pennsylvania
DEPARTMENT OF REVENUE

2012 - 2013
Estimate Documentation

Bureau of Research

February 21, 2012

TABLE OF CONTENTS

GENERAL FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2011-12 Revised	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
TOTAL - GENERAL FUND	**27,121.9**	**28,395.1**	**29,156.8**	**30,024.5**	**30,982.3**	**31,831.7**
TOTAL - TAX REVENUE	**26,634.8**	**27,876.6**	**28,687.6**	**29,545.4**	**30,494.3**	**31,339.1**
TOTAL - Corporation Taxes	**4,484.5**	**4,807.9**	**4,507.1**	**4,295.1**	**4,318.9**	**4,334.8**
Corporate Net Income	1,891.5	2,087.3	2,190.4	2,145.5	2,146.5	2,132.8
Capital Stock & Franchise	726.6	479.4	198.6	4.0	0.0	0.0
Selective Business Total	1,866.4	2,241.2	2,118.1	2,145.6	2,172.4	2,202.0
Utility Gross Receipts	1,145.0	1,497.7	1,352.8	1,369.1	1,386.8	1,404.6
Utility Property	34.7	35.0	35.3	35.6	35.9	36.2
Insurance Premiums	431.3	444.6	462.4	477.6	490.3	505.4
Financial Institutions	241.2	249.0	252.0	246.9	242.2	237.7
Other	14.2	14.9	15.6	16.4	17.2	18.1
TOTAL - Consumption Taxes	**10,150.9**	**10,533.9**	**10,953.2**	**11,273.1**	**11,551.2**	**11,801.0**
Sales and Use	8,754.2	9,101.4	9,504.7	9,807.9	10,068.6	10,300.2
Cigarette	1,075.4	1,097.0	1,098.1	1,099.2	1,100.3	1,101.4
Malt Beverage	26.0	26.0	26.0	26.0	26.0	26.0
Liquor	295.3	309.5	324.4	340.0	356.3	373.4
TOTAL - Other Taxes	**11,999.4**	**12,534.8**	**13,227.3**	**13,977.2**	**14,624.2**	**15,203.3**
Personal Income	10,814.9	11,326.4	11,926.9	12,581.3	13,133.7	13,644.7
Realty Transfer	258.4	260.6	315.7	368.2	414.6	433.2
Inheritance	825.4	852.6	886.6	928.1	974.0	1,021.2
Table Games	92.0	86.5	89.4	90.9	93.2	95.5
Minor and Repealed	8.7	8.7	8.7	8.7	8.7	8.7
TOTAL - NONTAX REVENUE	**487.1**	**518.5**	**469.2**	**479.2**	**488.1**	**492.6**
Liquor Store Profits	80.0	80.0	80.0	80.0	80.0	80.0
Licenses, Fees & Miscellaneous Total	346.8	375.2	325.9	335.9	344.8	349.3
Licenses and Fees	138.1	124.6	124.6	124.6	124.6	124.6
Miscellaneous	208.7	250.6	201.3	211.3	220.2	224.7
Fines, Penalties & Interest Total	60.3	63.3	63.3	63.3	63.3	63.3
F, P & I On Taxes	14.0	17.0	17.0	17.0	17.0	17.0
F, P & I Other	46.3	46.3	46.3	46.3	46.3	46.3

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

GENERAL FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2011-12 Revised	2012-13 Budget	2013-14 Estimate	2014-15 Estimat	2015-16 Estimate	2016-17 Estimate
TOTAL - GENERAL FUND	**-1.4%**	**4.7%**	**2.7%**	**3.0%**	**3.2%**	**2.7%**
TOTAL - TAX REVENUE	**0.7%**	**4.7%**	**2.9%**	**3.0%**	**3.2%**	**2.8%**
TOTAL - Corporation Taxes	**-8.3%**	**7.2%**	**-6.3%**	**-4.7%**	**0.6%**	**0.4%**
Corporate Net Income	-11.3%	10.4%	4.9%	-2.0%	0.0%	-0.6%
Capital Stock & Franchise	-11.3%	-34.0%	-58.6%	-98.0%	-100.0%	NA
Selective Business Total	-3.8%	20.1%	-5.5%	1.3%	1.2%	1.4%
Utility Gross Receipts	-6.5%	30.8%	-9.7%	1.2%	1.3%	1.3%
Utility Property	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%
Insurance Premiums	0.6%	3.1%	4.0%	3.3%	2.7%	3.1%
Financial Institutions	1.5%	3.2%	1.2%	-2.0%	-1.9%	-1.9%
Other	5.2%	4.9%	4.7%	5.1%	4.9%	5.2%
TOTAL - Consumption Taxes	**1.8%**	**3.8%**	**4.0%**	**2.9%**	**2.5%**	**2.2%**
Sales and Use	1.9%	4.0%	4.4%	3.2%	2.7%	2.3%
Cigarette	0.0%	2.0%	0.1%	0.1%	0.1%	0.1%
Malt Beverage	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquor	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
TOTAL – Other Taxes	**3.5%**	**4.5%**	**5.5%**	**5.7%**	**4.6%**	**4.0%**
Personal Income	3.6%	4.7%	5.3%	5.5%	4.4%	3.9%
Realty Transfer	-7.4%	0.9%	21.1%	16.6%	12.6%	4.5%
Inheritance	2.5%	3.3%	4.0%	4.7%	4.9%	4.8%
Table Games	34.0%	-6.0%	3.4%	1.7%	2.5%	2.5%
Minor and Repealed	31.7%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL - NONTAX REVENUE	**-53.0%**	**6.4%**	**-9.5%**	**2.1%**	**1.9%**	**0.9%**
Liquor Store Profits	-23.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Licenses, Fees & Miscellaneous Total	-62.1%	8.2%	-13.1%	3.1%	2.6%	1.3%
Licenses and Fees	10.2%	-9.8%	0.0%	0.0%	0.0%	0.0%
Miscellaneous	-73.6%	20.1%	-19.7%	5.0%	4.2%	2.0%
Fines, Penalties & Interest Total	283.3%	5.0%	0.0%	0.0%	0.0%	0.0%
F, P & I On Taxes	11.6%	21.4%	0.0%	0.0%	0.0%	0.0%
F, P & I Other	1349.9%	0.0%	0.0%	0.0%	0.0%	0.0%

* Figures reflect changes in unrounded receipts.

MOTOR LICENSE FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2011-12 Revised	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
TOTAL - MOTOR LICENSE FUND	**2,408.4**	**2,433.6**	**2,474.7**	**2,493.1**	**2,512.1**	**2,537.6**
TOTAL - LIQUID FUELS TAXES	**1,227.4**	**1,233.5**	**1,240.9**	**1,249.5**	**1,259.3**	**1,270.5**
Liquid Fuels	576.4	579.3	582.8	586.9	591.6	596.9
Fuels	152.2	152.9	153.8	154.9	156.2	157.6
Motor Carriers / IFTA	43.3	43.6	43.8	44.0	44.2	44.4
Alternative Fuels	0.6	0.6	0.6	0.6	0.6	0.6
Oil Company Franchise	454.8	457.1	459.8	463.1	466.8	471.0
TOTAL - LICENSES & FEES	**898.3**	**914.1**	**944.4**	**950.4**	**955.4**	**965.2**
Special Hauling Permits	25.8	25.6	25.4	25.3	25.1	24.9
International Registration Plan (IRP)	89.9	90.5	91.1	91.7	92.3	92.9
Operators' Licenses	62.7	62.6	61.7	62.7	64.0	63.8
Vehicle Registration & Titling	693.2	710.1	742.1	748.0	752.3	763.0
Other Fees - Bureau of Motor Vehicles	26.7	25.3	24.0	22.8	21.7	20.6
TOTAL - OTHER MOTOR	**282.8**	**286.0**	**289.4**	**293.3**	**297.4**	**302.0**
Revenue/Gross Receipts Tax	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Code Fines/Clearing Account	30.0	30.0	30.0	30.0	30.0	30.0
Miscellaneous - Treasury	30.0	33.0	36.2	39.8	43.8	48.1
Miscellaneous - Transportation	21.3	21.5	21.8	22.0	22.2	22.4
Miscellaneous - General Services	1.4	1.4	1.4	1.4	1.4	1.5
Miscellaneous - Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Turnpike Payments	200.0	200.0	200.0	200.0	200.0	200.0

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

MOTOR LICENSE FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2011-12 Revised	2012-13 Budget	2013-14 Estimate	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate
TOTAL - MOTOR LICENSE FUND	**-4.5%**	**1.0%**	**1.7%**	**0.7%**	**0.8%**	**1.0%**
TOTAL - LIQUID FUELS TAXES	**0.7%**	**0.5%**	**0.6%**	**0.7%**	**0.8%**	**0.9%**
Liquid Fuels	1.5%	0.5%	0.6%	0.7%	0.8%	0.9%
Fuels	0.1%	0.5%	0.6%	0.7%	0.8%	0.9%
Motor Carriers / IFTA	0.5%	0.7%	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	0.0%	0.5%	0.6%	0.7%	0.8%	0.9%
TOTAL - LICENSES & FEES	**0.8%**	**1.8%**	**3.3%**	**0.6%**	**0.5%**	**1.0%**
Special Hauling Permits	10.3%	-0.8%	-0.8%	-0.4%	-0.8%	-0.8%
International Registration Plan (IRP)	5.3%	0.7%	0.7%	0.7%	0.7%	0.7%
Operators' Licenses	2.0%	-0.2%	-1.4%	1.6%	2.1%	-0.3%
Vehicle Registration & Titling	0.1%	2.4%	4.5%	0.8%	0.6%	1.4%
Other Fees - Bureau of Motor Vehicles	-7.6%	-5.2%	-5.1%	-5.0%	-4.8%	-5.1%
TOTAL - OTHER MOTOR RECEIPTS	**-31.2%**	**1.1%**	**1.2%**	**1.3%**	**1.4%**	**1.5%**
Revenue/Gross Receipts Tax	NA	NA	NA	NA	NA	NA
Vehicle Code Fines/Clearing Account	-2.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous - Treasury	-81.1%	10.0%	9.7%	9.9%	10.1%	9.8%
Miscellaneous - Transportation	8.1%	0.9%	1.4%	0.9%	0.9%	0.9%
Miscellaneous - General Services	0.0%	0.0%	0.0%	0.0%	0.0%	7.1%
Miscellaneous - Revenue	NA	NA	NA	NA	NA	NA
Turnpike Payments	0.0%	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 #29 of June 30, 2011 made the following changes:

To the Surplus Lines Tax:

- Requires the premium tax to be paid on policies of insurance placed with an insurance company or association of another state or a foreign country be made in the same manner as an eligible surplus lines insurer or non-admitted carrier (at 3% on all premiums charged based on the gross premiums charged, less any return premiums).
- For policies placed after June 30, 2011, the collecting, reporting and remittance of tax apply when the Commonwealth is the home state of the insured. Additionally, the imposition of tax and penalties apply when the Commonwealth is the home state of the insured.

ACT #28 of June 30, 2011 made the following changes:

To the Surplus Lines Tax:

- Provides that no state other than the home state of the insured may require premium taxes on non-admitted insurance.
- Changes the taxation for multi-state surplus lines policies and independently procured insurance placed after June 30, 2011, from an allocation method (taxing only that risk which is in the Commonwealth) to a gross premiums method (taxing the entire premium regardless of where the risk is located).
- In the case of independently procured insurance, the insured must report the transaction and pay the 3% tax to the Department of Revenue within 30 days after the last day of the month the insurance was procured.

ACT #26 of June 30, 2011 made the following changes:

To the Sales and Use Tax:

- 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 file a return and make a payment by the 20th of the month which shall include the following:
    - Fifty percent of the licensee’s sales and use tax liability for the same month in the prior calendar year (55 percent from the return due June 20, 2011).
    - The amount of tax due for the prior calendar month.
    - Less any amount paid under the first bullet in the prior month.
    - This change will be effective for reporting periods beginning after May 31, 2011.
    - This procedure replaces language enacted in the Tax Reform Code by Act 48 of 2009 that required two sales tax returns per month from the same sales tax vendor.

To the Film Production Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be reduced to $60 million.
- Allows a purchaser or assignee of a film tax credit 2011 to carry over the credit for use in the next taxable year.

To the Research and Development Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be increased to $55 million, while also increasing the small business set aside to $11 million.

To the Job Creation Tax Credit:

- For fiscal year 2011-12 and each year thereafter, the annual cap will be reduced to $10.1 million.

To Neighborhood Improvement Zones:

- Extends the window for the decertification of a Keystone Opportunity Zone to September 1, 2011.
- Limits debt issuance, including any refunding, to a maximum term of 30 years.
- Clarifies the flow of monies from the state and local taxing authorities and provides for an annual settlement with the contracting authority.
- Provides that any excess monies shall first be returned to the General Fund and then to the local taxing authorities who collected the taxes.

Creation of Keystone Special Development Zones:

- Creates a new program for the designation of Keystone Special Development Zones for parcels of real property certified as Special Industrial Areas by the Department of Environmental Protection pursuant to the Land Recycling and Environmental Remediation Standards Act, and which as of July 1, 2011 had no permanent vertical structures affixed to it. The KSDZ designation shall exist for 15 years and provide tax credits to employers for new full time jobs created in the zone.

ACT #46 of July 6, 2010 made the following changes:

To the Educational Improvement Tax Credit:

- For fiscal year 2010-11, the cap will be $60 million.

To the Enhanced Revenue Collection Account:

- Revenues collected and the amount of refunds avoided as a result of expanded tax return review and tax collection activities shall be collected into the account.

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.

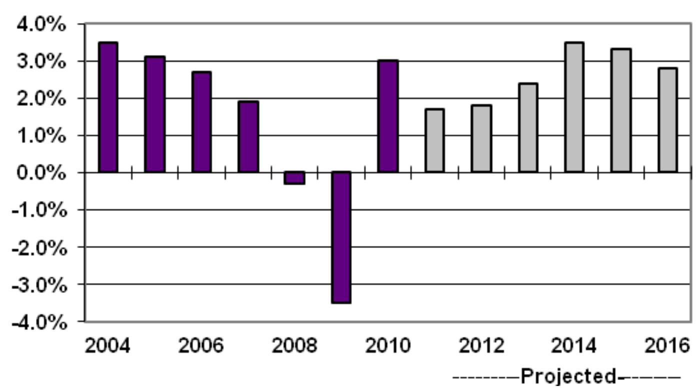
ECONOMIC OUTLOOK

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 Analytics, 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

The United States (U.S.) economy, which had been slowing since 2004, officially entered recession in December 2007. According to the National Bureau of Economic Research, that recession ended in June 2009. Chart 1 displays actual growth in real gross domestic product (GDP) from 2004 to 2010 and projected growth for 2011-2016.

Chart 1
REAL GROSS DOMESTIC PRODUCT
Annual Growth

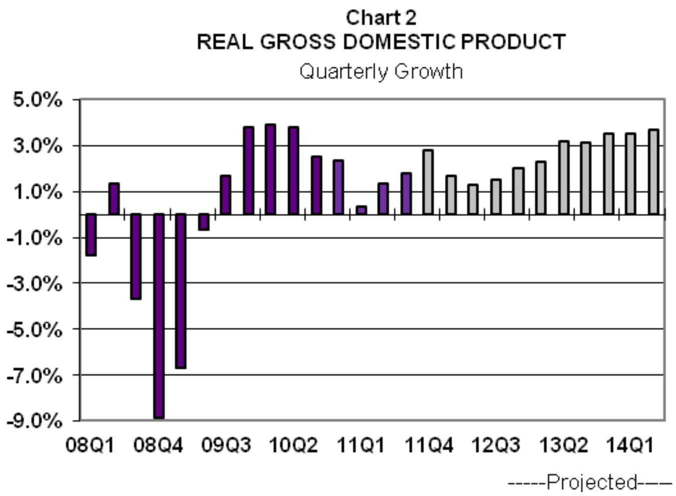


At 19 months, the most recent recession was the longest recession since the Great Depression, which lasted 43 months. It was also nearly double the 10-month length of the average post-World War II recession. Furthermore, the depth of the recession was much steeper than the two most recent recessions of 2001 and 1991, as peak-to-trough declines in real GDP 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. Furthermore, in the most recent recession the economic downturn was not confined to just the U.S. During 2009, the economic output of the entire world declined for the first time since the Great Depression.

Overall real GDP growth for 2009 was -3.5 percent for the year, as shown in Chart 1. The contraction of the U.S. economy during 2009, as measured by annual growth in real GDP, was the deepest since the Great Depression. Annual real GDP growth has been negative for a full year only eight other times since the Great Depression, and each such occurrence was associated with a recession. However, in seven of those 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 exceed approximately 0.5 percent. In the depths of the 1982 recession, annual real GDP growth was -1.9 percent while the decline in real GDP during 2009 was nearly twice that amount at -3.5 percent.

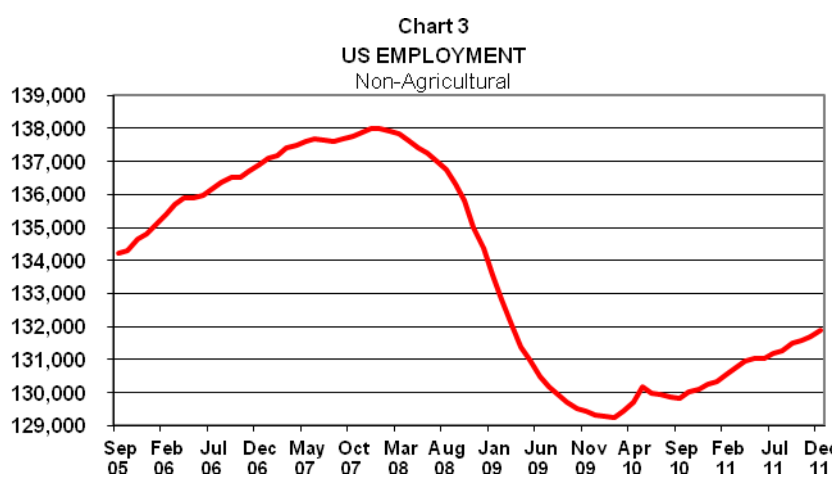
An examination of real GDP on a quarterly basis, as shown in Chart 2, reveals that the depths of the most recent recession were reached in late 2008 and early 2009. Discounting the short-term effects of the 2008 tax rebates, the U.S. economy contracted in five of the six quarters between January 2008 and June 2009 (the approximate term of the most recent recession). In particular, the economy experienced a -8.9 percent contraction in the fourth quarter of 2008 and a -6.7 percent contraction in the first quarter of 2009. The -8.9 percent contraction during the fourth quarter of 2008 was the second-highest quarterly loss in the post-war era.

Combined, the two quarters from October 2008 to March 2009 were the worst performing economic period, as measured by changes in real GDP, since the Great Depression. Further, the most recent recession had two of the four largest quarterly declines in real GDP in the post-war era. The four continuous quarters of losses from September 2008 to June 2009 were the first time since the Great Depression that real GDP declined for four consecutive quarters.



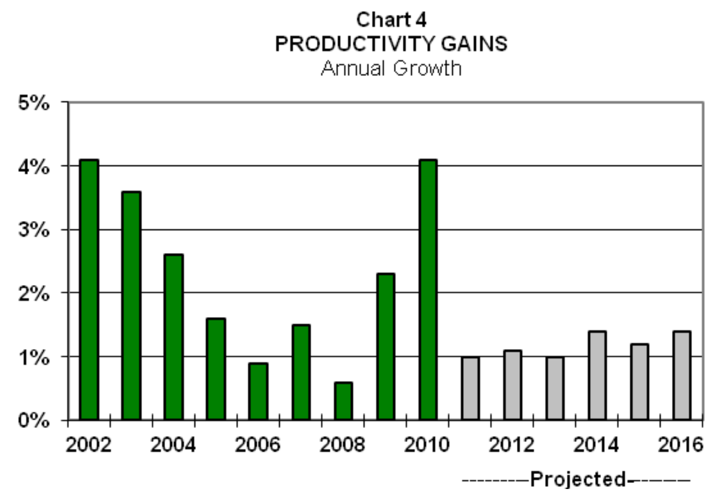
The credit boom of the previous decade masked a troubling trend: During that time, strong U.S. productivity growth coincided with declining real incomes for most Americans. Between 2000 and 2007, growth in real GDP averaged 2.5 percent annually but, according to many calculations, U.S. consumers rang 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.

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 during the past decade.



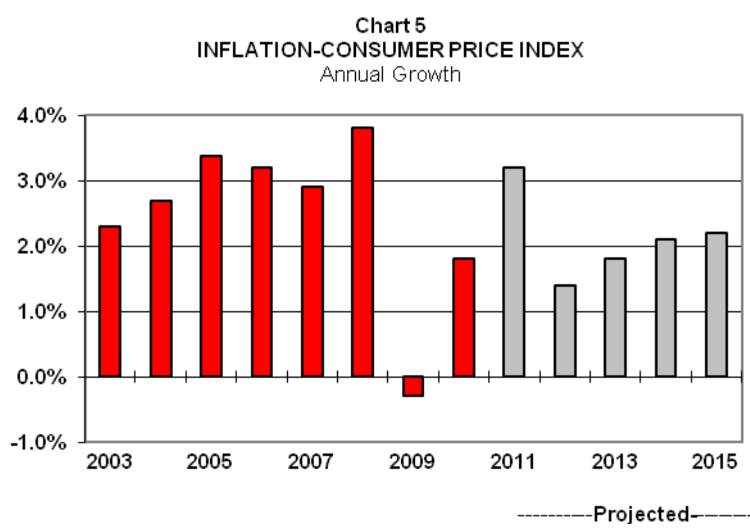
The recovery from the 2001 recession created nearly 7.2 million jobs. Chart 3 shows that there was significant growth in U.S. employment through late 2007. After peaking in December 2007, employment levels began declining significantly. By the summer of 2008, job losses were occurring more frequently. Monthly claims for unemployment compensation averaged 625,000 nationally from September 2008 through June 2009, reaching 820,000 in January 2009. During all of 2009, U.S. employers eliminated nearly 5.1 million jobs, cutting 3.9 million in the first six months of the year alone. As a result, the labor markets had not been so gloomy since the 1980-82 recession, when unemployment hit 10.8 percent.

The loss of jobs was widespread throughout the economy, but the manufacturing and construction sectors were hardest hit. During 2009, manufacturing lost more than 1.5 million jobs, and construction jobs were down nearly 1 million from 2008 levels. Slumping retail sales led to the loss of nearly 600,000 retail jobs between December 2008 and December 2009. The professional and business services sector lost nearly 1 million jobs in 2009. Employment in the financial services area fell 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. All told, the U.S. economy lost nearly 8.75 million jobs during the most recent recession. These losses wiped out employment gains for the entire past decade.



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. Growth in employment returned in early 2010. During 2010, massive monthly job losses abated and the national economy managed to add a cumulative 940,000 jobs by the end of the year. However, job growth throughout 2010 was fitful, as several early months of job creation were followed by months of net job losses. From March to May 2010, the national economy generated an average of 300,000 new jobs per month. Fears of the European debt crises, rising energy costs and other factors conspired to weaken job creation during the second and third quarters of 2010. Four consecutive months of net job losses from June through September 2010 negatively impacted the economy. Job creation returned during the fourth quarter of 2010 as nearly 400,000 jobs were created nationally. However, current employment levels through the end of 2011 are nearly 6 million lower than their peak in December 2007 and the national unemployment rate remains elevated at 8.5 percent. The U.S. unemployment rate has remained at or above 8 percent since February 2009, the longest stretch at such levels in the post-war era.

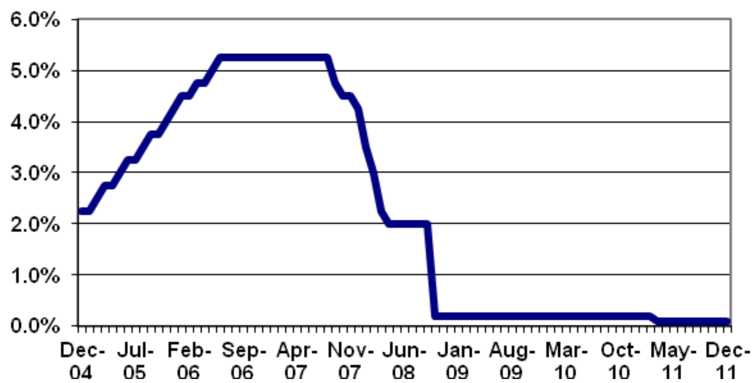
As the national economy entered recession in December 2007, businesses again were looking to gains in productivity to soften the impact. Chart 4 provides data on productivity gains from 2002 through 2010 and a forecast of productivity gains for 2011 through 2016. Gains in productivity achieved in 2005 through 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, following the 2008 recession businesses sought to maximize productivity while avoiding hiring. Productivity gains were occurring at the expense of job creation, as productivity surged to 4.1 percent in 2010.



Rising energy prices in 2007 and early 2008 contributed greatly to the recent recession. Every post-war recession had been preceded by a spike in oil prices; the most recent recession was 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. Following the collapse of the credit and equity markets in the fall of 2008, consumption declined, wages were depressed and energy prices plunged 18 percent in 2009, resulting in an overall inflation rate of -0.3 percent in 2009. As the economy recovered in 2010, modest inflationary pressures returned, resulting in an annual rise in the consumer price index of 1.8 percent in 2010.

A review of U.S. monetary policy during this period shows the many actions the Federal Reserve Board (Fed) took to prevent a worse economic crisis. Monetary policy efforts by the Federal Reserve were aimed at the financial markets generally and the mortgage industry in particular. Reductions to the federal funds rate were extraordinary in scale and frequency. Chairman Ben Bernanke and the Federal Reserve continued to lower the federal funds rate, finally reaching "a target rate" of between 0.0 and 0.25 percent in December 2008, as shown in Chart 6.

Chart 6
FEDERAL FUNDS RATE

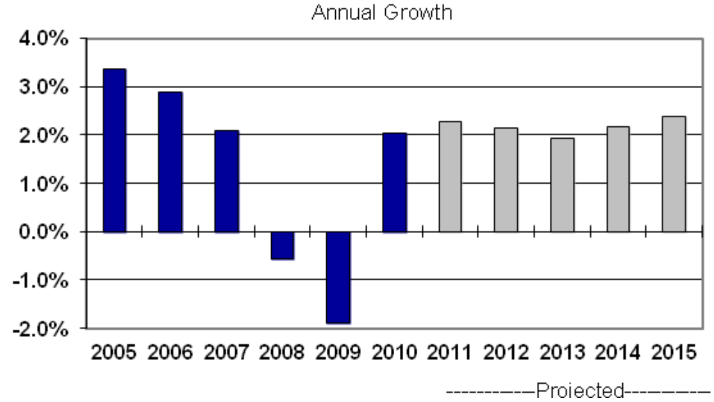


Further, the Federal Reserve and other central banks throughout the world were busy injecting massive amounts of liquidity into the global financial system in an effort to avoid a depression, and the amount of fiscal stimulus was staggering. To date, the Fed and other U.S. agencies have lent, spent or guaranteed $8.2 trillion in emergency funds to stimulate the economy. The Fed dramatically expanded its balance sheet to inject more than $2.6 trillion in liquidity into the financial markets in order to stem the credit crisis. U.S. public debt has surged to $15.2 trillion through 2011, up $2.9 trillion since 2009. Total U.S. public debt has nearly doubled since the start of the most recent recession, up from an average of $8.5 trillion in 2007.

Previously, the Federal Reserve had concentrated on interest rate reductions as its main monetary policy tool. With that main tool now exhausted as interest rates have been near zero since 2009, the Fed adopted a new policy it calls "quantitative easing," which pumped massive volumes of money into the financial system, nearly $3 trillion to date, affecting the rates of interest on virtually all credit instruments. The implied goal of the Fed's quantitative easing policy was 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. From December 2008 to March 2010, the Fed bought $1.7 trillion in government and mortgage debt through a policy referred to as "QEI" or quantitative easing I. From November 2010 to June 2011, the Fed bought another $600 billion in U.S. treasuries through its QEII program and in September 2011, the Fed replaced $400 billion in short-term debt with longer-term debt in a policy called "Operation Twist." Each such program sought to inject liquidity into the financial system. Such actions have dramatically driven up the Fed's balance sheet, which currently stands at nearly $3 trillion, up from $900 billion in September 2008.

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 using fiscal policy. These actions began under President George W. Bush in 2008 and continued with the administration of President Barack Obama in 2009 and 2010. 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. Shortly after the stunning collapse of Lehman Brothers in September 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. Other programs enacted by Congress provided for mortgage and foreclosure assistance and an increase in federal insurance on bank deposits. In February 2009 Congress enacted the $787 billion American Recovery and Reinvestment Act to assist the economy. Finally, in December 2010, the U.S. Congress passed legislation that President Obama signed into law to: 1) extend the Bush tax cuts for at least two more years; 2) enact a temporary, one-year, 2 percent reduction in Social Security withholding taxes; 3) provide a further extension of unemployment benefits; and 4) provide an estate tax reduction, all in an attempt to further stimulate the economy.

Chart 7
REAL PERSONAL CONSUMPTION EXPENDITURES
Annual Growth



Job losses, declines in household wealth and tighter credit were just a few of the factors adversely affecting consumer spending. Widely regarded as the main engine of the U.S. economy and accounting for nearly 70 percent of GDP, consumer spending had 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 from the start of the last recession through the end of 2009 due to falling home equity and stock prices. These stunning losses account for the large-scale retreat in consumer spending as shown in Chart 7, which shows the annual average growth in real personal consumption expenditures for the period 2005 through 2010, with forecasts for 2010 to 2015. 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 had declined only twice before in the post-war period. Declines also occurred in 1974 and 1980, but in the post-war period there had never been two consecutive years of declines until 2008 and 2009. Real consumer expenditures rebounded in 2010, but at a subdued rate of 2.0 percent – much lower than the average of 3.6 percent annual growth that the U.S. experienced from 1997-2007.

Current Conditions

Growth in the economy accelerated during the last quarter of 2011. The national economy, as measured by growth in real GDP, increased at an annual average rate of 2.8 percent during the last quarter of 2011, as seen in Chart 2 earlier. This growth rate is the highest since the second quarter of 2010 and outpaced the subdued average of 1.7 percent quarterly growth during the intervening period. However, many economic forecasters do not think the uptick in economic activity during the last quarter of 2011 is the start of a stronger recovery. Rather, many economists feel that the recent growth is the result of numerous temporary factors, and they expect quarterly growth in real GDP to slow considerable over the next three quarters, as seen in Chart 2.

Employment levels have grown, albeit at a somewhat tepid pace, during 2011. Manufacturing and mining employment growth led the nation during 2011, with manufacturing adding the most jobs in 14 years and with mining adding more jobs than it had during any period in the last 30 years. U.S. factories added 225,000 jobs during 2011 and mining employment grew by 89,300 positions. Oil and gas extraction accounted for 25,200 of those jobs, the largest gain in 30 years. The rising demand for skilled, higher-paid workers in manufacturing and mining, along with employment gains in health care and information technology, should boost wage levels and accelerate the recovery. Other sectors gaining employment in 2011 included retailers, who added 240,000 jobs – the largest gain since 1999, and the leisure/hospitality sector, which added 268,000 jobs. Finally, the construction industry added 46,000 workers last year, its first gain since 2006. Home builders added 3,600 jobs, the first such expansion in that component of the construction sector since 2005.

Employment growth during 2011 is estimated to have been approximately 1.6 million jobs, a gain of 700,000 jobs over the 940,000 positions created in 2010. The employment gain in 2011 was the largest gain since 2006, and the national unemployment rate dropped to 8.5 percent in December 2011, the lowest figure since February 2009. Even with two years of growth, however, the U.S. economy is still a long way from recovering the 8.75 million jobs lost during the recession.

Furthermore, the unemployment rate provides only a partial snapshot of the U.S. labor market. The Bureau of Labor Statistics, the federal agency that tracks unemployment, conducts a monthly survey of households to determine the estimated level of unemployment in the U.S. To be counted as unemployed by the Bureau of Labor Statistics, one must be out of work but actively searching for work. Given the length of the most recent recession and the "jobless" recovery to date, approximately 2.5 million potential workers have given up on finding employment. This subset is termed "discouraged workers;" these workers are not even considered part of the labor force and thus are not counted as unemployed. If the unemployment rate included all 2.5 million discouraged workers, the unemployment rate would likely be 1.5 percent higher, going from 8.5 percent to 10.0 percent in December 2011.

Further, consider that a significant portion of the U.S. labor force is counted as employed even though they are working only part-time because that is the only employment they can find. Analysts call this "labor underutilization," and workers in that category currently number approximately 9 million. If these three categories – the unemployed, the discouraged worker and the under-utilized worker – are combined, the "unemployment" rate climbs to 17 percent – or approximately 26 million Americans.

Finally, the length of time people remain unemployed is a significant issue impacting economic growth. Currently, more than 6 million people, or 41 percent, of the estimated 14 million unemployed Americans have been without a job for more than 27 weeks. In December 2007, when the most recent recession began, only 1.3 million were unemployed that long. An additional 1.3 million Americans have exhausted their maximum of 99 weeks of unemployment compensation and are receiving no government benefits but remain unemployed. Economists agree that additional and sustainable gains in employment will be needed to ensure that U.S. consumers continue their recently elevated levels of spending.

While consumer spending increased during the second half of 2011, it stalled considerably during December 2011. U.S. retail sales rose a slight 0.1 percent in December, which was the third consecutive month of lower-than-expected growth. All told, the value of sales during December, excluding autos, fell 0.2 percent, the first such drop since May 2010. This slowing momentum in consumption suggests that Americans are starting to pull back on expenditures as stagnant wages, limited job potential and increasing debt loads weigh more heavily on consumers. The recent growth in consumer spending was likely due to an increase in the use of consumer credit. A report issued by the Federal Reserve indicates that consumer borrowing in the U.S. rose in November by the most in 10 years as credit increased $20.4 billion, the largest spike since November 2001. Borrowing levels have increased in six of the past nine months and the consumer savings rate has dipped to its lowest level since December 2007. It is estimated that nearly one in five Americans with a home mortgage still owes more on their loan than their home is worth. Declines in the U.S. stock markets during the late summer and early fall are estimated to have wiped out $2.4 trillion in household wealth. As such, the recent increase in borrowing to fuel consumption would appear to be unsustainable as real income growth has been stagnant since 2003, job creation is tepid and wealth levels continue to erode. Moreover, consumer spending increase of 2.3 percent in 2011 and 2.0 percent in 2010 were the weakest two-year performance of any expansion in the post-war era.

Recent business investment into machinery and equipment has been dramatically outpacing job creation in the U.S. In no recovery in the post-war era have firms been faster to increase spending on business investment while at the same time hiring so slowly. The hiring that has been occurring to date has been too little to materially bring down the national unemployment rate. Employers have added an average of 142,000 jobs during the last six months of 2011, or about half of what is necessary to significantly reduce the unemployment rate. While business investments increase productivity and over time lead to more jobs and a higher standard of living, in the short term this trend is adversely impacting employment growth. Since the economy began expanding in 2009, investment in equipment and software has surged 31 percent, adjusted for inflation. This surge is greater than all post-recessionary periods except for the 1970 and 1982 recoveries. Conversely, the slow pace of hiring, which has averaged just 1.4 percent growth, is lower than all other post-war recoveries with the exception of the 1980 and 2001 recessions.

As measured from the start of the most recent recession (December 2007), the economic recovery in the U.S. has been the weakest since World War II. Following prior recessions, the economy, as measured by GDP, has always surpassed its pre-recession high within two years. At four years in length, the current recovery took twice as long to surpass pre-recession GDP levels, after adjusting for inflation. Job creation has been worse than in past recoveries. Today, approximately the same number of Americans are working as in June 2000, fully 12 years and two recessions ago, despite the fact that the population of the U.S. has risen 31 percent since that time. Despite this slow pace, job creation during the recovery has started to accelerate, although modestly, since April 2010 as approximately 2.6 million net new jobs have been created. However, through December 2011, the U.S. economy has nearly 6.1 million fewer jobs than the pre-recession peak in January 2008.

The Forecast

Economic growth slowed during the first three quarters of 2011, averaging just 1.2 percent over this period. Stronger growth of 2.8 percent is estimated to have occurred during the fourth quarter of 2011. Economic growth is expected to again weaken during the first three quarters of 2012, averaging just 1.5 percent, as seen in Chart 2 earlier. Modest economic growth is forecast for the national economy from the first quarter of 2012 through at least the first quarter of 2013, with stronger growth forecast to occur from the second quarter of 2013 through at least the second quarter of 2014, 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 have been 1.7 percent in 2011. A combination of data from both forecasting sources is highlighted in Table 1. This table presents actual data for 2010 and forecasts for the 2011-2013 periods for several national economic indicators. The economy rebounded modestly from the recession during 2010 and generally slowed from that pace in 2011, although real personal consumption grew at a greater rate in 2011 than it did in 2010. The U.S. economy is projected to continue to expand at a modest rate through 2013 and beyond.

Table 1
Forecast Change in
Key U.S. Economic Indicators
Annual Percentage Growth*

Indicator	2010	2011p	2012p	2013p
Nominal GDP	4.2	3.9	3.1	3.7
Real GDP	3.0	1.7	1.8	2.4
Real Personal Consumption	2.0	2.3	2.2	1.9
Corporate Profits (After Tax)	19.0	5.8	2.6	9.1
Unemployment Rate (Rate)	9.6	9.0	9.0	8.8
CPI	1.8	3.2	1.4	1.8
Federal Funds (Rate)	0.2	0.1	0.1	0.1

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2012-13 fiscal year revenue estimates.

p=projected

Declines in housing construction and housing finance led the economy into recession. Residential housing construction experienced annual declines of 23.2 percent and 38.4 percent in 2008 and 2009, respectively. The enactment of federal tax breaks for first-time homebuyers boosted activity during late 2009. The extension of these tax breaks into 2010 helped to boost activity during the first half of 2010 before a slowdown in the latter half of the year. For all of 2010, new housing starts grew 5.6 percent on an annual basis. Sales of existing homes rose in 2009 for the first time in four years. However, this growth was short-lived, as sales of existing homes declined 4.5 percent in 2010 before rebounding minimally in 2011 with a 1 percent annual growth rate.

Overall median existing housing prices rose 0.1 percent in 2010 but fell again by 4.1 percent in 2011. New housing starts are estimated to grow 2.6 percent in 2012, followed by more robust growth of 42.2 percent in 2013. Existing home sales are projected to grow 2.5 percent in 2012, followed by 8.5 percent growth in 2013. Existing home prices are expected to grow 2.4 percent in 2012 and 4.2 percent in 2013. The importance of housing, which represents 15 percent of the national economy, means that ending its slump is critical for a broader and more sustainable economic recovery. Housing is no longer expected to drag down the economy, but the loss of housing wealth is expected to continue to inhibit consumer spending.

Declining wealth from home values and stock market losses in 2008 and 2009 erased an estimated $14 trillion in household wealth, although 2010 stock market gains likely recouped about one-third of that loss. Nevertheless, the lingering effects of those losses, combined with declining real wages and persistently elevated unemployment, caused U.S. consumers to drastically reduce their spending during 2008 and 2009, as shown in Chart 7. While spending declined on an annual basis during 2009, the last two quarters of 2009 did show growth: Real consumer spending grew an estimated 2.9 percent in the third quarter and 1.7 percent in the fourth quarter. Consumer spending began to gain traction during 2010, rising to an annual rate of 4.3 percent by the fourth quarter of 2010. Consumer spending moderated during 2011 from the pace set at the end of 2010. Overall, real consumer spending grew at an annual rate of 2 percent during 2010 and then grew further during 2011, finishing the year at an estimated annual growth rate of 2.3 percent.

The forecast for 2012 includes an estimated gradual slowdown in the projected growth of real consumer expenditures. Estimated annual growth of 2.2 percent is forecast for 2012 and 1.9 percent growth is forecast for 2013. Beyond 2013, real consumer spending is expected to grow moderately, in the mid two percent range through 2015. 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, potentially rising federal income and payroll tax rates in 2013 and exhausted unemployment compensation benefits for millions of chronically unemployed persons.

Finally, more than $1.2 trillion in automatic federal government spending cuts are slated to begin in 2013, which could also negatively impact consumer spending and the recovery in general.

Personal income growth experienced a similar annual decline in 2009, down 4.4 percent. Despite elevated unemployment, growth in real personal income returned in 2010, growing 1.5 percent annually. Stronger gains in real personal income are estimated to have occurred in 2011, with an annual increase of 2.3 percent. However, the rate of growth in personal income is forecast to remain relatively constant at approximately 2.1 percent from 2012 through 2013. Stronger annual growth is forecast to return in 2014 and 2015, as shown in Chart 10 below, as the economy continues to expand and as unemployment gradually eases.

Economists agree that additional and sustainable gains in employment will be needed to ensure that U.S. consumers continue their recently elevated levels of spending. As during the previous recovery in 2003-04, job growth will likely be minimal during this recovery. Unemployment rates are expected to remain elevated at 9.0 percent and 8.8 percent in 2012 and 2013, respectively. December 2007 saw peak employment at 138 million people, and economists project that it will be at least until 2013 before that figure is reached again.

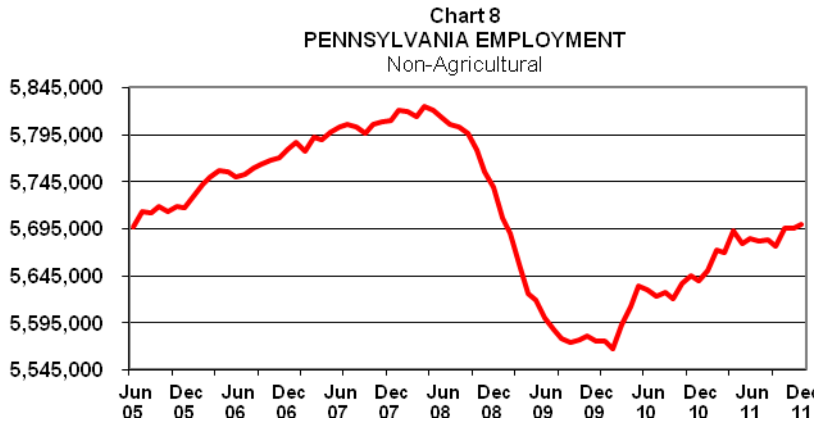
Current geo-political risks remain a significant threat to the economic forecast for growth in the near term. The economic recession in the European Union could adversely impact U.S. exports and thereby the broader recovery. European sovereign debt concerns – particularly in Greece, Spain, Portugal and Italy – are placing greater strains on the European financial system, and the future of the common currency, the euro, is in doubt.

Political unrest that occurred during 2011 in North Africa and the Middle East led to the toppling of governments in Tunisia, Libya, Yemen and Egypt. This unrest continues in 2012 and is threatening to destabilize Syria and Iraq. The U.S. completed its withdrawal of combat troops from Iraq in December 2011, and it appears as if Iraq may be backsliding into the ethnic strife that previously ravaged the country. Further, in response to economic sanctions imposed on it by the U.S. and the European Union as a result of its continued nuclear weapons program, Iran has once again renewed its threats to close the strategically important Straits of Hormuz, through which nearly 40 percent of the world's oil flows. These factors have placed upward pressure on the benchmark price for crude oil, causing it to rise to approximately $100 per barrel on concerns of supply disruptions. The biggest risk to the economy from climbing energy prices lies with consumers. Since consumer spending accounts for roughly 70 percent of real GDP, rising oil and gasoline prices could significantly moderate projected growth in consumer expenditures and real GDP in the near term. It is estimated that each 1 cent increase in the price of gasoline takes about $1 billion out of the pockets of consumers over the course of a year, leaving them with less money to spend on other goods and services.

As noted previously, trillions of government dollars were spent between 2007 and 2010 trying to keep the global economy from sinking into depression. Fears are now growing that the 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 late 2014 in its continued attempt to both keep inflation down and to encourage employment growth. More recently, the Fed has indicated that it may engage in its fourth round of quantitative easing through a large-scale asset purchase likely in the $600 billion range, similar to its QEII initiative. This policy assumes that increased employment will then lead to increased consumption, and a self-sustaining economic recovery will follow.

Pennsylvania Outlook

The commonwealth's economic performance is largely dependent upon job growth. 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, as seen in Chart 8. During the most recent recession, which officially lasted from December 2007 until June 2009, Pennsylvania lost nearly 234,000 jobs. Job growth returned in 2010, albeit at modest levels. During 2010, approximately 64,000 net new jobs were produced in the commonwealth. As with the employment picture in the U.S. in general, however, this growth was fitful during the year. All of the 2010 net gains in employment in Pennsylvania were achieved during a three-month period from March to May 2010, when more than 67,000 jobs were created. The remaining months of 2010 resulted in a marginal net loss of 3,000 jobs. This pattern continued during 2011 as approximately 60,000 jobs were created through December 2011, with most of the growth occurring during three single monthly periods that occurred sporadically throughout the year. Employment growth is expected to accelerate in the commonwealth during 2012 as total growth in employment is forecast to be nearly 80,000 by December 2012.

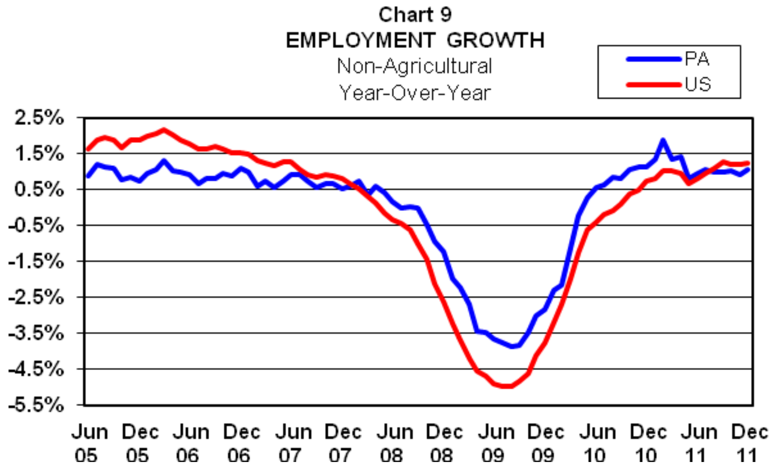


During the most recent recession, job losses in Pennsylvania were less than in the U.S., and the commonwealth's unemployment level was consistently at or below the national average. Nationally, Pennsylvania ranked 23rd best in terms of fewest job losses during the most recent recession – placing it just above the middle of the 50-state ranking. In December 2009, the commonwealth's unemployment rate was 8.9 percent – its highest level since August 1984, while the national unemployment rate for December 2009 was 10 percent.

The commonwealth's unemployment rate rose to 9.3 percent in July 2010 and the national unemployment rate topped out at 10.1 percent in October 2010. Since that time, the Pennsylvania unemployment rate has been declining steadily; it was 7.6 percent in December 2011, while the U.S. unemployment rate was 8.5 percent. Since the diversification of the commonwealth economy in the 1980s and 1990s, Pennsylvania's unemployment rate has traditionally been equal to or below the national average. The commonwealth's unemployment rate is forecast to remain relatively constant at around 8 percent for 2012 and 2013, before declining to 7.3 percent in 2014 and 6.4 percent in 2015.

Pennsylvania's fiscal year 2009 job losses were lower than the national average, and they 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). During 2010, the commonwealth percent change in employment growth reached as high as 13th nationally. Pennsylvania has traditionally been around 40th or below in this ranking, particularly during expansionary periods of strong job creation. The comparatively strong 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 9 and 10. During 2011, as the national and state economies were expanding, other states began to overtake Pennsylvania in terms of job creation, as measured in the percent change in employment, and the commonwealth's ranking dropped from 13th best in the nation to 23rd.

This pattern has been evident since the 1990s, following the significant diversification of the Pennsylvania economy. 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.

Similar employment trends continued within the commonwealth during 2010 as most sectors saw declines in employment. The exceptions were the education and health services sector and the leisure and hospitality service sector, which had gains of 1.1 percent and 2.3 percent, respectively, in 2010. The construction, manufacturing and financial services sectors experienced the largest year-over-year declines in employment during 2010: at -2.1 percent, -2.8 percent and -3.0 percent, respectively. The trade and transportation sector and information services also saw job losses during 2010.

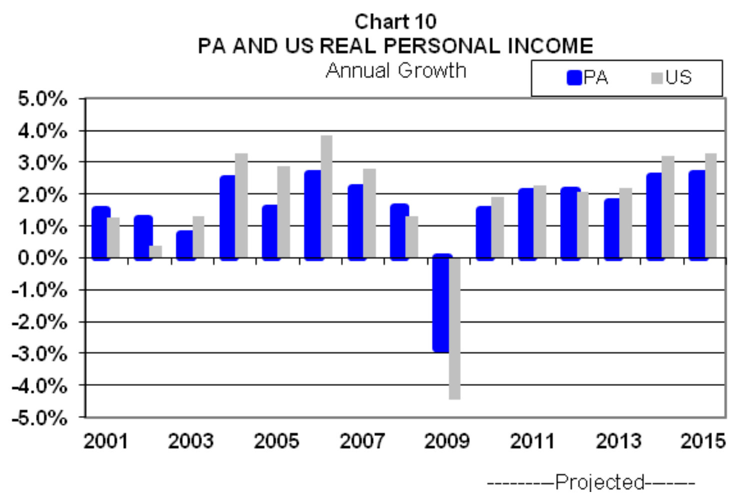
The commonwealth's employment picture turned around in 2011 and saw gains across all sectors, with the lone exception of government employment. Total non-farm employment rose nearly 1.0 percent during 2011. Employment in the mining and logging sector, paced by the rapid expansion of natural gas drilling, grew 17.4 percent in 2011. The information services sector grew at an annual rate of 3.2 percent in 2011. The leisure and hospitality sector grew 2.1 percent and manufacturing grew 1.4 percent in Pennsylvania during 2011. Government employment declined 2.7 percent during 2011.

As the national economic recovery gains strength, the annual growth in employment levels in Pennsylvania is forecast at 1.1 percent in 2012, while U.S. employment growth is expected to be 1.2 percent in 2012. Slightly more robust job growth of 1.4 percent is forecast for the commonwealth in 2013. As the national economy gains further strength, the rate of job growth in Pennsylvania is expected to again lag behind the national average beginning in 2012.

Total peak-to-trough job losses for the commonwealth during the most recent recession were an estimated 271,000 and the state unemployment rate peaked at 9.3 percent during July 2010. According to forecasts from IHS Global Insight, the commonwealth's unemployment rate is expected to remain elevated, at around 8.0 percent, during 2012. Employment levels in Pennsylvania are not expected to surpass the pre-recession peak of 5.811 million until mid-2013, according to current forecasts.

Housing construction bottomed out in Pennsylvania in 2009, down from a high of 45,000 new units in 2005 to just over 16,000 units in 2009. During 2010, new housing starts rebounded in the commonwealth, growing to nearly 20,000 – or a 21.2 percent increase from the prior year. Pennsylvania housing starts slid backwards in 2011 by 13.6 percent as new starts declined from nearly 20,000 units to approximately 17,000 units. Economic forecasts project that housing starts will continue to decline in 2012 at an annual rate of 4.2 percent, followed by more robust growth of 36.3 percent in 2013. The rate of sales of existing homes, which declined by 17.5 percent during 2008, slowed to an annual decline of 0.2 percent in 2009. Sales of existing homes weakened further during 2010, declining 8.2 percent from the prior year. Sales of existing homes in the commonwealth further declined in 2011 by 2.3 percent. Economic projections indicate a start to a sales rebound, with growth of 3.7 percent forecast in 2012, followed by stronger growth projected in 2013 through 2015.

Pennsylvania has weathered the bursting of the housing bubble better than most other states. The commonwealth ranks 23rd in the country in loans in foreclosure and 41st in the nation in terms of new loan foreclosures initiated in 2011. (In these rankings, a smaller number indicates more foreclosures.) Further, while home prices had been falling dramatically throughout the nation, home price appreciation in Pennsylvania had essentially stalled from 2007 to 2010. During 2011, the average price of a Pennsylvania home declined 2.1 percent. Home prices in the commonwealth are forecast to decline minimally, 0.9 percent, in 2012 before home values begin to appreciate in 2013.



The inverse relationship of U.S. and commonwealth growth in personal income re-emerged during the recent recession. Chart 10 plots actual and projected annual real personal income growth for Pennsylvania and the United States for the years 2001 through 2015. 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 most recent recession 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.

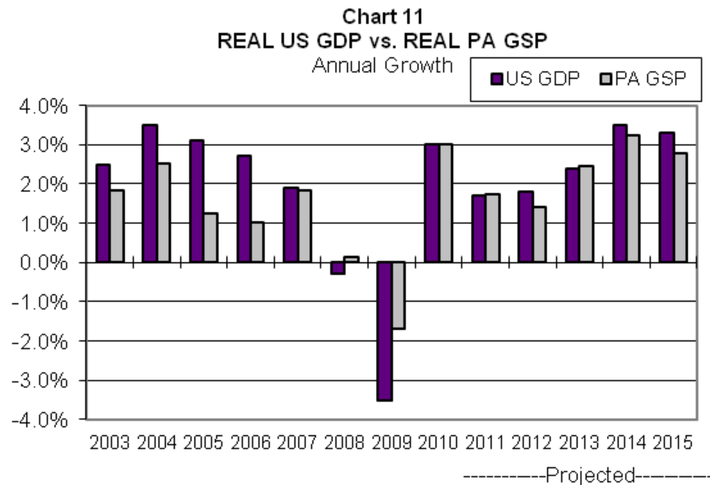
For all of 2009, Pennsylvania's rate of growth in real personal income declined 2.9 percent while the nation as a whole dropped 4.4 percent. During 2010, the commonwealth's 1.5 percent growth in real personal income was close to the 1.9 percent national growth rate. That year Pennsylvania ranked 25th in the nation in terms of its rate of growth in personal income. As the national and state economies expanded during 2011, personal income in the commonwealth grew by 2.1 percent, compared to 2.3 percent nationally. Based on current projections, the commonwealth is expected to equal the national average growth in real personal income in 2012, with both rising at a rate of 2.1 percent. The improved commonwealth 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 and education has also aided the commonwealth, as has the re-emergence of employment growth in both mining and manufacturing.

Pennsylvania-based energy and mining firms historically led the nation during much of the past two centuries before falling on hard times in the 1980s. Escalating oil and natural gas prices have contributed to increased exploration for new energy reserves. While mining activity has declined significantly within the commonwealth, the emergence of the Marcellus Shale natural gas reserves under much of Pennsylvania is leading to a resurgence in the industry. The Marcellus Shale natural gas field could be the second-largest natural gas field in the world, and producers are spending billions of dollars in the commonwealth to increase production. Over 1,000 drilling permits were granted in Pennsylvania in 2010 – more than double the rate approved in 2008. Estimated job creation tied to the expanded natural gas industry is forecast to add upwards of 200,000 jobs and more than $18 billion in output to the state economy by the end of the decade.

An illustration of this economic growth potential from Marcellus Shale is being played out in housing prices in the greater Williamsport area, which saw its housing price index grow 8.38 percent in 2010. This growth was second in the nation to only the Texas city of Laredo, which grew 9.52 percent in 2010. Further, according to a recent federal report, the 12 fastest-growing occupations in Pennsylvania are all related to Marcellus Shale drilling and the number of employees in core oil and gas industries in the commonwealth has more than doubled in the last three years, with 74 percent of these new hires coming from within Pennsylvania.

A secondary benefit of Pennsylvania's natural gas expansion is the increased industrial development that comes from lower energy prices. According to calculations by the Pennsylvania Public Utility Commission, the decrease in natural gas prices, generally driven by a spike in supply, has saved commonwealth energy consumers approximately $13 billion over the last two years. Natural gas is becoming an even larger component of electricity generation in Pennsylvania, as 17 percent of the commonwealth's electricity is generated by natural gas. This is a ten-fold increase since 2001, according to the U.S. Energy Information Administration. An expanding natural gas extraction industry in Pennsylvania will likely continue to result in increased economic benefits to the commonwealth, as more than 55 percent of all U.S. households use natural gas to heat their homes and 25 percent of U.S. electricity is generated by natural gas.

Natural gas production has been increasing exponentially in the U.S. over the past decade; in 2009, the U.S. passed Russia as the world's largest natural gas producer. The U.S. production of natural gas from shale formations has gone from practically zero in 2000 to more than 13 million cubic feet per day, or roughly 30 percent of the nation's natural gas supply. In addition, most of the gas produced in the U.S. stays in the U.S., aiding the expansion of the economy. Estimates of the amount of natural gas consumed in the U.S. that is domestically produced range as high as 87 percent, and much of that gas is produced in Pennsylvania.



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 11. As with trends in real personal income during expansionary periods, Pennsylvania's gross state product growth often 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 GSP growth rate has steadily gained on the U.S. GDP growth rate. The commonwealth has actually outperformed the national economy during the three most recent years. During 2008, the commonwealth's economy grew at an annual rate of 0.2 percent while the national economy contracted at a rate of 0.3 percent. Similarly, during 2009, the state economy outperformed the national economy by recording a lower loss: -1.7 percent for the commonwealth versus -3.5 percent for the broader U.S. economy. During 2010 the commonwealth's economy expanded at a rate of 3.0 percent – identical to the 3.0 percent growth rate for the national economy. Again in 2011, the Pennsylvania and national economies expanded at roughly the same rate of 1.7 percent annual growth. As the economic recovery gains strength, the gap between the two rates of growth is expected to re-emerge beginning in 2012 and continuing through at least 2015.

Reprinted from the 2012-13 Governor's Executive Budget, pp. A1.4-A1.16

Economic Indicators [1/]

Quarterly Comparisons

Percent Change Versus Year Ago In	2011.1	2011.2	2011.3	2011.4	2012.1	2012.2
Nominal GDP	3.7	3.2	2.7	2.7	2.9	3.5
Real GDP $05	1.9	1.9	1.8	1.6	1.8	2.3
GDP Price Index	1.8	1.3	1.0	1.1	1.1	1.2
Consumption	3.7	3.5	3.3	3.3	3.5	3.6
Business Investment	9.7	7.0	3.1	2.6	2.8	5.0
PA Wages & Salaries	3.8	3.3	4.1	4.0	4.0	4.0
3-Month T-Bill Rate	0.0	0.0	0.1	0.1	0.1	0.1
PA Unemployment Rate	8.2	8.2	8.2	8.2	8.2	8.0

Annual Comparisons

				Predicted June of 2010	
Percent Change In:	2010	2011	2012	2010	2011
Nominal GDP	3.9	3.1	3.7	4.5	4.4
Real GDP $05	1.7	1.8	2.4	2.7	2.9
GDP Price Index	2.1	1.3	1.2	1.7	1.5
Consumption	4.8	3.4	3.5	5.1	4.1
Business Investment	10.1	5.5	6.1	10.0	9.1
PA Wages & Salaries	3.7	3.8	4.1	5.2	5.4
3-Month T-Bill Rate	0.1	0.0	0.1	0.2	1.4
PA Unemployment Rate	8.0	8.2	8.0	7.8	7.1

[1/] Global Insight, US Macro Forecast, December 2011 Standard Scenario and May 2011 Standard Scenario.
PA Regional Forecast, December 2011 Standard Scenario and May 2011 Standard Scenario.

For the 2011-12 revised and 2012-13 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 $\beta_0, \beta_1, ..., \beta_n$ 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.

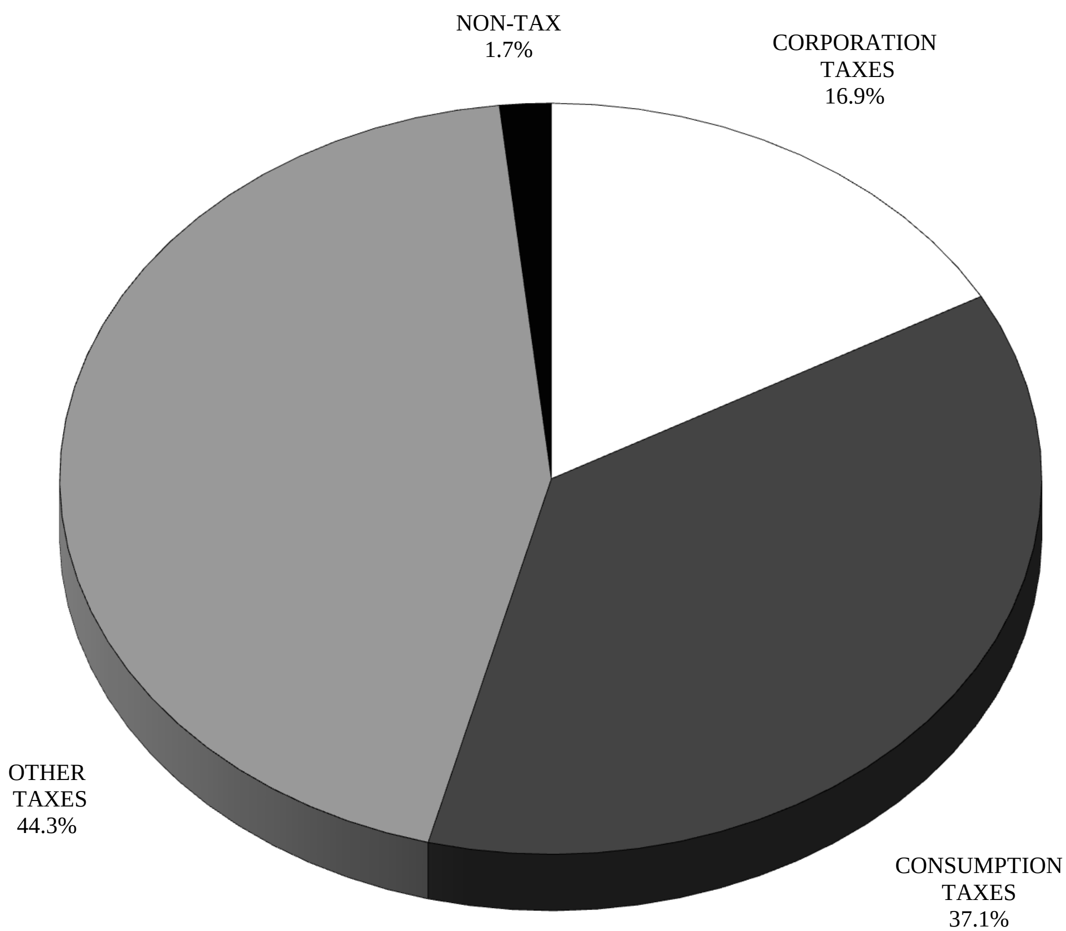
Certain econometric models need to be adjusted for a serial correlation bias. The autoregressive coefficient of the residual, ρ (rho), is used to adjust these forecasts. The corrected forecast equals:

$$\mathit{Forecast\ Value}_{n+t} + (e_n \times \rho^t),$$

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 2012-13



CAPITAL STOCK AND FRANCHISE TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
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%
2009-10	761.2	-3.4%
2010-11	819.4	7.6%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2011-12	726.6	-11.3%
2012-13	479.4	-34.0%
2013-14	198.6	-58.6%
2014-15	4.0	-98.0%
2015-16	0.0	-100.0%
2016-17	0.0	NA

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 1.8519 ZBAVE + 0.4414 IFX – 427.1434*

VARIABLES:

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

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

IFX - Annual gross private fixed investment.

STATISTICS:

$\bar{R}^2$ = 0.958 DF = 15

F = 192.79 N = 18

COEFFICIENT T-STATS:

β_0 = 8.94 β_1 = 2.54

β_2 = -2.51

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

The Act also increased the standard deduction used in calculating the Capital Stock and Franchise Tax to $160,000.

In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

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

The Governor’s Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

CIGARETTE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	792.1	1.0%
2006-07	778.6	-1.7%
2007-08	784.0	0.7%
2008-09	754.2	-3.8%
2009-10	976.1	29.4%
2010-11	1,075.4	10.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	1,075.4	0.0%
2012-13	1,097.0	2.0%
2013-14	1,098.1	0.1%
2014-15	1,099.2	0.1%
2015-16	1,100.3	0.1%
2016-17	1,101.4	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 cigarette 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. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The Governor’s Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million
Eliminate Cigarette Tax Transfer to Farmland Preservation Program: $20.485 million

These changes are reflected in the above estimates.

CORPORATE NET INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	2,302.0	19.8%
2006-07	2,492.5	8.3%
2007-08	2,417.6	-3.0%
2008-09	1,979.9	-18.1%
2009-10	1,791.0	-9.5%
2010-11	2,131.5	19.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	1,891.5	-11.3%
2012-13	2,087.3	10.4%
2013-14	2,190.4	4.9%
2014-15	2,145.5	-2.0%
2015-16	2,146.5	0.0%
2016-17	2,132.8	-0.6%

MODEL: Econometric and Structural

EQUATION:

A) $CNI = MFG + NMFG$

B) $\ln MFG = 0.4238 \ln MFGPROFITS + 4.0924$

C) $\ln NONMFG = 0.3938 \ln NMFGPROFITS + 4.9008$

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%.

MFG - Tax Year CNI Payments – Manufacturers.

NMFG - Tax Year CNI Payments – Non-Manufacturers.

MFGPROFITS - Annual US corporate profits - Manufacturers.

NMFGPROFITS - Annual US corporate profits – Non-Manufacturers.

STATISTICS (Equation B):

$\bar{R}^2 = 0.719$ $DF = 10$

$F = 29.19$ $N = 12$

CORPORATE NET INCOME TAX (Cont'd)

COEFFICIENT T-STATS (Equation B):

β_0	=	5.40	β_1	=	10.53

STATISTICS (Equation C):

$\overline{R}^2$	=	0.655	DF	=	10
F	=	21.84	N	=	12

COEFFICIENT T-STATS (Equation C):

β_0	=	4.67	β_1	=	8.84

Regression equations predict tax year payments for manufacturing and non-manufacturing. Payments are combined after all of the structural steps are taken. 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 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 years 2010 and beyond, 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%. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

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 Governor’s Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

FINANCIAL INSTITUTIONS TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	204.7	-2.0%
2006-07	213.6	4.3%
2007-08	191.9	-10.2%
2008-09	198.5	3.4%
2009-10	222.8	12.2%
2010-11	237.6	6.7%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	241.2	1.5%
2012-13	249.0	3.2%
2013-14	252.0	1.2%
2014-15	246.9	-2.0%
2015-16	242.2	-1.9%
2016-17	237.7	-1.9%

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.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

FINANCIAL INSTITUTIONS TAX (Cont'd)

SHARES TAX

MODEL: Econometric

EQUATION: $BANKTAX = -\ 0.0400\ GDP + 0.0369\ SAV + 21.5421\ TIME + 288.1569$

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:

$\bar{R}^2$	=	0.936	*DF*	=	17
F	=	99.305	*N*	=	21

COEFFICIENT T-STATS:

β_0	=	-6.93	β_1	=	4.01
β_2	=	7.99	β_3	=	10.34

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.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

FINES, PENALTIES, AND INTEREST

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	35.5	11.0%
2006-07	41.7	17.5%
2007-08	48.5	16.3%
2008-09	20.0	-58.8%
2009-10	26.5	32.5%
2010-11	15.7	-40.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	60.3	283.3%
2012-13	63.3	5.0%
2013-14	63.3	0.0%
2014-15	63.3	0.0%
2015-16	63.3	0.0%
2016-17	63.3	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.

The Governor’s Executive Budget proposes the following changes to non-tax revenue for fiscal years 2012-13 and beyond:

Transfer from PHEAA (in lieu of 2011-12 freeze): $13.8 million
Transfer from Keystone Recreation, Park, and Conservation Fund: $13.581 million

These changes are reflected in the above estimates.

GROSS RECEIPTS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2009-10	1,286.7	-6.5%
2010-11	1,225.2	-4.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	1,145.0	-6.5%
2012-13	1,497.7	30.8%
2013-14	1,352.8	-9.7%
2014-15	1,369.1	1.2%
2015-16	1,386.8	1.3%
2016-17	1,404.6	1.3%

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:

2005	0.6 mills
2006	0.0 mills
2007	1.2 mills
2008	2.8 mills
2009	0.0 mills
2010	0.0 mills
2011	1.6 mills
2012	0.0 mills

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

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

GROSS RECEIPTS TAX (Cont'd)

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million
Eliminate Gross Receipts Tax Transfer to Alternative Fuels Incentive Grant Fund: $6.5 million

These changes are reflected in the above estimates.

INHERITANCE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	745.2	4.1%
2006-07	756.6	1.5%
2007-08	828.6	9.5%
2008-09	772.2	-6.8%
2009-10	753.8	-2.4%
2010-11	805.2	6.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	825.4	2.5%
2012-13	852.6	3.3%
2013-14	886.6	4.0%
2014-15	928.1	4.7%
2015-16	974.0	4.9%
2016-17	1,021.2	4.8%

MODEL: Econometric and Structural

EQUATION: $ASSETS = 0 .7024\ GDP + 2.1182\ SP + 799.6964$

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:

$\bar{R}^2 = 0.988$ $DF = 17$

$F = 799.68$ $N = 20$

COEFFICIENT T-STATS:

$\beta_0 = 17.33$ $\beta_1 = 6.94$

$\beta_2 = 3.28$

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 eliminated the basis of the Pennsylvania estate tax by establishing a phase-out schedule for the federal credit for state death taxes. The Act phased-out the federal credit by 2005, thus eliminating Pennsylvania estate tax collections by 2007-08. The Act was set to expire in 2011, but passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the expiration to 2013. However, Congress is not expected to allow the federal credit for state death taxes to return, thus, we do not include estimates for Pennsylvania estate taxes in this forecast.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

INSURANCE PREMIUMS TAX

HISTORICAL DATA ($ Millions)			FORECASTED DATA ($ Millions)		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2005-06	390.4	-4.9%	2011-12	431.3	0.6%
2006-07	412.5	5.7%	2012-13	444.6	3.1%
2007-08	418.2	1.4%	2013-14	462.4	4.0%
2008-09	431.5	3.2%	2014-15	477.6	3.3%
2009-10	459.5	6.5%	2015-16	490.3	2.7%
2010-11	428.6	-6.7%	2016-17	505.4	3.1%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 0.7565 OTHERINC + 42.1213*

VARIABLES:

PAYMENTS - Total tax year insurance premiums tax receipts.

OTHERINC - Other labor income excluding health benefits.

STATISTICS:

$\bar{R}^2$ = 0.918 DF = 17

F = 201.97 N = 19

COEFFICIENT T-STATS:

β_0 = 14.21 β_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. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

INSURANCE PREMIUMS TAX (Cont'd)

A portion of IPT is taxes charged for premiums sold by unauthorized insurers. This is referred to as surplus lines tax. The Federal Nonadmitted and Reinsurance Reform Act of 2009 forced states to change the way they taxed surplus lines insurance. Acts 28 and 29 of 2011 changed the tax base for surplus lines taxes to include all premiums, regardless of the location of risk, and only for insureds whose home state is the Commonwealth. Previously, all policies with any risk in Pennsylvania were taxable and had to be allocated by the location of the risk, regardless of the home state of the insured. No adjustments are made to this forecast for this change.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

LICENSES, FEES, AND MISCELLANEOUS

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	368.6	-27.6%
2006-07	573.6	55.6%
2007-08	506.5	-11.7%
2008-09	90.2	-82.2%
2009-10	2,606.7	2789.9%
2010-11	915.9	-64.9%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	346.8	-62.1%
2012-13	375.2	8.2%
2013-14	325.9	-13.1%
2014-15	335.9	3.1%
2015-16	344.8	2.6%
2016-17	349.3	1.3%

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. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

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 Horse 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.

LICENSES, FEES, AND MISCELLANEOUS (Cont'd)

The Governor's Executive Budget proposes the following changes to non-tax revenue for fiscal years 2012-13 and beyond:

Transfer from PHEAA (in lieu of 2011-12 freeze): $13.8 million
Transfer from Keystone Recreation, Park, and Conservation Fund: $13.581 million

These changes are reflected in the above estimates.

LIQUOR STORE PROFITS

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	80.0	45.7%
2006-07	150.0	87.5%
2007-08	80.0	-46.7%
2008-09	125.0	56.3%
2009-10	105.0	-16.0%
2010-11	105.0	0.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	80.0	-23.8%
2012-13	80.0	0.0%
2013-14	80.0	0.0%
2014-15	80.0	0.0%
2015-16	80.0	0.0%
2016-17	80.0	0.0%

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

The Governor's Executive Budget proposes the following changes to non-tax revenue for fiscal years 2012-13 and beyond:

Transfer from PHEAA (in lieu of 2011-12 freeze): $13.8 million
Transfer from Keystone Recreation, Park, and Conservation Fund: $13.581 million

These changes are reflected in the above estimates.

LIQUOR TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	223.0	5.0%
2006-07	239.5	7.4%
2007-08	251.2	4.9%
2008-09	266.5	6.1%
2009-10	271.0	1.7%
2010-11	281.7	4.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	295.3	4.8%
2012-13	309.5	4.8%
2013-14	324.4	4.8%
2014-15	340.0	4.8%
2015-16	356.3	4.8%
2016-17	373.4	4.8%

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.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

MALT BEVERAGE TAX

HISTORICAL DATA			FORECASTED DATA		
$ Millions			$ Millions		
Year	Receipts	Growth	Year	Receipts	Growth
2005-06	26.2	5.0%	2011-12	26.0	0.3%
2006-07	25.2	-3.8%	2012-13	26.0	0.0%
2007-08	26.3	4.4%	2013-14	26.0	0.0%
2008-09	26.0	-1.1%	2014-15	26.0	0.0%
2009-10	26.6	2.3%	2015-16	26.0	0.0%
2010-11	25.9	-2.5%	2016-17	26.0	0.0%

MODEL: Structural

These estimates are based on current collection patterns.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

MINOR AND REPEALED TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	-17.4	-583.3%
2006-07	-15.5	10.9%
2007-08	111.6	820.0%
2008-09	12.8	-88.5%
2009-10	9.3	-27.3%
2010-11	6.6	-29.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	8.7	31.7%
2012-13	8.7	0.0%
2013-14	8.7	0.0%
2014-15	8.7	0.0%
2015-16	8.7	0.0%
2016-17	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.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

OTHER SELECTIVE BUSINESS TAXES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2005-06	20.6	20.4%	2011-12	14.2	5.2%
2006-07	17.3	-16.0%	2012-13	14.9	4.9%
2007-08	16.6	-4.0%	2013-14	15.6	4.7%
2008-09	14.1	-15.1%	2014-15	16.4	5.1%
2009-10	16.2	14.9%	2015-16	17.2	4.9%
2010-11	13.5	-16.7%	2016-17	18.1	5.2%

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

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

PERSONAL INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	9,524.1	8.9%
2006-07	10,261.6	7.7%
2007-08	10,907.7	6.3%
2008-09	10,198.6	-6.5%
2009-10	9,968.7	-2.3%
2010-11	10,435.7	4.7%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	10,814.9	3.6%
2012-13	11,326.4	4.7%
2013-14	11,926.9	5.3%
2014-15	12,581.3	5.5%
2015-16	13,133.7	4.4%
2016-17	13,644.7	3.9%

MODEL: Econometric and Structural

EQUATIONS:

A) $PIT = WITH + NONWITH$

B) $\ln QWITH = 0.9892 \ln PAWAGES + 0.0734\ Q1 - 0.0151\ Q3 - 4.7667$

C) $\ln EST = 0.7569 \ln PRID + 0.1299 \ln CAPGAIN + 0.7543$

D) $\ln ANNUALS = 0.8719 \ln USID + 0.2907 \ln CAPGAIN - 0.1662$

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.
Q3	-	Third quarter dummy.
PRID	-	Annual US proprietors income, interest, dividends, and rents.
CAPGAIN	-	Annual PA capital gains.
USID	-	Annual US interest and dividends.

STATISTICS (Equation B):

$\bar{R}^2$	=	0.991	DF	=	55
F	=	2053.4	N	=	59

COEFFICIENT T-STATS (Equation B):

β_0	=	77.03	β_1	=	15.51
β_2	=	-3.19	β_3	=	-30.18

STATISTICS (Equation C):

$\bar{R}^2$	=	0.957	DF	=	18
F	=	222.15	N	=	21

COEFFICIENT T-STATS (Equation C):

β_0	=	10.25	β_1	=	3.50
β_2	=	1.49			

STATISTICS (Equation D):

$\bar{R}^2$	=	0.937	DF	=	18
F	=	149.7	N	=	21

PERSONAL INCOME TAX (Cont'd)

COEFFICIENT T-STATS (Equation D):

β_0 = 7.01 β_1 = 5.26

β_2 = -0.21

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 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 PA 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 PA 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. In addition, Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

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

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

PUBLIC UTILITY REALTY TAX

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2005-06	40.2	-2.4%
2006-07	47.5	18.2%
2007-08	44.7	-5.9%
2008-09	41.9	-6.3%
2009-10	39.5	-5.7%
2010-11	34.4	-12.9%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2011-12	34.7	0.9%
2012-13	35.0	0.9%
2013-14	35.3	0.9%
2014-15	35.6	0.8%
2015-16	35.9	0.8%
2016-17	36.2	0.8%

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.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor’s Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

REALTY TRANSFER TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	552.5	16.9%
2006-07	571.0	3.3%
2007-08	429.6	-24.8%
2008-09	294.5	-31.4%
2009-10	296.0	0.5%
2010-11	279.2	-5.7%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	258.4	-7.4%
2012-13	260.6	0.9%
2013-14	315.7	21.1%
2014-15	368.2	16.6%
2015-16	414.6	12.6%
2016-17	433.2	4.5%

MODEL: Econometric

EQUATION: *ln RTT = 1.0160 ln AVGPRICE + 1.0396 ln PASTSALE – 5.2587*

VARIABLES:

RTT - Fiscal year realty transfer tax receipts.

AVGPRICE - US average sales price of new and existing houses.

PASTSALE - Pennsylvania housing starts and sales.

STATISTICS:

$\bar{R}^2$ = 0.984 DF = 27

F = 894.35 N = 30

COEFFICIENT T-STATS:

β_0 = 25.11 β_1 = 13.27

β_2 = -15.15

REALTY TRANSFER TAX (Cont'd)

These estimates result from an econometric approach using the US average of new and existing houses and Pennsylvania housing starts and sales to model the realty transfer tax collections.

Act 48-2009 created a tax amnesty program that increased collections in 2009-10.

The Governor’s Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

SALES AND USE TAX

HISTORICAL DATA — **$ Millions**

Year	Receipts	Growth
2005-06	8,334.2	4.2%
2006-07	8,590.8	3.1%
2007-08	8,496.5	-1.1%
2008-09	8,135.5	-4.2%
2009-10	8,029.2	-1.3%
2010-11	8,590.2	7.0%

FORECASTED DATA — **$ Millions**

Year	Receipts	Growth
2011-12	8,754.2	1.9%
2012-13	9,101.4	4.0%
2013-14	9,504.7	4.4%
2014-15	9,807.9	3.2%
2015-16	10,068.6	2.7%
2016-17	10,300.2	2.3%

MODEL: Econometric and Structural

EQUATIONS:

A) *ST = NON-MOTOR + MV*

B) *ln NMCASH = 0.5643 ln CEMOD + 0.1763 ln ADJFI + 0.1138 Q2 + 0.0959 Q3 + 0.1480 Q4 + 2.7981*

C) *ln MVCASH = 0.9206 ln CEAUTO – 5.9905 PAAGE-RATIO + 10.0637*

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.

CEMOD - US Consumer expenditures on durables, non-durables, and services.

ADJFI - US nonresidential fixed investment adjusted to exclude fixed investment in industrial and transportation equipment.

<u>SALES AND USE TAX</u> (Cont'd)

Q2	-	Second quarter dummy.
Q3	-	Third quarter dummy.
Q4	-	Fourth quarter dummy.
CEAUTO	-	US consumer expenditures on motor vehicles and parts.
PAAGE-RATIO	-	Ratio of Pennsylvanians aged 45-64 to the whole Pennsylvania population.

<u>STATISTICS (Equation B):</u>

$\bar{R}^2$	=	0.990	DF	=	41
F	=	918.98	N	=	47

<u>COEFFICIENT T-STATS (Equation B):</u>

β_0	=	22.98	β_1	=	9.13
β_2	=	26.47	β_3	=	22.29
β_4	=	33.67	β_5	=	34.40

<u>STATISTICS (Equation C):</u>

$\bar{R}^2$	=	0.963	DF	=	33
F	=	458.48	N	=	36

<u>COEFFICIENT T-STATS (Equation C):</u>

β_0	=	26.01	β_1	=	-6.56
β_2	=	63.90			

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 consumption and nonresidential fixed investment. 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 of 2009 created a tax amnesty program that increased collections in 2009-10.

Act 46-2011 requires licensees reporting a total tax liability of $25,000 or more for the third calendar quarter of the preceding year to file a return and make a payment by the 20th of the month. The payment includes 50% of the liability from the same month of the prior calendar year and any remaining amount due from the previous calendar month. This procedure replaces language enacted in the Tax Reform Code by Act 48 of 2009 that required two sales tax returns per month from the same sales tax vendor.

The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million
Capping of Vendor Sales Tax Discount ($250/month): $41.3 million

These changes are reflected in the above estimates.

TABLE GAME TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	NA	NA
2006-07	NA	NA
2007-08	NA	NA
2008-09	NA	NA
2009-10	NA	NA
2010-11	68.7	NA

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	92.0	34.0%
2012-13	86.5	-6.0%
2013-14	89.4	3.4%
2014-15	90.9	1.7%
2015-16	93.2	2.5%
2016-17	95.5	2.5%

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 historical data from each of the slot machine license holders operating table games as well as Pennsylvania Gaming Control Board knowledge of anticipated table game expansion at existing or new facilities.

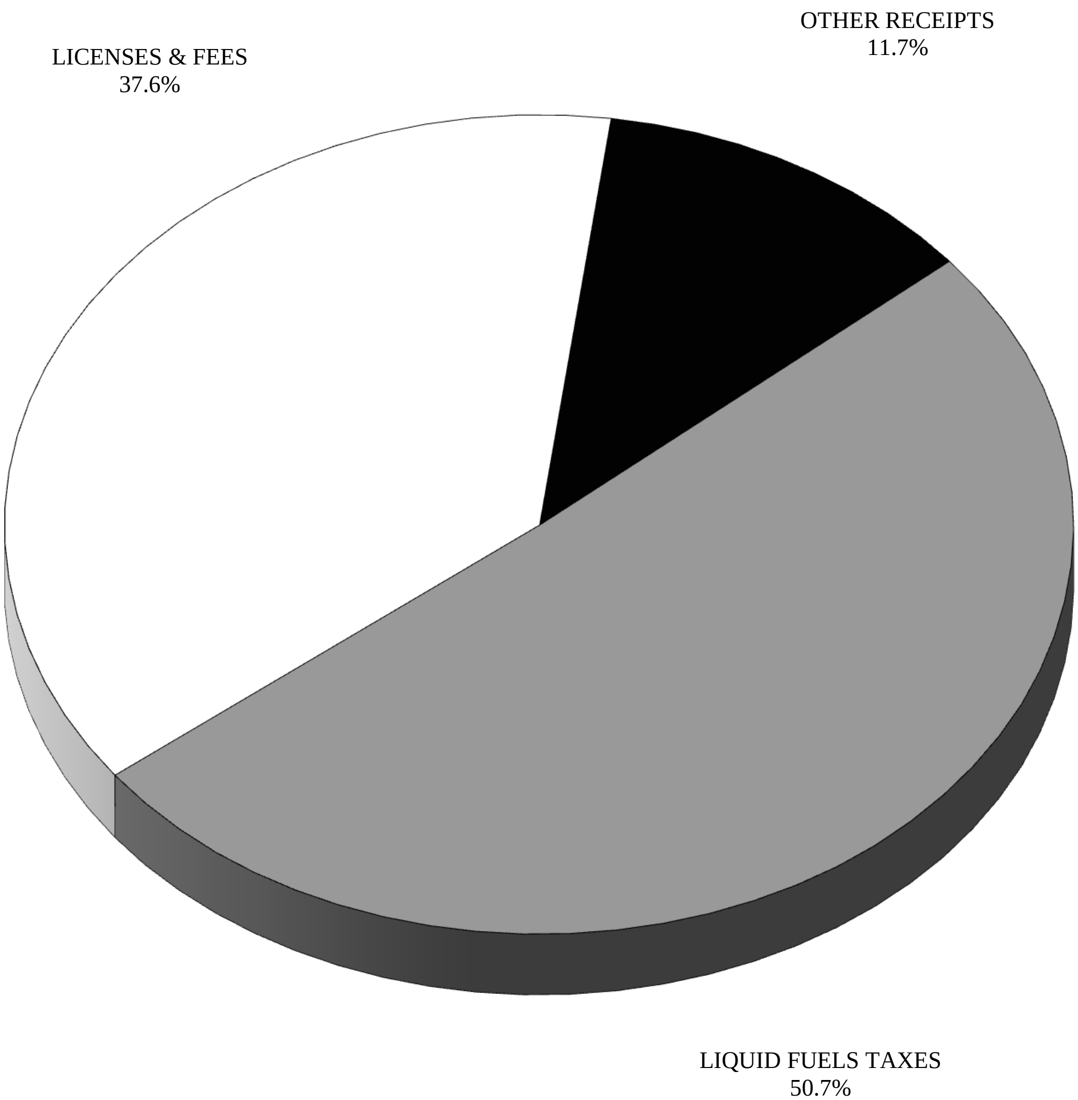
The Governor's Executive Budget proposes the following changes to tax revenue for fiscal years 2012-13 and beyond:

Enhanced Enforcement Initiatives: $21.6 million
Enhanced Revenue Collections Account: $100.0 million

These changes are reflected in the above estimates.

MOTOR LICENSE FUND REVENUE

Fiscal Year 2012-13



LIQUID FUELS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2005-06	581.8	-1.1%
2006-07	589.2	1.3%
2007-08	591.7	0.4%
2008-09	520.5	-12.0%
2009-10	548.9	5.5%
2010-11	568.0	3.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	576.4	1.5%
2012-13	579.3	0.5%
2013-14	582.8	0.6%
2014-15	586.9	0.7%
2015-16	591.6	0.8%
2016-17	596.9	0.9%

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. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2011-12 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**
2005-06	162.4	3.2%	2011-12	152.2	0.1%
2006-07	162.8	0.2%	2012-13	152.9	0.5%
2007-08	157.1	-3.5%	2013-14	153.8	0.6%
2008-09	149.6	-4.8%	2014-15	154.9	0.7%
2009-10	145.3	-2.9%	2015-16	156.2	0.8%
2010-11	152.0	4.6%	2016-17	157.6	0.9%

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. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2011-12 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
2005-06	0.6	-14.3%
2006-07	0.2	-66.7%
2007-08	1.1	450.0%
2008-09	0.6	-45.5%
2009-10	0.6	0.0%
2010-11	0.6	0.0%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2011-12	0.6	0.0%
2012-13	0.6	0.0%
2013-14	0.6	0.0%
2014-15	0.6	0.0%
2015-16	0.6	0.0%
2016-17	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
2005-06	35.9	12.2%
2006-07	40.4	12.5%
2007-08	38.9	-3.7%
2008-09	39.7	2.1%
2009-10	41.1	3.5%
2010-11	43.1	4.9%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	43.3	0.5%
2012-13	43.6	0.7%
2013-14	43.8	0.5%
2014-15	44.0	0.5%
2015-16	44.2	0.5%
2016-17	44.4	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 company franchise tax component. The oil company 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 company franchise tax rate per gallon of fuel consumed in Pennsylvania for calendar year 2012 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. Please note that Act 48 of 2009 created a tax amnesty program that increased collections in 2009-10.

The fiscal year 2011-12 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		FORECASTED DATA	$ Millions	
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2005-06	445.2	16.8%	2011-12	454.8	0.0%
2006-07	462.8	4.0%	2012-13	457.1	0.5%
2007-08	447.7	-3.3%	2013-14	459.8	0.6%
2008-09	452.8	1.1%	2014-15	463.1	0.7%
2009-10	448.0	-1.1%	2015-16	466.8	0.8%
2010-11	455.0	1.6%	2016-17	471.0	0.9%

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 2012 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
2005-06	877.8	0.1%
2006-07	870.0	-0.9%
2007-08	872.1	0.2%
2008-09	883.8	1.3%
2009-10	857.7	-3.0%
2010-11	891.6	4.0%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2011-12	898.3	0.8%
2012-13	914.1	1.8%
2013-14	944.4	3.3%
2014-15	950.4	0.6%
2015-16	955.4	0.5%
2016-17	965.2	1.0%

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
2005-06	162.0	34.9%
2006-07	165.4	2.1%
2007-08	559.4	238.2%
2008-09	509.7	-8.9%
2009-10	599.5	17.6%
2010-11	411.1	-31.4%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2011-12	282.8	-31.2%
2012-13	286.0	1.1%
2013-14	289.4	1.2%
2014-15	293.3	1.3%
2015-16	297.4	1.4%
2016-17	302.0	1.5%

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.

With the denial of Interstate 80 from becoming a toll road, Act 44 of 2007 specifies that starting in FY 2010-11 (and for the remainder of the lease) that the PA Turnpike contribution is $200 million a year.

In fiscal year 2010-11, Treasury restructured its Pool 98 investments to form a less volatile Pool 198 that is less subject to day to day market fluctuations. Restructuring the Motor License Fund shares from Pool 98 to Pool 198 netted the Motor License Fund a one-time investment earnings of $120.3 million. Future earnings from Pool 198 are expected to be greatly reduced but less volatile.