
2007-08	48.5	16.3%
2008-09	20.0	-58.8%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	20.3	1.5%
2010-11	20.2	-0.5%
2011-12	20.2	0.0%
2012-13	20.2	0.0%
2013-14	20.2	0.0%
2014-15	20.2	0.0%

These revenue estimates have two sources. Fines, penalties, and interest on taxes collected by the Department of Revenue have been estimated for the current fiscal year based on actual collections to date. The fines, penalties, and interest included here are those associated with corporation taxes. A small portion of other fines and penalties revenue is collected by several different departments. Each of these departments prepares estimates which are reviewed and totaled by the Department of Revenue.

GROSS RECEIPTS TAX

HISTORICAL DATA — **$ Millions**

Year	Receipts	Growth
2003-04	1,012.4	19.6%
2004-05	1,125.9	11.2%
2005-06	1,151.0	2.2%
2006-07	1,293.3	12.4%
2007-08	1,348.9	4.3%
2008-09	1,376.8	2.1%

FORECASTED DATA — **$ Millions**

Year	Receipts	Growth
2009-10	1,473.5	7.0%
2010-11	1,541.3	4.6%
2011-12	1,603.7	4.0%
2012-13	1,672.1	4.3%
2013-14	1,749.4	4.6%
2014-15	1,815.1	3.8%

MODEL: Structural

These estimates are derived from a database of gross receipts tax history and liability predictions as well as economic data. The estimates are prepared on a sector-by-sector basis: electric, telephone and transportation. The telephone sector is then further broken down into collections from intrastate, interstate, and wireless telecommunications services. Total predicted liabilities are transformed to a fiscal year payment basis to obtain the receipts forecast.

Act 89-2002 provides for a gross receipts tax (GRT) surcharge if refunds for public utility realty tax (PURTA) appeals exceed $5 million in any fiscal year. The surcharge is calculated based on the amount of PURTA refunds during the prior fiscal year. These changes are effective January 1, 2003.

The following table shows the GRT surcharge by tax year:

2003	0.0 mills
2004	0.0 mills
2005	0.6 mills
2006	0.0 mills
2007	1.2 mills
2008	2.8 mills
2009	0.0 mills
2010	0.0 mills

Another factor having a significant impact on the GRT forecast is the fact that electric generation rate caps are expiring in 2010 and 2011 for the five largest electric distribution companies. The impact of the rate caps expiration is considered in the forecast.

INHERITANCE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	747.6	7.8%
2004-05	716.1	-4.2%
2005-06	745.2	4.1%
2006-07	756.6	1.5%
2007-08	828.6	9.5%
2008-09	772.2	-6.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	779.2	0.9%
2010-11	794.8	2.0%
2011-12	982.2	23.6%
2012-13	1,075.1	9.5%
2013-14	1,140.8	6.1%
2014-15	1,197.1	4.9%

MODEL: Econometric and Structural

EQUATION: $ASSETS = 0.7322\ GDP + 1.8336\ SP + 752.3731$

VARIABLES:

ASSETS - Assets subject to tax at the time of death.

GDP - Annual gross domestic product in current dollars.

SP - Annual Standard and Poor's Index of Common Stocks.

STATISTICS:

$\bar{R}^2$ = 0.987 DF = 15

F = 636.26 N = 18

COEFFICIENT T-STATS:

β_0 = 12.94 β_1 = 4.92

β_2 = 2.56

INHERITANCE TAX (Cont'd)

These estimates result from an econometric model that utilizes US gross domestic product and the Standard and Poor's Index to predict Pennsylvania taxable assets by year of death.

A structural model is used to distribute taxable assets by date of death. Those assets are then divided into transfer classes and distributed into the proper fiscal years. The appropriate tax rate is then applied to the taxable assets in order to estimate fiscal year cash payments.

The passage of the Federal Economic Growth and Tax Relief Reconciliation Act of 2001 eliminates the basis of the Pennsylvania estate tax by establishing a phase-out schedule for the federal credit for state death taxes. The Act phases-out the federal credit by 2005, thus eliminating Pennsylvania estate tax collections by 2007-08. The Act is set to expire in 2011, thus estate tax collections are expected to be minimal in 2010-11 and increase more dramatically in 2011-12. Estate taxes are forecasted separately using the US gross domestic product. The phase-out of the federal credit and its eventual expiration are accounted for using a structural model based on historical cash flow.

INSURANCE PREMIUMS TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	390.8	18.2%	2009-10	515.0	19.4%
2004-05	410.7	5.1%	2010-11	484.9	-5.8%
2005-06	390.4	-4.9%	2011-12	506.2	4.4%
2006-07	412.5	5.7%	2012-13	520.7	2.9%
2007-08	418.2	1.4%	2013-14	537.5	3.2%
2008-09	431.5	3.2%	2014-15	554.9	3.2%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 0.7172 OTHERINC + 43.3414*

VARIABLES:

PAYMENTS - Total tax year insurance premiums tax receipts.

OTHERINC - Other labor income excluding health benefits.

STATISTICS:

$\bar{R}^2 = 0.902$ $DF = 15$

$F = 148.22$ $N = 17$

COEFFICIENT T-STATS:

$\beta_0 = 12.17$ $\beta_1 = 2.17$

The regression equation predicts tax year payments. A regression is also used to forecast tax liability by tax year. A structural model then transforms tax year payments and liabilities into regular and estimated payments that are distributed to the appropriate fiscal years.

In the summer of 2009, refunds were given to insurance companies by the Pennsylvania Life and Health Insurance Guarantee Association (PLHIGA) for prior assessments paid to PLHIGA. These assessments originally generated PLHIGA tax credits that offset insurance premiums tax (IPT) liabilities. The entities receiving a refund returned the credits generated by these assessments to the Commonwealth in the form of IPT collections, creating a spike in revenue during fiscal year 2009-10.

LICENSES, FEES, AND MISCELLANEOUS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	696.9	11.1%
2004-05	509.1	-26.9%
2005-06	368.6	-27.6%
2006-07	573.6	55.6%
2007-08	506.5	-11.7%
2008-09	90.2	-82.2%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	2,633.3	2819.4%
2010-11	836.0	-68.3%
2011-12	417.9	-50.0%
2012-13	444.7	6.4%
2013-14	423.2	-4.8%
2014-15	453.3	7.1%

This category consists mainly of revenues from the sale of licenses, the collection of fees from numerous sources, transfers from other funds, and interest earned on General Fund deposits.

Act 10A-2009 established that, in 2009-10, amounts from the following sources would be transferred to the General Fund: Higher Education Assistance Fund; Keystone Recreation, Park and Conservation Fund; Dog Law Restricted Revenue Account; Oil & Gas Lease Fund.

Act 48-2009 established that, in 2009-10, the residual balance in the Health Care Provider Retention Account would be transferred to the General Fund.

Act 50-2009 established that, in 2009-10 and 2010-11, amounts from the following sources would be transferred to the General Fund: Health Care Cost Containment Council; Tobacco Settlement Fund; Tobacco Endowment for Long-Term Hope; Health Care Provider Retention Account; Medical Care Availability and Reduction of Error Fund; Budget Stabilization Reserve Fund.

Act 1-2010 established various fees related to table games, including a table games certificate fee and supplier and manufacturer license fees. In addition, it established transfers from the Pennsylvania Race Hose Development Fund and a one-time transfer from amounts previously appropriated to the Pennsylvania Gaming Control Board.

Estimates made by the collecting departments for other revenue items are reviewed and totaled by the Department of Revenue.

LIQUOR STORE PROFITS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	50.0	-67.7%
2004-05	54.9	9.8%
2005-06	80.0	45.7%
2006-07	150.0	87.5%
2007-08	80.0	-46.7%
2008-09	125.0	56.3%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	105.0	-16.0%
2010-11	105.0	0.0%
2011-12	80.0	-23.8%
2012-13	80.0	0.0%
2013-14	80.0	0.0%
2014-15	80.0	0.0%

These estimates have been received from the Liquor Control Board and the Office of the Budget.

LIQUOR TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	195.2	1.0%
2004-05	212.5	8.9%
2005-06	223.0	5.0%
2006-07	239.5	7.4%
2007-08	251.2	4.9%
2008-09	266.5	6.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	284.3	6.7%
2010-11	297.7	4.7%
2011-12	311.7	4.7%
2012-13	326.4	4.7%
2013-14	341.8	4.7%
2014-15	358.0	4.7%

These estimates have been received from the Liquor Control Board (LCB) and were reviewed by the Department of Revenue. In January 2009, the LCB replaced their 13 accounting periods with monthly revenue collections.

MALT BEVERAGE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	26.2	-1.9%
2004-05	24.9	-5.0%
2005-06	26.2	5.0%
2006-07	25.2	-3.8%
2007-08	26.3	4.4%
2008-09	26.0	-1.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	26.0	0.0%
2010-11	26.0	0.0%
2011-12	26.0	0.0%
2012-13	26.0	0.0%
2013-14	26.0	0.0%
2014-15	26.0	0.0%

MODEL: Structural

These estimates are based on current collection patterns.

MINOR AND REPEALED TAXES

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	6.6	-62.7%
2004-05	3.6	-45.6%
2005-06	-17.4	-583.3%
2006-07	-15.5	10.9%
2007-08	111.6	820.0%
2008-09	12.8	-88.5%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	8.7	-32.0%
2010-11	8.7	0.0%
2011-12	8.7	0.0%
2012-13	8.7	0.0%
2013-14	8.7	0.0%
2014-15	8.7	0.0%

Minor and repealed tax revenues are derived from the tax on legal documents, the spiritous and vinous liquors taxes, and excess vehicle rental tax collections.

OTHER SELECTIVE BUSINESS TAXES

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	18.4	26.0%
2004-05	17.1	-7.1%
2005-06	20.6	20.4%
2006-07	17.3	-16.0%
2007-08	16.6	-4.0%
2008-09	14.1	-15.1%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	14.8	5.0%
2010-11	15.5	4.7%
2011-12	16.3	5.2%
2012-13	17.1	4.9%
2013-14	18.0	5.3%
2014-15	18.9	5.0%

This revenue source consists primarily of loans tax collections and undistributed monies in the corporation tax clearing account.

PERSONAL INCOME TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	7,733.8	8.8%	2009-10	10,005.4	-1.9%
2004-05	8,746.8	13.1%	2010-11	10,378.8	3.7%
2005-06	9,524.1	8.9%	2011-12	11,114.2	7.1%
2006-07	10,261.6	7.7%	2012-13	11,550.7	3.9%
2007-08	10,907.7	6.3%	2013-14	12,227.2	5.9%
2008-09	10,198.6	-6.5%	2014-15	12,865.3	5.2%

MODEL: Econometric and Structural

EQUATIONS:

A) $PIT = WITH + NONWITH$

B) $\ln QWITH = 0.9867 \ln PAWAGES + 0.0662\, Q1 - 0.0156\, Q2 - 0.0210\, Q3 - 4.7295$

C) $\ln EST = 0.8613 \ln PRID + 0.1154 \ln CAPGAIN$

D) $\ln ANNUALS = 0.8515 \ln USID + 0.2774 \ln CAPGAIN$

VARIABLES:

PIT - Fiscal year personal income tax receipts.

WITH - Fiscal year employer withholding receipts.

NONWITH - Fiscal year estimated and annual receipts.

QWITH - Cash quarterly personal income tax receipts from employer withholding payments rate adjusted to 3.07%.

EST - Tax year estimated personal income tax payments rate adjusted to 3.07%.

ANNUALS - Tax year annual personal income tax payments rate adjusted to 3.07%.

PERSONAL INCOME TAX (Cont'd)

PAWAGES	-	Quarterly Pennsylvania wages and salaries.
Q1	-	First quarter dummy.
Q2	-	Second quarter dummy.
Q3	-	Third quarter dummy.
PRID	-	Annual US proprietors income, interest, dividends, and rents.
CAPGAIN	-	Annual US capital gains.
USID	-	Annual US interest and dividends.

STATISTICS (Equation B):

$\bar{R}^2$	=	0.991	DF	=	47
F	=	1382.6	N	=	52

COEFFICIENT T-STATS (Equation B):

β_0	=	72.76	β_1	=	12.08
β_2	=	-2.84	β_3	=	-3.85
β_4	=	-28.38			

STATISTICS (Equation C):

$\bar{R}^2$	=	0.966	DF	=	16
F	=	695.67	N	=	19
ρ	=	0.544			

COEFFICIENT T-STATS (Equation C):

β_0	=	73.87	β_1	=	3.12

PERSONAL INCOME TAX (Cont'd)

STATISTICS (Equation D):

$\bar{R}^2$	=	0.956	DF	=	16
F	=	541.5	N	=	19
ρ	=	0.555			

COEFFICIENT T-STATS (Equation D):

β_0	=	44.92	β_1	=	4.96

The personal income tax estimate is derived from forecasts of withholding, estimated, and annual payments adjusted to a constant rate. Estimated and annual payments are modeled separately.

QWITH is an econometric model that predicts employer withholding payments using PA wages and salaries. Dummy variables are used in the first, second, and third quarters to reflect the seasonal nature of withholding.

EST is an econometric model that predicts estimated personal income tax payments on a tax year basis. US proprietors' income, interest, dividends, and rents (US PRID) and US capital gains are used as independent variables. Tax year cash payment amounts are transformed into a fiscal year cash flow with aggregate adjustments for tax base changes.

ANNUALS is an econometric model that predicts tax year annual personal income payments using US interest, dividends, and capital gains. Tax year cash payment amounts are transformed into a fiscal year cash flow with aggregate adjustments for tax base changes.

Adjustments are made to account for tax law changes, including those made to the tax base and special poverty provisions (SP). In addition, the forecast is adjusted to reflect the Act 46-2003 increase in the personal income tax rate from 2.8% to 3.07% effective January 1, 2004. Act 48-2009 accelerated the collections of employer withholding by creating a semiweekly withholding schedule for those employers who can reasonably be expected to withhold $20,000 or more in a calendar year. Please refer to the Legislative Overview section for more details on the legislative changes.

Total personal income tax forecasts equal fiscal year withholding payments and fiscal year cash estimated and annual collections.

PUBLIC UTILITY REALTY TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	50.3	-1.0%	2009-10	45.5	8.6%
2004-05	41.2	-18.1%	2010-11	48.2	5.9%
2005-06	40.2	-2.4%	2011-12	51.4	6.6%
2006-07	47.5	18.2%	2012-13	53.5	4.1%
2007-08	44.7	-5.9%	2013-14	56.0	4.7%
2008-09	41.9	-6.3%	2014-15	58.6	4.6%

MODEL: Structural

The public utility realty tax (PURTA) revenue estimates are derived from a database of utility realty tax liability history and predictions based on data from reports filed by public utility realty taxpayers, as well as those filed by local taxing authorities (LTAs). Total predicted liabilities were transformed into a fiscal year basis to obtain the receipts forecasts.

REALTY TRANSFER TAX

HISTORICAL DATA / **FORECASTED DATA**

$ Millions

Year	Receipts	Growth	Year	Receipts	Growth
2003-04	400.6	10.5%	2009-10	295.2	0.2%
2004-05	472.5	17.9%	2010-11	292.8	-0.8%
2005-06	552.5	16.9%	2011-12	350.1	19.6%
2006-07	571.0	3.3%	2012-13	381.7	9.0%
2007-08	429.6	-24.8%	2013-14	413.7	8.4%
2008-09	294.5	-31.5%	2014-15	441.9	6.8%

MODEL: Econometric

EQUATION: $\ln RTT = 1.4751 \ln MEDPRICE + 0.5739 \ln PASTSALE - 4.7329$

VARIABLES:

RTT - Fiscal year realty transfer tax receipts.

MEDPRICE - US median home price (average of new and existing units).

PASTSALE - Pennsylvania housing starts and sales.

STATISTICS:

$\bar{R}^2$ = 0.988 DF = 24

F = 440.24 N = 28

ρ = 0.458

COEFFICIENT T-STATS:

β_0 = 20.88 β_1 = 5.08

β_2 = -7.75

REALTY TRANSFER TAX (Cont'd)

These estimates result from an econometric approach using US median home price (average of new and existing units) and Pennsylvania housing starts and sales to model the realty transfer tax collections.

SALES AND USE TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	7,728.5	2.7%	2009-10	8,090.5	-0.6%
2004-05	8,000.0	3.5%	2010-11	8,624.0	6.6%
2005-06	8,334.2	4.2%	2011-12	9,088.3	5.4%
2006-07	8,590.8	3.1%	2012-13	9,766.0	7.5%
2007-08	8,496.5	-1.1%	2013-14	10,313.1	5.6%
2008-09	8,135.5	-4.3%	2014-15	10,813.5	4.9%

MODEL: Econometric and Structural

EQUATIONS:

A) *ST = NON-MOTOR + MV*

B) *NMCASH = 11.8956 RETAIL – 251897.2158 Q1 – 66497.6705 Q2 – 98743.8612 Q3 + 96048.0303*

C) *ln MVCASH = 0.9244 ln CEAUTO – 6.4312 PAAGE-RATIO + 10.1406*

VARIABLES:

ST - Fiscal year sales and use tax receipts.

NON-MOTOR - Fiscal year non-motor vehicle sales and use tax receipts.

MV - Fiscal year motor vehicle sales and use tax receipts.

NMCASH - Quarterly non-motor vehicle sales and use tax receipts.

MVCASH - Fiscal year motor vehicle sales and use tax receipts.

RETAIL - Pennsylvania retail sales.

SALES AND USE TAX (Cont'd)

Q1	-	First quarter dummy.
Q2	-	Second quarter dummy.
Q3	-	Third quarter dummy.
CEAUTO	-	US consumer expenditures on motor vehicles and parts.
PAAGE-RATIO	-	Ratio of Pennsylvanians aged 45-64 to the whole Pennsylvania population.

STATISTICS (Equation B):

$\bar{R}^2$	=	0.987	*DF*	=	43
F	=	917.91	*N*	=	48

COEFFICIENT T-STATS (Equation B):

β_0	=	53.95	β_1	=	-26.73
β_2	=	-7.05	β_3	=	-10.46
β_4	=	3.03			

STATISTICS (Equation C):

$\bar{R}^2$	=	0.963	*DF*	=	31
F	=	425.98	*N*	=	34

COEFFICIENT T-STATS (Equation C):

β_0	=	25.60	β_1	=	-6.32
β_2	=	57.48			

SALES AND USE TAX (Cont'd)

NON-MOTOR is the result of a transformation of *NMCASH* which allows for the lag between the time of sale and the appropriate sales tax due date (usually one month). Equation B is an econometric model which predicts accrual sales and use tax estimates using retail sales in Pennsylvania. Adjustments are made to account for exemptions from the tax base and special fund transfers. Please refer to the Legislative Overview section for more details on these legislative changes. The resulting estimates are then converted to a cash basis forecast.

MV is an econometric model that predicts annual motor vehicle sales and use tax revenues using US consumer expenditures on autos and Pennsylvania's ratio of residents between 45 and 64 years old.

Total fiscal year sales and use tax forecasts equal cash non-motor vehicle forecasts plus cash motor vehicle forecasts.

Act 48-2009 requires licensees reporting a total tax liability of $25,000 or more for the third calendar quarter of the preceding year to report and remit payment to the department on a semi-monthly basis.

The Sales & Use Tax is also affected by the creation of the Stimulus Transition Reserve Fund. See that section for further detail.

TABLE GAMES TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	Receipts	Growth	Year	Receipts	Growth
2003-04	NA	NA	2009-10	NA	NA
2004-05	NA	NA	2010-11	92.5	NA
2005-06	NA	NA	2011-12	95.0	2.7%
2006-07	NA	NA	2012-13	86.0	-9.5%
2007-08	NA	NA	2013-14	85.6	-0.5%
2008-09	NA	NA	2014-15	85.6	0.0%

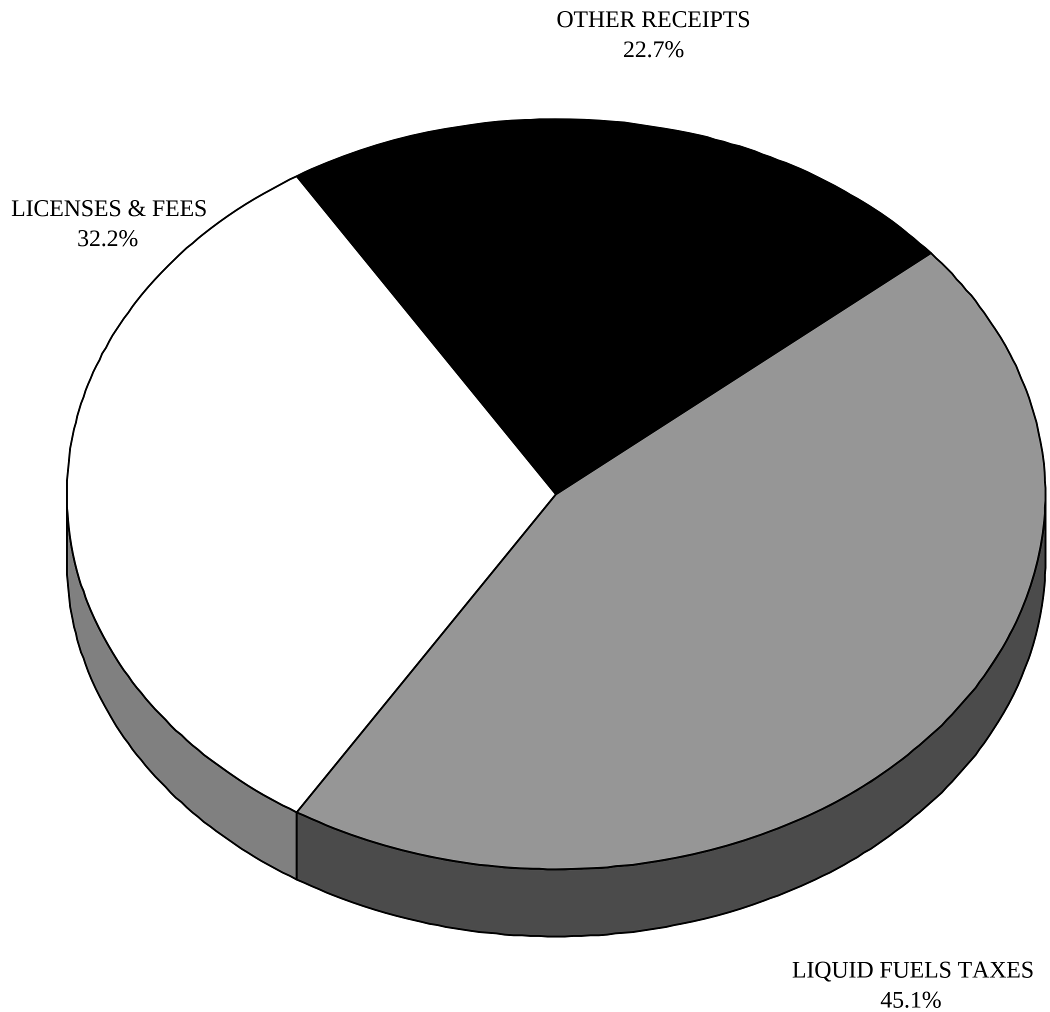
MODEL: Structural

These estimates have been received from the Pennsylvania Gaming Control Board and the Office of the Budget and were reviewed by the Department of Revenue.

These estimates are derived from a survey, by the Pennsylvania Gaming Control Board, of each operating slot machine license holder to obtain an estimate of the number of banking and non-banking table games expected to be operated at each facility. It is also assumed that operation of table games will not commence until fiscal year 2010-11.

MOTOR LICENSE FUND REVENUE

Fiscal Year 2010-11



LIQUID FUELS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	587.1	1.3%
2004-05	588.4	0.2%
2005-06	581.8	-1.1%
2006-07	589.2	1.3%
2007-08	591.7	0.4%
2008-09	520.5	-12.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	555.9	6.8%
2010-11	556.4	0.1%
2011-12	557.6	0.2%
2012-13	559.2	0.3%
2013-14	561.5	0.4%
2014-15	564.3	0.5%

MODEL: Structural

The liquid fuels portion of this tax is assessed at 12 cents per gallon on gasoline consumption. Eleven and one-half cents, minus discounts plus penalties and interest, are deposited in the Motor License Fund as unrestricted receipts. The forecasts reflect these unrestricted receipts.

The liquid fuels portion of the liquid fuels and fuels tax revenue is based on estimated gasoline consumption. All historical and forecasted tables are shown on a cash basis.

The fiscal year 2009-10 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Future fiscal year collections are predicated on the forecast for fuel prices and the current economic outlook.

FUELS TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	155.0	4.2%	2009-10	145.4	-2.8%
2004-05	157.4	1.5%	2010-11	145.5	0.1%
2005-06	162.4	3.2%	2011-12	145.8	0.2%
2006-07	162.8	0.2%	2012-13	146.3	0.3%
2007-08	157.1	-3.5%	2013-14	146.8	0.3%
2008-09	149.6	-4.8%	2014-15	147.6	0.5%

MODEL: Structural

The fuels portion of this tax is assessed at 12 cents per gallon on diesel fuel and other special fuels. Eleven and one-half cents are deposited in the Motor License Fund as unrestricted receipts. The forecasts reflect these unrestricted receipts.

The fuels portion of the liquid fuels and fuels tax revenue is based on estimated consumption for these fuels. All historical and forecasted tables are shown on a cash basis.

The fiscal year 2009-10 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Future fiscal year collections are predicated on the forecast for fuel prices and the current economic outlook.

ALTERNATIVE FUELS

HISTORICAL DATA — **$ Millions**

Year	Receipts	Growth
2003-04	0.6	-25.0%
2004-05	0.7	16.7%
2005-06	0.6	-14.3%
2006-07	0.2	-66.7%
2007-08	1.1	478.0%
2008-09	0.6	-47.9%

FORECASTED DATA — **$ Millions**

Year	Receipts	Growth
2009-10	0.6	0.0%
2010-11	0.6	0.0%
2011-12	0.6	0.0%
2012-13	0.6	0.0%
2013-14	0.6	0.0%
2014-15	0.6	0.0%

MODEL: Structural

Effective October 1, 1997, the alternative fuels tax is imposed on all fuels not taxed as liquid fuels or fuels and used to propel motor vehicles on the public highways. The tax on each gasoline gallon equivalent of alternative fuels equals the current total of the liquid fuels and fuels tax and the oil franchise tax applicable to one gallon of gasoline. The alternative fuels tax revenue is based on estimated alternative fuel collections.

MOTOR CARRIERS ROAD/IFTA TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	28.0	-15.9%
2004-05	32.0	14.3%
2005-06	35.9	12.2%
2006-07	40.4	12.5%
2007-08	38.9	-3.8%
2008-09	39.7	2.3%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	39.7	0.0%
2010-11	39.9	0.5%
2011-12	40.1	0.5%
2012-13	40.3	0.5%
2013-14	40.5	0.5%
2014-15	40.7	0.5%

MODEL: Structural

Motor carriers road tax (MCRT) revenues consist primarily of fuel taxes and decal fees. The fuel tax is collected at 12 cents per gallon plus an oil franchise tax component. The oil franchise tax rate is levied on a cents per gallon basis and is established at the beginning of each calendar year beginning in 1998. The oil franchise tax rate per gallon of fuel consumed in Pennsylvania for calendar year 2010 is 19.2 cents for liquid fuels and 26.1 cents for fuels. Tax-paid fuel purchases offset gross tax due. Also included in road tax are penalties and interest. International Fuel Tax Agreement (IFTA) historical data serves as the estimating base for this tax. Decal fees consist of receipts from the purchase of $5 annual identification markers.

The fiscal year 2009-10 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Historical data serves as the estimating base for this tax.

OIL COMPANY FRANCHISE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	342.4	-0.2%
2004-05	381.3	11.4%
2005-06	445.2	16.8%
2006-07	462.8	4.0%
2007-08	447.7	-3.3%
2008-09	452.8	1.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	437.8	-3.3%
2010-11	438.2	0.1%
2011-12	439.1	0.2%
2012-13	440.4	0.3%
2013-14	442.2	0.4%
2014-15	444.4	0.5%

MODEL: Structural

The oil company franchise tax (OFT) is levied on a cents per gallon basis effective October 1, 1997. The Department of Revenue is required to establish tax rates by each January 1st and these rates remain in effect for the entire calendar year. The calculated rates are based on the average wholesale price of fuel over the 12-month period ending the prior September 30. For calendar year 2010 the rates are 19.2 cents per gallon for liquid fuels and 26.1 cents per gallon for fuels. The OFT rate for future years is estimated based on the current economic outlook and the forecast for fuel prices.

The oil company franchise tax revenue is based on estimated liquid fuels and fuels consumption multiplied by the appropriate tax rate. All historical and forecasted tables are shown on a cash basis.

Revenues equal to fifty-seven mills of the tax are deposited as unrestricted revenue in the Motor License Fund. The remaining revenues are restricted and are not reflected in the revenue forecasts. Revenues accruing from this tax are directly proportional to the estimated taxable gallons of liquid fuels and fuels.

LICENSES & FEES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	843.2	1.7%
2004-05	876.9	4.0%
2005-06	877.8	0.1%
2006-07	870.0	-0.9%
2007-08	872.1	0.2%
2008-09	883.8	1.4%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	843.5	-4.6%
2010-11	844.5	0.1%
2011-12	896.3	6.1%
2012-13	936.4	4.5%
2013-14	954.4	1.9%
2014-15	964.7	1.1%

MODEL: Structural

Estimates were forecasted by the Department of Revenue in conjunction with the Department of Transportation.

The fluctuations in receipts in operators' licenses revenues are primarily caused by the four year renewal cycle. Historically, International Registration Plan (IRP) collections have been affected by new states joining this organization and delayed payments from states experiencing technical difficulties.

OTHER MOTOR RECEIPTS

HISTORICAL DATA (**$ Millions**)

Year	Receipts	Growth
2003-04	129.4	100.6%
2004-05	120.1	-7.2%
2005-06	162.0	34.9%
2006-07	165.4	2.1%
2007-08	559.4	238.3%
2008-09	509.7	-8.9%

FORECASTED DATA (**$ Millions**)

Year	Receipts	Growth
2009-10	578.2	13.4%
2010-11	593.9	2.7%
2011-12	655.6	10.4%
2012-13	680.5	3.8%
2013-14	705.5	3.7%
2014-15	719.2	1.9%

MODEL: Structural

Estimates were forecasted by the Department of Revenue in conjunction with the Department of Transportation.

These estimates include payments from the Pennsylvania Turnpike to the Motor License Fund as provided by Act 44 of 2007. The first payment was mandated for FY 2007-08 for $450 million. For FY 2008-09 and FY 2009-10, the payment was $500 million. Thereafter, the amount calculated for the previous year will be increased by 2.5%.

STIMULUS TRANSITION RESERVE FUND REVENUE ESTIMATES*

Revenue Sources	2010-11 Budget	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
TOTAL	**874.0**	**1,413.4**	**1,552.6**	**1,705.7**	**1,849.1**
Corporate Net Income Tax	66.6	167.3	181.0	188.4	195.9
Other Tobacco Products Tax	41.6	46.8	49.8	53.1	56.6
Sales and Use Tax	605.1	939.3	1,001.8	1,068.1	1,121.0
Severance Tax	160.7	260.0	320.0	396.1	475.6

* Individual accounts may not sum to totals due to rounding.

CORPORATE NET INCOME TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	N/A	N/A	2009-10	0.0	N/A
2004-05	N/A	N/A	2010-11	66.6	N/A
2005-06	N/A	N/A	2011-12	167.3	151.3%
2006-07	N/A	N/A	2012-13	181.0	8.2%
2007-08	N/A	N/A	2013-14	188.4	4.1%
2008-09	N/A	N/A	2014-15	195.9	4.0%

MODEL: Structural

As part of the Governor's budget proposal, the following changes are to be made to the Corporate Net Income Tax effective for the tax years beginning January 1, 2011 and after:

- Mandatory unitary combined reporting
- Rate lowered to 8.99%
- 100% sales factor apportionment
- Group Net Operating Losses (NOLs) are uncapped.

The above figures represent the net change to Corporate Net Income Tax because of these tax law changes. The figures were calculated by joining data from Minnesota, a combined reporting state, with Pennsylvania tax information. A sample was created with this data match making it possible to determine the percentage increase in CNIT that will be caused by combined reporting. This combined reporting increase was applied to all corporations that would be affected by combined reporting.

Adjustments were then made to account for apportionment, NOL, and rate changes. After these adjustments, a tax year impact for combined reporting is known.

This figure is then converted to a cash flow figure using assumptions about safeharbors and the estimated and regular payments split.

The above figures will be transferred to the Stimulus Transition Reserve Fund by a statutory transfer.

OTHER TOBACCO PRODUCTS TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2003-04	NA	NA
2004-05	NA	NA
2005-06	NA	NA
2006-07	NA	NA
2007-08	NA	NA
2008-09	NA	NA

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2009-10	NA	NA
2010-11	41.6	NA
2011-12	46.8	12.5%
2012-13	49.8	6.4%
2013-14	53.1	6.6%
2014-15	56.6	6.6%

MODEL: Structural

The Governor's Executive Budget includes a proposed tax on other tobacco products, namely smokeless tobacco, large cigars, and loose smoking tobacco. The proposed tax is imposed at a rate of 30% on the wholesale price. The proposed tax is effective July 1, 2010.

The revenue estimates included in the Governor's Executive Budget are based on the average of other state OTP revenues and computes the average of U.S. wholesale sales of OTP. The results are then further adjusted for an anticipated decline in consumption as a result of the new tax.

The above figures will be deposited in the Stimulus Transition Reserve Fund.

SALES AND USE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2003-04	NA	NA
2004-05	NA	NA
2005-06	NA	NA
2006-07	NA	NA
2007-08	NA	NA
2008-09	NA	NA

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2009-10	NA	NA
2010-11	605.1	NA
2011-12	939.3	55.2%
2012-13	1,001.8	6.7%
2013-14	1,068.1	6.6%
2014-15	1,121.0	5.0%

MODEL: Structural

The Governor's Executive Budget includes a proposal to reduce the Sales and Use Tax (SUT) rate from 6 percent to 4 percent and to eliminate 74 tax exemptions. These repealed exemptions include services, personal hygiene, and candy and gum. This base broadening proposal will not affect the exemptions for food, clothing, prescription medicine, and medical care. The effective date of the tax decrease and exemption elimination is September 1, 2010.

In addition, the Governor's proposal will eliminate the 1 percent vendor discount allowed for timely remittance of sales tax. The proposed effective date is July 1, 2010.

The figures above represent the net change of the tax rate decrease, the repeal of 74 tax exemptions, and the elimination of the vendor discount. The vendor discount was calculated using actual discount data from previous years. An analysis was performed on each of the 74 exemptions and their total effect on SUT was estimated. The estimate was then adjusted for the 4 percent rate change.

The above figures will be transferred to the Stimulus Transition Reserve Fund by a statutory transfer.

SEVERANCE TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2003-04	NA	NA	2009-10	NA	NA
2004-05	NA	NA	2010-11	160.7	NA
2005-06	NA	NA	2011-12	260.0	61.8%
2006-07	NA	NA	2012-13	320.0	23.1%
2007-08	NA	NA	2013-14	396.1	23.8%
2008-09	NA	NA	2014-15	475.6	20.1%

MODEL: Structural

The Governor’s Executive Budget includes a proposed tax on natural gas severed from land in Pennsylvania. The proposed tax is imposed at a rate of 5% of the market value and $0.047 per thousand cubic feet. There is an exemption for stripper wells producing less than 60 Mcf per day. The proposed tax is effective July 1, 2010.

The revenue estimates included in the Governor’s Executive Budget are based on a forecast of existing natural gas production as well as increased future production from the Marcellus Shale region.

The figures shown above are after ten percent of revenue is allocated to the local governments.

The above figures will be deposited in the Stimulus Transition Reserve Fund.