pennsylvania
DEPARTMENT OF REVENUE

2013 - 2014
Estimate Documentation

Bureau of Research

February 19, 2013

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GENERAL FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2012-13 Revised	2013-14 Budget	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
TOTAL - GENERAL FUND	**28,822.0**	**29,251.2**	**30,246.0**	**31,066.7**	**31,880.6**	**32,682.6**
TOTAL - TAX REVENUE	**28,279.9**	**28,722.4**	**29,714.7**	**30,532.6**	**31,343.8**	**32,143.0**
TOTAL - Corporation Taxes	**5,224.6**	**4,913.8**	**4,711.7**	**4,657.9**	**4,619.0**	**4,516.6**
Corporate Net Income	2,491.7	2,567.6	2,580.8	2,508.0	2,430.0	2,288.2
Capital Stock & Franchise	604.2	242.6	9.1	0.0	0.0	0.0
Selective Business Total	2,128.7	2,103.6	2,121.8	2,149.9	2,189.0	2,228.4
Utility Gross Receipts	1,325.8	1,295.9	1,301.3	1,306.7	1,321.6	1,336.7
Utility Property	30.5	30.8	31.1	31.4	31.7	32.0
Insurance Premiums	444.2	442.9	457.2	475.7	493.9	511.8
Financial Institutions	316.7	322.7	328.8	335.0	341.4	347.9
Other	11.5	11.3	3.4	1.1	0.4	0.0
TOTAL - Consumption Taxes	**10,345.8**	**10,737.7**	**11,134.9**	**11,322.7**	**11,556.7**	**11,780.6**
Sales and Use	8,968.1	9,372.6	9,779.4	9,976.1	10,218.1	10,448.3
Cigarette	1,041.3	1,013.7	988.4	963.0	937.7	912.3
Malt Beverage	26.0	26.0	26.0	26.0	26.0	27.0
Liquor	310.4	325.4	341.1	357.6	374.9	393.0
TOTAL - Other Taxes	**12,709.5**	**13,070.9**	**13,868.1**	**14,552.0**	**15,168.1**	**15,845.8**
Personal Income	11,471.7	11,764.8	12,432.3	13,049.8	13,616.5	14,254.2
Realty Transfer	338.4	374.2	448.5	486.8	491.1	496.2
Inheritance	823.5	849.2	901.7	927.5	970.2	1,002.6
Table Games	89.0	95.4	97.9	100.2	102.7	105.2
Minor and Repealed	(13.1)	(12.7)	(12.3)	(12.3)	(12.4)	(12.4)
TOTAL - NONTAX REVENUE	**542.1**	**528.8**	**531.3**	**534.1**	**536.8**	**539.6**
Liquor Store Profits	80.0	80.0	80.0	80.0	80.0	80.0
Licenses, Fees & Miscellaneous Total	398.2	356.4	358.9	361.8	364.5	367.2
Licenses and Fees	124.8	109.5	108.9	108.9	108.9	108.9
Miscellaneous	273.4	246.9	250.0	252.8	255.5	258.3
Fines, Penalties & Interest Total	63.9	92.4	92.4	92.4	92.4	92.4
F, P & I On Taxes	17.6	17.6	17.6	17.6	17.6	17.6
F, P & I Other	46.3	74.8	74.8	74.8	74.8	74.8

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

GENERAL FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2012-13 Revised	2013-14 Budget	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
TOTAL - GENERAL FUND	**4.1%**	**1.5%**	**3.4%**	**2.7%**	**2.6%**	**2.5%**
TOTAL - TAX REVENUE	**4.2%**	**1.6%**	**3.5%**	**2.8%**	**2.7%**	**2.5%**
TOTAL - Corporation Taxes	**5.3%**	**-5.9%**	**-4.1%**	**-1.1%**	**-0.8%**	**-2.2%**
Corporate Net Income	23.2%	3.0%	0.5%	-2.8%	-3.1%	-5.8%
Capital Stock & Franchise	-27.8%	-59.8%	-96.2%	-100.0%	NA	NA
Selective Business Total	1.4%	-1.2%	0.9%	1.3%	1.8%	1.8%
Utility Gross Receipts	-0.3%	-2.3%	0.4%	0.4%	1.1%	1.1%
Utility Property	6.2%	1.0%	1.0%	1.0%	1.0%	0.9%
Insurance Premiums	-3.1%	-0.3%	3.2%	4.0%	3.8%	3.6%
Financial Institutions	16.2%	1.9%	1.9%	1.9%	1.9%	1.9%
Other	14.9%	-1.7%	-69.9%	-67.6%	-63.6%	-100.0%
TOTAL - Consumption Taxes	**1.8%**	**3.8%**	**3.7%**	**1.7%**	**2.1%**	**1.9%**
Sales and Use	2.2%	4.5%	4.3%	2.0%	2.4%	2.3%
Cigarette	-2.7%	-2.7%	-2.5%	-2.6%	-2.6%	-2.7%
Malt Beverage	0.4%	0.0%	0.0%	0.0%	0.0%	3.8%
Liquor	4.1%	4.8%	4.8%	4.8%	4.8%	4.8%
TOTAL – Other Taxes	**5.7%**	**2.8%**	**6.1%**	**4.9%**	**4.2%**	**4.5%**
Personal Income	6.2%	2.6%	5.7%	5.0%	4.3%	4.7%
Realty Transfer	15.8%	10.6%	19.9%	8.5%	0.9%	1.0%
Inheritance	-0.5%	3.1%	6.2%	2.9%	4.6%	3.3%
Table Games	-6.3%	7.2%	2.6%	2.3%	2.5%	2.4%
Minor and Repealed	-508.5%	3.1%	3.1%	0.0%	-0.8%	0.0%
TOTAL - NONTAX REVENUE	**2.4%**	**-2.5%**	**0.5%**	**0.5%**	**0.5%**	**0.5%**
Liquor Store Profits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Licenses, Fees & Miscellaneous Total	4.0%	-10.5%	0.7%	0.8%	0.7%	0.7%
Licenses and Fees	-10.1%	-12.3%	-0.5%	0.0%	0.0%	0.0%
Miscellaneous	11.9%	-9.7%	1.3%	1.1%	1.1%	1.1%
Fines, Penalties & Interest Total	-3.8%	44.6%	0.0%	0.0%	0.0%	0.0%
F, P & I On Taxes	22.7%	0.0%	0.0%	0.0%	0.0%	0.0%
F, P & I Other	-11.1%	61.6%	0.0%	0.0%	0.0%	0.0%

* Figures reflect changes in unrounded receipts.

MOTOR LICENSE FUND REVENUE ESTIMATES*

$ millions

Revenue Sources	2012-13 Revised	2013-14 Budget	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
TOTAL - MOTOR LICENSE FUND	**2,409.0**	**2,446.8**	**2,730.9**	**2,529.5**	**2,589.0**	**2,571.7**
TOTAL - LIQUID FUELS TAXES	**1,215.8**	**1,363.2**	**1,413.9**	**1,522.1**	**1,561.9**	**1,633.0**
Liquid Fuels	555.8	509.7	460.5	456.4	457.9	459.7
Fuels	155.7	143.5	130.4	129.7	130.6	131.6
Motor Carriers / IFTA	48.9	49.2	49.4	49.7	49.9	50.2
Alternative Fuels	1.1	1.0	1.1	1.4	1.5	1.5
Oil Company Franchise	454.3	659.8	772.5	884.9	922.0	990.0
TOTAL - LICENSES & FEES	**903.4**	**884.5**	**1,116.1**	**867.0**	**884.9**	**856.8**
Special Hauling Permits	29.0	29.8	30.6	31.4	32.3	33.1
International Registration Plan (IRP)	94.1	96.6	99.3	102.0	104.7	107.6
Operators' Licenses	62.6	61.1	71.1	70.9	79.6	78.2
Vehicle Registration & Titling	689.5	678.6	896.6	654.1	659.6	639.1
Other Fees - Bureau of Motor Vehicles	28.2	18.4	18.5	8.6	8.7	(1.2)
TOTAL - OTHER MOTOR	**289.8**	**199.1**	**200.9**	**140.4**	**142.2**	**81.9**
Revenue/Gross Receipts Tax	0.0	0.0	0.0	0.0	0.0	0.0
Vehicle Code Fines/Clearing Account	30.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous - Treasury	35.7	36.8	38.4	39.8	41.3	42.8
Miscellaneous - Transportation	22.4	15.6	15.8	8.9	9.2	2.4
Miscellaneous - General Services	1.7	1.7	1.7	1.7	1.7	1.7
Miscellaneous - Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Turnpike Payments	200.0	145.0	145.0	90.0	90.0	35.0

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

MOTOR LICENSE FUND REVENUE ESTIMATES

Annual Percent Changes *

Revenue Sources	2012-13 Revised	2013-14 Budget	2014-15 Estimate	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
TOTAL - MOTOR LICENSE FUND	**-0.2%**	**1.6%**	**11.6%**	**-7.4%**	**2.4%**	**-0.7%**
TOTAL - LIQUID FUELS TAXES	**-0.7%**	**12.1%**	**3.7%**	**7.7%**	**2.6%**	**4.6%**
Liquid Fuels	-1.0%	-8.3%	-9.7%	-0.9%	0.3%	0.4%
Fuels	0.0%	-7.8%	-9.1%	-0.5%	0.7%	0.8%
Motor Carriers / IFTA	0.4%	0.6%	0.4%	0.6%	0.4%	0.6%
Alternative Fuels	266.7%	-9.1%	10.0%	27.3%	7.1%	0.0%
Oil Company Franchise	-0.8%	45.2%	17.1%	14.6%	4.2%	7.4%
TOTAL - LICENSES & FEES	**1.2%**	**-2.1%**	**26.2%**	**-22.3%**	**2.1%**	**-3.2%**
Special Hauling Permits	1.0%	2.8%	2.7%	2.6%	2.9%	2.5%
International Registration Plan (IRP)	2.7%	2.7%	2.8%	2.7%	2.6%	2.8%
Operators' Licenses	1.1%	-2.4%	16.4%	-0.3%	12.3%	-1.8%
Vehicle Registration & Titling	0.9%	-1.6%	32.1%	-27.0%	0.8%	-3.1%
Other Fees - Bureau of Motor Vehicles	3.7%	-34.8%	0.5%	-53.5%	1.2%	-113.8%
TOTAL - OTHER MOTOR RECEIPTS	**-2.6%**	**-31.3%**	**0.9%**	**-30.1%**	**1.3%**	**-42.4%**
Revenue/Gross Receipts Tax	NA	NA	NA	NA	NA	NA
Vehicle Code Fines/Clearing Account	-5.7%	-100.0%	NA	NA	NA	NA
Miscellaneous - Treasury	-15.2%	3.1%	4.3%	3.6%	3.8%	3.6%
Miscellaneous - Transportation	1.4%	-30.4%	1.3%	-43.7%	3.4%	-73.9%
Miscellaneous - General Services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous - Revenue	NA	NA	NA	NA	NA	NA
Turnpike Payments	0.0%	-27.5%	0.0%	-37.9%	0.0%	-61.1%

* 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 #87 of July 2, 2012 made the following changes:

To Procedure and Administration:

- Permits the Department of Revenue to change, by regulation, the method of payment for payments greater than $10,000. Previous law allowed changes for payments greater than $20,000.
- Allows the Department of Revenue to enter into contracts to identify savings from refunds and to collect taxes, interest, penalties or fees paid pursuant to a contingency fee. The contracts must ensure compliance with all laws and procedures regulating the collection of taxes, interest, penalties and fees.
- Allows replacement checks to be issued for checks that are between 180 days and 1 year old. After 1 year, all reportable checks issued by the Commonwealth that have not been presented for payment shall be delivered to the State Treasurer as abandoned/unclaimed property.
- Provides that any money received by an agency as a result of a settlement, litigation or an enforcement action shall be deemed funds of the Commonwealth, and shall, upon receipt, be deposited in the General Fund. Agencies shall be reimbursed from settlement proceeds for any costs incurred to pursue a settlement, litigation or enforcement action.

To The Neighborhood Improvement Zone Fund:

- Defines "city" as a city of the third class with a population of at least 106,000 based on the most recent US Census.
- Defines "earned income tax" to ensure that the monies retained by the city as part of the Neighborhood Improvement Zone are only those earned income tax monies which are levied by a city or a school district entirely contained in the zone.
- Provides that an entity collecting a local tax that is in possession of money attributable to a local tax not included in the amount to be certified shall promptly remit the money to the local taxing authority entitled to receive the money.
- Provides that within 4 months of the designation of a Neighborhood Improvement Zone, a city may apply to the Department of Community and Economic Development to decertify all or part of the Keystone Opportunity Zone on behalf of all political subdivisions.

To Keystone Special Development Zones:

- Amends the definition of "Keystone Special Development Zone" to include properties that have no permanent vertical structures affixed to them or which had a permanent vertical structure affixed to it which has been deteriorated or abandoned for at least 20 years.

To Tax Credits:

- Limits on Research & Development, Film, and Job Creation tax credits are deleted from the Fiscal Code for placement in the Tax Code.

To the Enhanced Revenue Collection Account:

- Extends the Enhanced Revenue Collections Account through 2016-17.
- Increases the appropriation to fund the costs associated with the enhanced revenue collection program to up to $10,000,000 annually.

ACT #85 of July 2, 2012 made the following changes:

To the Sales and Use Tax:

- Provides a sales and use tax exemption for the collection, washing, sorting, inspecting and packaging of eggs. Tangible personal property and services used directly and predominantly in the processing of eggs are exempt from sales and use tax. Effective July 2, 2012.
- Provides exclusion for wrapping or packaging supplies. Clarifies that any charge for wrapping or packaging is exempt from sales and use tax if the property wrapped or packaged will be resold by the purchaser of the wrapping or packaging services. Effective July 2, 2012.
- Provides for a permanent exempt status for volunteer firefighters' organizations and volunteer firefighters' relief associations. Excludes the sale at retail or use of tangible personal property or services by a volunteer firefighters' organization and volunteer firefighters' relief association from tax. Effective July 2, 2012.
- Provides sales and use tax licensees whose actual tax liability for the third calendar quarter of the preceding year is at least $25,000 but less than $100,000 with an alternative payment option to the requirement of paying 50 percent of the tax liability for the same month of the preceding calendar year. The licensee may remit an amount that is equal to or greater than 50 percent of the actual tax liability required to be reported for the same month in the current year. Effective Oct. 1, 2012.

To the Personal Income Tax:

- Provides that a surviving spouse may file a joint return for the year in which his or her spouse died, if the joint return could have been filed if both spouses were living for the entire taxable year. If both taxpayers die during the same tax year, a joint final return may be filed if a joint return could have been filed had both spouses lived for the entire taxable year. Effective for tax years beginning on or after Jan. 1, 2013.
- Eliminates a penalty for underpayment of estimated taxes for taxpayers who make estimated tax payments equal to the amount of the taxpayer's tax liability for the preceding tax year by taking into account a calculation for the special provisions for poverty. Effective for tax years beginning on or after January 1, 2013.

To the Corporate Net Income Tax:

- Adopts a 100 percent single sales factor for corporate net income tax for tax years beginning on or after January 1, 2013.

To the Realty Transfer Tax:

- Extends exclusions from the realty transfer tax to general, limited or limited liability partnerships related to a family-owned business of agriculture. Applies retroactively to transfers occurring on or after July 1, 2010.

- Broadens the definition of “real estate company” and provides for instances in which a real estate company shall become an “acquired company”. This provision is effective Jan. 1, 2013, and shall not apply to a transaction or a series of transactions occurring in part or entirely before Jan. 1, 2013.
- Excludes transfers between a stepparent and a stepchild or the spouse of the stepchild from the tax. Effective July 2, 2012.

To the Cigarette Tax:

- Amends the definition of "wholesaler," so that any person owning three or more retail outlets now qualifies as a cigarette wholesaler. Effective Aug. 31, 2012.

To the Inheritance Tax:

- Provides an exemption from the inheritance tax for the transfer of real estate devoted to the business of agriculture to members of the same family. The transfer of real estate must continue to be devoted to the business of agriculture for a period of seven years beyond the transferor's date of death and the real estate derives a yearly gross income of at least $2,000.
- Specifies that any tract of land no longer devoted to the business of agriculture within seven years shall be subject to the inheritance tax in the amount that would have been paid for nonexempt transfers of property, plus interest.
- Provides that a transfer of an agricultural commodity, agricultural conservation easement, agricultural reserve, agricultural use property or a forest reserve to lineal descendants or siblings is exempt from inheritance tax.
- Applies to the estates of decedents dying after June 30, 2012.

To the Research and Development Tax Credit:

- Reestablishes a credit cap of $55 million per year in the Tax Code (previously in the Fiscal Code).
- Removes the sunset date of the tax credit.

To the Film Production Tax Credit:

- Provides that a taxpayer is eligible for an additional tax credit of 5 percent of “qualified film production expenses” if a taxpayer films a feature film, television film or television series that is intended as programming for a national audience and is filmed in a “qualified production facility” that meets all “minimum stage filming requirements” .
- Defines "qualified production facility" as a film production facility located in Pennsylvania containing at least one sound stage with column-free, unobstructed floor space and meets specific criteria.
- Adds the bank shares tax and insurance premiums tax to the list of taxes that may be offset by the Film Production Tax Credit.
- Applications will be reviewed by the Department of Community and Economic Development in 90-day periods on a competitive basis and will be evaluated on several criteria.
- A portion of tax credits may be accelerated into the current fiscal year for the three succeeding fiscal years.

- Permits carry forward of a tax credit purchased or assigned in 2010 to tax years 2011 and 2012.
- Allows the Department of Community and Economic Development to waive the requirement that 60 percent of the film's total expenses be incurred in the commonwealth.

To the Educational Improvement Tax Credit:

- The maximum credit for contributions to scholarship or educational improvement organizations is increased from $300,000 to $400,000. Beginning in fiscal year 2013-14, the maximum credit will be $750,000.
- The maximum credit for contributions to pre-kindergarten scholarship organizations is increased from $150,000 to $200,000.
- The total aggregate amount of all tax credits shall not exceed $100 million in a fiscal year.
- Adds surplus lines tax to the list of taxes that may be offset by the Educational Improvement Tax Credit.

To the Pennsylvania Resource Manufacturing Tax Credit:

- Establishes a tax credit for any entity purchasing ethane for use in a manufacturing ethylene at a facility in the Commonwealth that has made a capital investment of at least $1 billion and created 2,500 full-time jobs during the construction phase. Effective for ethane purchased between Jan. 1, 2017 and Dec. 31, 2042.
- The tax credit is generated based on 5 cents for every gallon of ethane purchased ($2.10/barrel) and may be used to offset 20 percent of the taxpayer’s qualified Pennsylvania tax liabilities.
- After the end of the calendar year in which the credit is approved, a taxpayer can apply to the Department of Community and Economic Development for approval to assign or sell eligible credits to another taxpayer. The eligible buyer of the credit would be able to use the purchased credits to offset up to 50 percent of its qualified Pennsylvania tax liabilities.
- Requires an annual report by the Department of Revenue beginning in 2018 to include names of all qualified taxpayers utilizing the tax credit and the amount of tax credits approved, utilized or sold or assigned by each qualified taxpayer.
- Requires that a reconciliation report be filed by the Department of Community and Economic Development beginning in 2028 to include the total number of jobs created, the amount of tax revenue generated from qualified taxpayers and upstream or downstream companies and any other information pertaining to the economic impact of the tax credit program.

To the Educational Opportunity Scholarship Tax Credit:

- Establishes a new credit for businesses contributing to organizations awarding scholarships for students in “low-achieving schools” to attend participating public or non-public schools. Effective July 2, 2012.
- Defines a “low-achieving school” as a public school ranked in the lowest 15 percent based on annual assessments.
- The limitations on business contribution and business application procedures are similar to those under the Educational Improvement Tax Credit.
- A total of $50 million in credits may be granted annually.

To the Historic Preservation Tax Credit:

- Establishes a $3 million per year tax credit program to encourage the restoration of qualified historic structures. Effective July 2, 2013.
- Credit is equal to 25 percent of the costs and expenses associate with the rehabilitation of a historic structure.
- Defines a "qualified historic structure" as a commercial building located in the commonwealth that qualifies as a certified historic structure under the federal Internal Revenue Code.
- Defines "qualified expenditures" as the costs and expenses (1) incurred by a qualified taxpayer in the restoration of a qualified historic structure pursuant to a "qualified rehabilitation plan," and (2) defined as qualified rehabilitation expenditures under the Internal Revenue Code.

To the Community-Based Services Tax Credit:

- Establishes a $3 million per year tax credit program for contributions made by business firms to providers of community-based services to individuals with intellectual disabilities or mental illness. Effective July 1, 2013. No credits may be awarded after July 1, 2018.
- Credit is equal to 50 percent of contributions made to a qualified provider.
- Credits may not be carried forward, carried back, and are not refundable or transferable.
- Requires a provider to be a nonprofit entity that provides community-based services to individuals exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

To the Job Creation Tax Credit:

- Adds definition of "small business" for companies with fewer than 100 employees and "unemployed individual" as someone who has been unemployed for at least 60 days.
- Provides that a small business must agree to increase employment by at least 10 percent.
- Allows tax credits to be authorized as single-year or multiple-year credits.
- Increases the per-job tax credit from $1,000 to $2,500 if the new job created is filled by an unemployed individual.

To the Neighborhood Assistance Tax Credit:

- Provides direction for the Department of Community and Economic Development to credit applications involving charitable food programs.

To Procedure and Administration:

- Repeals provisions requiring the Department of Revenue to send assessments over $300 via certified mail. Effective July 2, 2012.
- Requires companies making payments of Pennsylvania source income representing nonemployee compensation or payments under an oil or gas lease to send a copy of the 1099-MISC form to the Department of Revenue. Effective July 2, 2012, and will apply to 1099-MISC forms issued for the 2012 tax year.

- Provides that the Department of Revenue shall automatically grant an extension of time for filing the corporate net income tax annual report if the Internal Revenue Service (IRS) grants an extension of time for filing federal corporate income tax reports. Effective for tax years beginning on or after January 1, 2013.
- Allows the Department of Revenue to levy bank accounts of delinquent taxpayers where the delinquency is greater than $1,000. Effective January 1, 2013.
- Allows the Secretary of Revenue compromise authority for a taxpayer who has filed a petition to the Board of Appeals of the amount due to the department. Once the Request for Compromise is submitted, an informal conference (either by phone or in person) may be conducted by the board. Any compromise offer will be reviewed by the board and if approved, the board will issue a Compromise Order. The Compromise Order will represent the full and final settlement of the appeal. Petitions resulting from the denial of a property tax or rent rebate claim, a denial of a charitable tax exemption, the revocation of a sales tax license, appealing a jeopardy assessment, or arising under the Gaming Law are not eligible for compromise.
- Allows for the acceptance of refund petitions after an audit assessment up to the latter of six months after the mailing date of the notice of assessment or three years from the date of actual payment of the tax. Effective for petitions filed after July 1, 2012.
- Allows for the acceptance of refund petitions for amounts paid as a result of any other assessment within six months of the actual payment of the tax. Effective for petitions filed after July 1, 2012.
- Extends the time period for filing a federal report of change with the department from 30 to 180 days, so that companies audited by the Internal Revenue Service have sufficient time to accurately update state filings. Effective for tax years beginning on or after Jan. 1, 2013.
- Allows petitioners to contest changes that do not affect tax in the current year but may affect tax liabilities in future years. Applies to petitions filed on or after July 2, 2012, and to appeals pending as of that date.

ACT #16 of February 14, 2012 made the following changes:

To Keystone Opportunity Zones and Keystone Innovation Zones:

- Permits the extension of KOZ benefits to unoccupied parcels for 7 to 10 years.
- Expands 4 KOEZ zones previously not designated and permits the creation of 15 new zones.
- Permits the expansion of parcels within and existing KOZ, KOEZ, or KOIZ zone if the expansion is expected to increase job creation or capital investment. Benefits for expanded parcels are limited to 15 acres for a period of 10 years.

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:

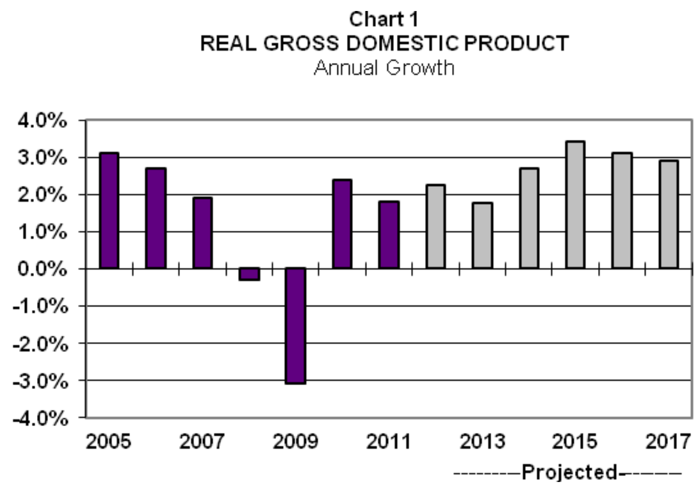
- Transfers – Amounts from the following sources will be transferred to the General Fund in 2009-10 and 2010-11: Health Care Cost Containment Council; Tobacco Settlement Fund; Tobacco Endowment Account for Long-Term Hope; Health Care Provider Retention Account; Medical Care Availability and Reduction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

ECONOMIC OUTLOOK

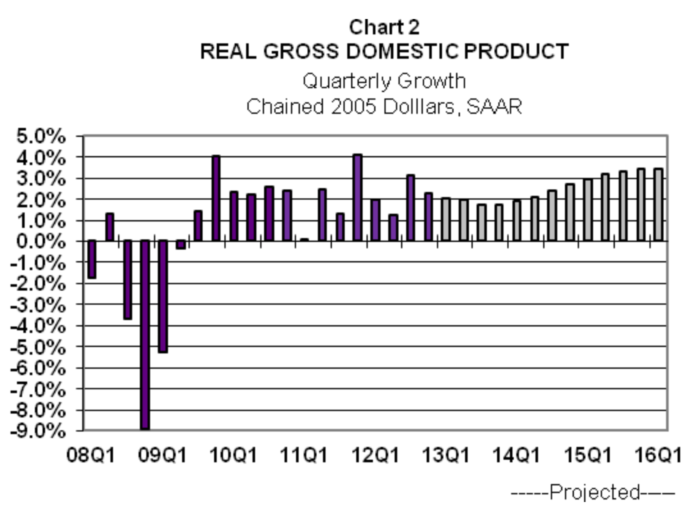
In constructing their tax revenue estimates, the Pennsylvania Department of Revenue and the Office of the Budget are assisted by economic forecasts provided by two main sources of forecast data: 1) IHS Global Insight, Inc., of Lexington, Massachusetts, and 2) Moody's Analytics, of West Chester, Pennsylvania. 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 (2008-2011)

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 (known as the "Great Recession") ended in June 2009.

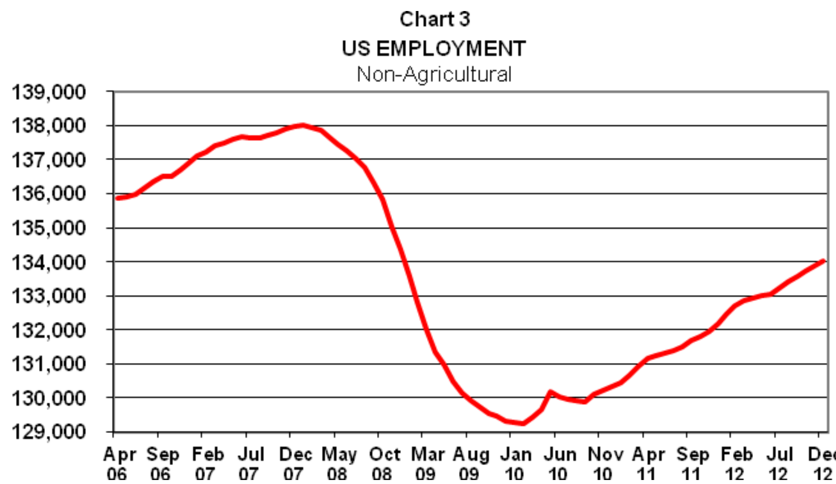


At 19 months, the Great Recession was the longest recession since the Great Depression, which lasted 43 months. It was also nearly double the 10-month length of the average post-World War II recession. Furthermore, the depth of the Great Recession was much steeper than the two most recent recessions 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 Great 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. Chart 1 displays actual growth in real gross domestic product (GDP) from 2005 to 2011 and projected growth for 2012-2017.



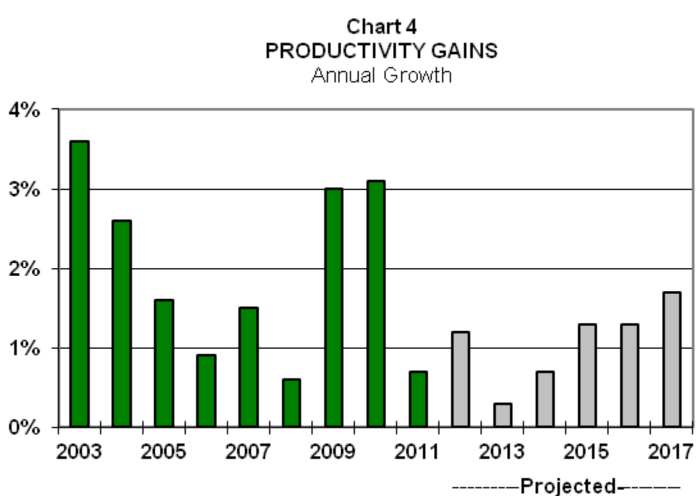
An examination of real GDP on a quarterly basis, as shown in Chart 2, reveals that the depths of the Great Recession were reached in late 2008 and early 2009. Discounting the short-term effects of the 2008 tax rebates, the U.S. economy contracted in five of the six quarters between January 2008 and June 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 Great 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.



As seen in Chart 3, after peaking in December 2007, U.S. 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 Great Recession. These losses wiped out employment gains for the entire past decade.



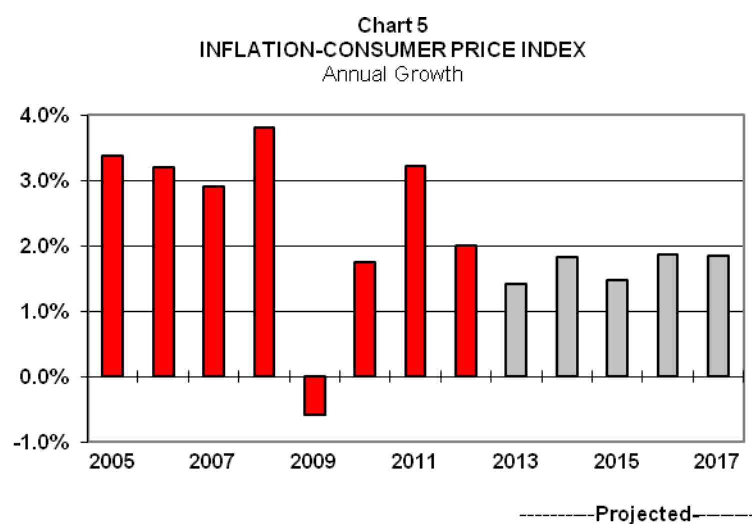
The growth in the U.S. unemployment rate accelerated significantly during 2009, rising from 7.4 percent in January 2009 to 10.1 percent by October 2009. Growth in employment returned in early 2010. During 2010, massive monthly job losses abated and the national economy managed to add a cumulative 940,000 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. Employment levels through the end of 2011 were nearly 6 million lower than their peak in December 2007 and the national unemployment rate remained elevated at 8.5 percent. The U.S. unemployment rate remained at or above 8 percent from February 2009 through all of 2011, the longest stretch at such levels in the post-war era.

Employment levels grew, 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, helped to 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.

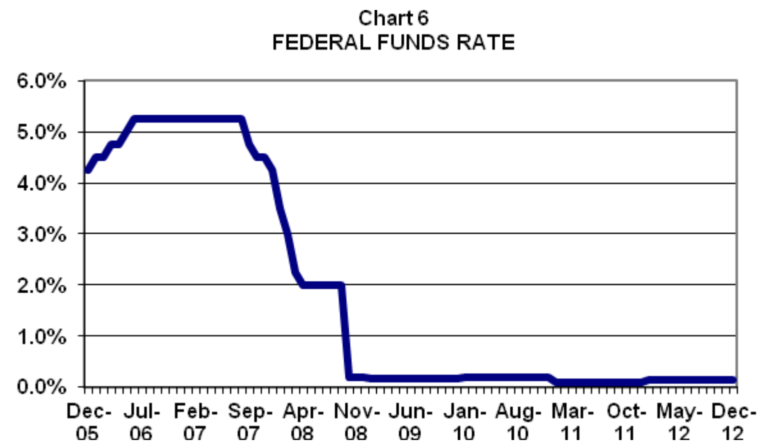
Total employment growth during 2011 is estimated to have been approximately 1.6 million jobs, a gain of 700,000 jobs over the 940,000 positions created in 2010. The employment gain in 2011 was the largest gain since 2006, and the national unemployment rate dropped to 8.5 percent in December 2011, the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

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 2005 through 2012 and a forecast of productivity gains for 2013 through 2017. Following the Great Recession businesses sought to maximize productivity while avoiding hiring. Productivity gains were occurring at the expense of job creation, as productivity grew to 3.0 percent in 2009 and 3.1 percent in 2010. Productivity growth since 2010 has been significantly more subdued as gains in productivity fell to just 0.7 percent in 2011.

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. Higher gasoline and food prices caused inflation to rise to 3.2 percent in 2011.

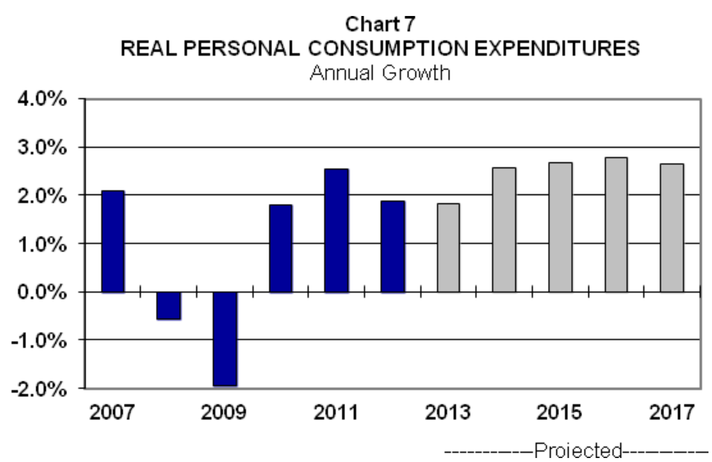


A review of U.S. monetary policy during this period shows the many actions the Federal Reserve Board (Fed) took to prevent a worse economic crisis. Monetary policy efforts by the Federal Reserve were aimed at the financial markets generally and the mortgage industry in particular. Reductions to the federal 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.



Further, the Federal Reserve (the "Fed") 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. The Fed dramatically expanded its balance sheet to inject more than $3.0 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.

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 2007 through 2012, with forecasts for 2013 to 2017. 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. As the recovery continued in 2011, the rate of growth in real consumer expenditures grew at an annual rate of 2.5 percent in 2011.



Current Conditions (2012)

The national economic expansion continued in 2012. Growth in the economy accelerated during the third quarter of 2012. The national economy, as measured by growth in constant real GDP, increased at an annual average rate of 3.1 percent during the third quarter of 2012, as seen in Chart 2 earlier. This growth rate was the third highest since the end of the Great Recession. Economic growth in the fourth quarter of 2012 is estimated to have slowed to an annual rate of 2.3 percent (as measured in constant dollars-See Chart 2), no doubt on concerns of the impending “fiscal cliff” (a self-imposed combination of expiring federal tax cuts and automatic federal spending cuts), corrections on defense spending and inventories along with the negative impacts of Superstorm Sandy.

However, the Advance Estimate of real GDP, released by the U.S. Commerce Department on January 30, 2013, indicates that the national economy contracted 0.1 percent during the fourth quarter of 2012. This estimate is based on real GDP as measured in current dollars, rather than in constant dollars, which adjusts for the effect of inflation, as seen in Chart 2. According to the Commerce Department, the 0.1 percent contraction during the fourth quarter of 2012 was the weakest quarter of economic growth since the second quarter of 2009, which marked the official end of the Great Recession. The decline in real GDP reflected a decrease in inventory investment, decreases in federal government spending, state and local government spending and exports. Again, according to the Commerce Department release, federal spending and investment plunged 15 percent during the fourth quarter, the largest drop since 15.9 percent during the oil embargo of 1973. Government outlays declined 6.6 percent during the fourth quarter, led by a 22.2 percent decline in defense spending, the largest such decline since 1972, following the Vietnam War.

Consumer spending increased modestly during the first half of 2012 at annual rates of 2.2 percent and 2.0 percent in the first and second quarters. This growth slowed during the second half of 2012, slowing to 1.8 percent during the third and fourth quarters of the year. Within the area of consumer spending, the annual rate of growth for durable goods grew during both quarters of the second half of 2012 at 8.7 percent and 8.2 percent respectively. Non-durable goods consumption was more subdued, growing at 1.1 percent and 1.2 percent respectively in the third and fourth quarters of 2012. Further, consumer sentiment, as measured by the Reuters/University of Michigan survey, tumbled 8.2 points during December 2012, likely on heightened pessimism surrounding the federal fiscal cliff.

The housing sector continued to improve in 2012 driven by low interest rates and low inventories. Housing is now a key driver of the recovery. According to Global Insight, housing starts climbed 3.6 percent in October 2012, reaching levels not seen since July 2008. Single family housing starts were at the second highest level since August 2008 and multifamily housing starts are increasing as well. Home prices in general are also climbing according the Case-Shiller survey which indicates that prices are on the rise in 17 of the 20 cities surveyed. Overall, housing prices rose in 44 states during the third quarter of 2012 as measured on a year over year basis.

After slowing during the second quarter of 2012, employment growth in the U.S. averaged 153,000 jobs per month for all of 2012. Overall, employment is up 1.8 million jobs since December 2011 with non-farm employment growth of 1.4 percent for 2012. Private sector employment grew at 1.8 percent in 2012 while government employment decline 0.5 percent. Private employment sectors that grew the most during 2012 were the natural resources and mining sector at 6.4 percent growth, likely driven by shale gas and oil expansion, professional and business services at 3.2 percent, leisure and hospitality at 2.4 percent and manufacturing at 1.8 percent. While housing was expanding in terms of new starts, this growth has not been translating into stronger construction job growth as the sector grew just 0.7 percent in 2012. Within the public sector, federal employment levels declined 1.6 percent on a year over year basis and state and local government employment dropped 0.4 percent during 2012.

As employment levels have been rising modestly, the U.S. unemployment rate has been steadily declining. In December 2011, the U.S. unemployment rate stood at 8.5 percent. Since then, the rate has incrementally declined to 7.8 percent as of December 2012.

Despite recent improvements in the recovery, 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 August of 2005. Job creation during the recovery has been subdued as approximately 4.6 million net new jobs have been created since April 2010. However, through December 2012, the U.S. economy has approximately 4 million fewer jobs than the pre-recession peak in January 2008.

The Forecast

Fairly subdued economic growth is forecast for the national economy from the first quarter of 2013 through at least the second quarter of 2014, with stronger growth forecast to occur from the third quarter of 2014 through at least 2017, according to a combination of data from both IHS Global Insight and Moody's Economy.com economic forecasts.

National economic activity grew at an average annual rate of 1.8 percent during 2011, and this growth rate improved slightly during 2012, averaging 2.3 percent. Economic growth is expected to weaken slightly during 2013, averaging 1.7 percent, as seen in Table 1.

Annual growth in real GDP is projected to have been 2.3 percent in 2012. A combination of data from both forecasting sources is highlighted in Table 1. This table presents actual data for 2011 and forecasts for the 2012-2014 periods for several national economic indicators. The rate of annual growth in real personal consumption declined in 2012, however this sector of the U.S. economy is projected to continue to expand at a modest rate through 2014 before picking up steam in the 2015-2017 time period.

Table 1

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

Indicator	2011	2012p	2013p	2014p
Nominal GDP	4.0	4.1	3.3	4.4
Real GDP	1.8	2.3	1.7	2.7
Real Personal Consumption	2.5	1.9	1.8	2.6
Corporate Profits (After Tax)	2.2	15.6	-4.2	8.7
Unemployment Rate (Rate)	9.0	8.1	7.6	7.3
CPI	3.2	2.0	1.4	1.8
Federal Funds (Rate)	0.1	0.1	0.2	0.2

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2013-14 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 5.8 percent on an annual basis. New construction starts pulled back slightly in 2011 with an annual growth rate of 4.4 percent on volume of 612,000 new starts. During 2012, new home construction ramped up significantly and grew by 162,000 units to

774,000 units or nearly 27 percent. New housing starts are estimated to grow another 25 percent in 2013, followed by continued robust growth of 32.1 percent in 2014and 25.8 percent in 2015. The combined effect of the annual projected growth rates would add 1 million new housing starts per year to the 2012 base of 612,000 units by 2015. The growth in new housing starts during 2012-2015 indicates that the housing sector is in full scale recovery mode.

Further, existing home sales are projected to have grown by 412,000 or 9.6 percent in 2012, and are estimated to grow 7.6 percent in 2013 and by 11 percent in 2014. 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 now expected to help drive the economic recovery.

Declining wealth from home values and stock market losses during the Great Recession erased an estimated $14 trillion in household wealth, although 2010 through 2012 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. Consumer spending began to gain traction during 2010, rising at an annual rate of 1.8 percent. Consumer spending continued to grow during 2011 from the pace set at the end of 2010. Overall, real consumer spending grew at an annual rate of 2.5 percent during 2011. Consumer spending pulled back to roughly 1.9 percent during 2012 The forecast for 2013 includes sustained but subdued projected growth of real consumer expenditures at 1.8 percent and 2.6 percent growth is forecast for 2014. Beyond 2014, real consumer spending is expected to grow moderately, in the upper two percent range through 2017. 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, 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 which were slated to begin in 2013 and have been simply postponed for 3 months, could also negatively impact consumer spending and the recovery in general.

Personal income growth experienced a similar annual decline in 2009, down 4.8 percent. Despite elevated unemployment, growth in real personal income returned in 2010, growing 1.9 percent annually. Stronger gains in real personal income occurred in 2011, with an annual increase of 2.6 percent. However, the rate of growth in personal income dipped in 2012 to 1.6 percent and it is forecast to grow slightly to 1.7 percent in 2014 before growing more strongly at an average annual rate of 3.4 percent in 2014-2017, as shown in Chart 10 below.

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 and to ensure that the housing recovery continues. As during the previous recovery in 2003-04, job growth will likely continue to be minimal during this recovery. Unemployment rates are expected to improve only modestly, dipping to 7.6 percent and 7.3 percent in 2013 and 2014, respectively. December 2007 saw peak employment at 138 million people, and economists project that it will be at least until mid-2014 before that figure is reached again.

Pennsylvania Outlook

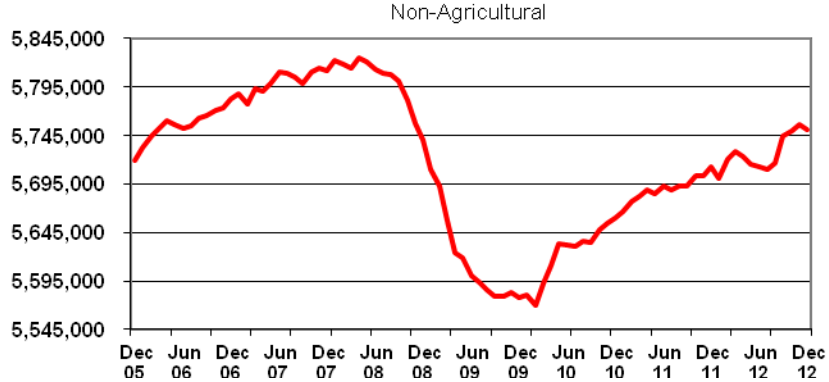
Pennsylvania benefits from a highly diversified economy in terms of a mix of industries and no one single employment sector dominates Pennsylvania. Since the turbulent diversification of the Pennsylvania economy during the 1970's and 1980's, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of economic contraction nationally, Pennsylvania often times will outperform the U.S. in areas such as growth in real gross state product, growth in real personal income and employment growth. The commonwealth's unemployment rate is generally below the U.S. rate and per capita income levels in the commonwealth exceed national levels. However, during periods of economic expansion, the commonwealth will often lag the rate of growth in the national economy.

In Pennsylvania, the Great Recession was shorter and less severe than it was in many other states or in the nation in general. During the most recent recession, U.S. unemployment peaked at 10.1 percent while the commonwealth unemployment rate peaked at 8.7 percent. Following the end of the Great Recession, Pennsylvania's economy has been steadily recovering.

Since the diversification of the commonwealth economy, Pennsylvania's unemployment rate has traditionally been equal to or below the national average. At its peak during the Great Recession, 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 had been declining steadily. The Pennsylvania unemployment rate had been at or below the U.S. rate for 70 consecutive months through August 2012. That trend reversed slightly during the second half of 2012. The current commonwealth unemployment rate was 7.9 percent in December 2012 while the U.S. rate was 7.8 percent during December 2012. The commonwealth's unemployment rate is forecast to steadily improve during 2013 and 2014, declining to 7.6 percent and 7.2 percent respectively. A further decline to approximately 5.7 percent is projected by 2017.

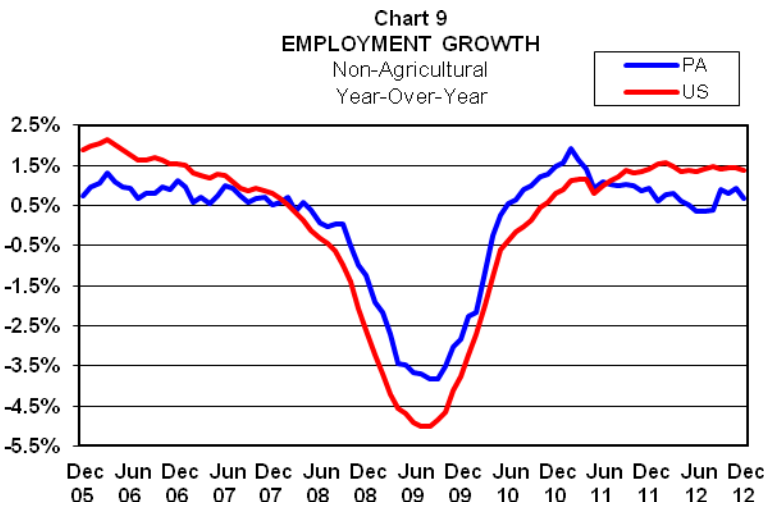
The commonwealth's economic performance is largely dependent upon job growth. As the U.S. and state economies entered into recession in late 2007, employment in the commonwealth peaked in January 2008 at 5.811 million non-agricultural jobs, as seen in Chart 8. During the most recent recession, which officially lasted from December 2007 until June 2009, Pennsylvania lost nearly 234,000 jobs.

Chart 8
PENNSYLVANIA EMPLOYMENT
Non-Agricultural



Job growth in Pennsylvania returned in 2010, albeit at modest levels. During 2010, approximately 82,500 net new jobs were produced in the commonwealth. Job growth slowed during 2011 as approximately 52,400 jobs were created through December 2011, with most of the growth occurring during the first two months of the year and the last two months of the year. During 2012, the commonwealth experienced a further slowing in employment growth as a net 38,700 jobs were created. Again, all of the annual growth in employment during 2012 can be attributed to two months, February and October 2012. Since the end of the Great Recession, Pennsylvania has added nearly 174,000 jobs. According to Global Insight, through the mid-point of 2012, the commonwealth had recovered 62 percent of the jobs it lost during the Great Recession while the U.S. had only recovered 44 percent of its lost jobs through the same time period.

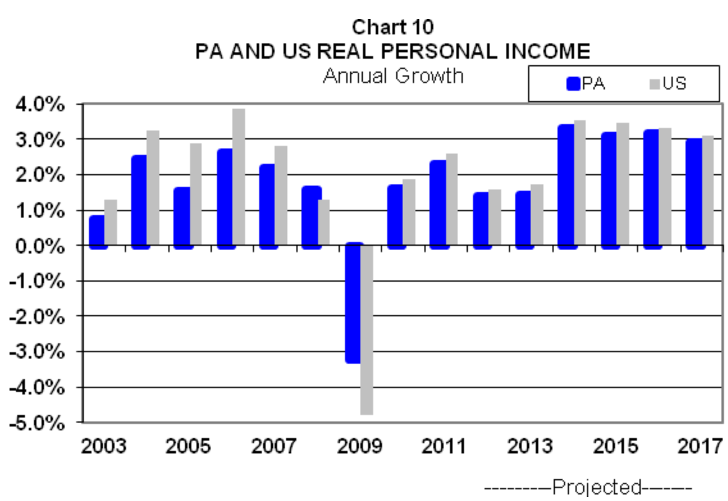
The commonwealth's employment continued to grow in 2011 and saw gains across all sectors, with the lone exception of government employment. Total non-farm employment rose nearly 1.0 percent during 2011. Employment in the mining and logging sector, paced by the rapid expansion of natural gas drilling, 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.



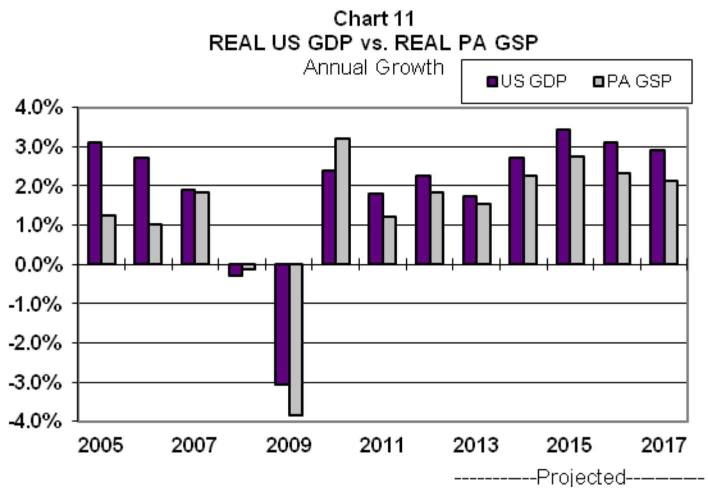
During 2012, employment growth in the commonwealth slowed in general and in comparison to the U.S. employment growth rate as seen in Chart 9. Overall, payrolls in the commonwealth grew just 0.7 percent in 2012, or less than half the rate of the U.S. According to Global Insight, employment in the natural resources and mining sector leveled off in the commonwealth during 2012 after two years of double digit growth. Employment in the mining and logging industries grew the most of any sector during 2012 at 9.0 percent followed by leisure and hospitality at 2.9 percent, information services at 2.2 percent and professional and business services at 1.9 percent. Construction employment declined in 2012 by 3.4 percent and other services declined 1.6 percent. Government employment, after declining in prior years was essentially unchanged in 2012.

Employment growth is expected to accelerate in the commonwealth during 2013 as total growth in employment is forecast to be nearly 80,000 during 2013, an annual growth rate of 1.4 percent. Over the next four years, the commonwealth can expect to add jobs at an average annual rate of 1.2 percent while the broader U.S. economy is estimated to add jobs at an average annual rate of nearly 2 percent. The lower projected rate of growth in the commonwealth's employment levels would place Pennsylvania among the bottom tier of states in terms of employment growth.

The inverse relationship of U.S. and commonwealth growth in personal income re-emerged during the Great Recession. Chart 10 plots actual and projected annual real personal income growth for Pennsylvania and the United States for the years 2003 through 2017. As shown, growth in Pennsylvania real personal income exceeded the national average during the Great Recession of 2007-2009.



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. During 2012, real personal income in the commonwealth grew by the rate of 2.1 percent, an amount equal to the U.S. rate for 2012. Based on current projections, the commonwealth is expected to continue to lag the national average growth in real personal income in 2013, with the commonwealth rising at a rate of 1.8 percent versus a U.S. rate of 2.2 percent. This trend is expected to continue through at least 2015 with the divergence in the growth rates growing in each year.



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 period of 2008 through 2010. During 2008, the commonwealth's economy shrank at an annual rate of -0.1 percent while the national economy contracted at a rate of 0.3 percent. During 2010 the commonwealth's economy expanded at a rate of 3.2 percent, while the growth rate for the national economy was 2.4 percent in 2010. In 2011, the rate of growth in the Pennsylvania and national economies again began to diverge as the U.S. economy grew by 1.8 percent while the Pennsylvania economy grew at a rate of 1.2 percent. This trend continued in 2012 as the U.S. economy grew by 2.3 percent and the Pennsylvania economy grew at a rate of 1.8 percent. As the economic recovery gains strength, the gap between the two rates of growth is expected to continue through at least 2017.

Reprinted from the 2013-14 Governor's Executive Budget, pp. A1.33-A1.41

Economic Indicators [1/]

Quarterly Comparisons

	2013.1	2013.2	2013.3	2013.4	2014.1	2014.2
Percent Change Versus Year Ago In						
Nominal GDP	3.2	3.5	3.0	3.5	4.0	4.3
Real GDP $05	1.6	1.9	1.6	1.9	2.3	2.5
GDP Price Index	1.6	1.6	1.3	1.6	1.7	1.8
Consumption	2.7	3.0	3.0	3.1	3.7	3.9
Business Investment	3.7	4.1	6.3	6.2	6.7	7.5
PA Wages & Salaries	2.3	3.1	3.7	4.0	4.0	3.9
3-Month T-Bill Rate	0.1	0.1	0.1	0.1	0.1	0.1
PA Unemployment Rate	7.8	7.7	7.6	7.5	7.4	7.3

Annual Comparisons

				Predicted June 2012	
Percent Change In:	2013	2014	2015	2013	2014
Nominal GDP	3.3	4.4	5.0	3.5	4.4
Real GDP $05	1.7	2.7	3.4	2.1	2.8
GDP Price Index	1.5	1.7	1.5	1.4	1.6
Consumption	2.9	4.0	4.2	3.5	4.2
Business Investment	5.1	7.6	9.0	5.5	8.2
PA Wages & Salaries	3.3	4.0	4.4	3.7	3.8
3-Month T-Bill Rate	0.1	0.1	0.2	0.1	0.2
PA Unemployment Rate	7.6	7.2	6.6	7.2	6.9

[1/] Global Insight, US Macro Forecast, January 2013 Standard Scenario and June 2012 Standard Scenario.
PA Regional Forecast, January 2013 Standard Scenario and June 2012 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.

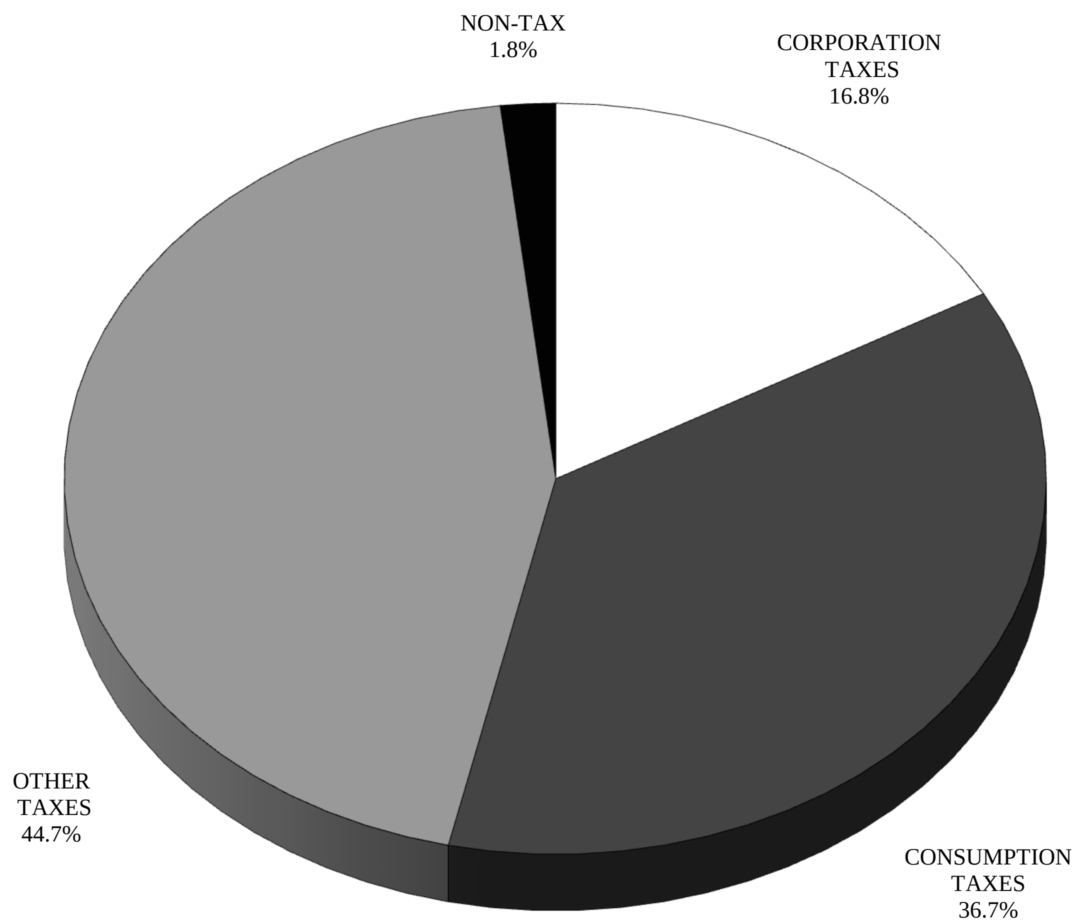
Econometric models are estimated using least squares regression. Regression analysis assumes a relationship where the dependent variable, y, equals the sum of the products of independent variables, x_n, and their respective coefficients, β_n, plus an error term, e:

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

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.

GENERAL FUND REVENUE

Fiscal Year 2013-14



CAPITAL STOCK AND FRANCHISE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	837.2	2.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	604.2	-27.8%
2013-14	242.6	-59.8%
2014-15	9.1	-96.2%
2015-16	0.0	-100.0%
2016-17	0.0	NA
2017-18	0.0	NA

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 2.1140 ZBAVE + 0.2682 IFX – 361.2770*

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 = 16

F = 208.32 N = 19

COEFFICIENT T-STATS:

β_0 = 11.98 β_1 = 1.63

β_2 = -2.00

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.

CIGARETTE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	1,069.9	-0.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	1,041.3	-2.7%
2013-14	1,013.7	-2.7%
2014-15	988.4	-2.5%
2015-16	963.0	-2.6%
2016-17	937.7	-2.6%
2017-18	912.3	-2.7%

MODEL: Econometric

EQUATION: $CIGADJ = -14.1652\ Q1 + 11.0353\ Q3 - 1.0192\ TIME + 209.6106$

VARIABLES:

CIGADJ - Quarterly cigarette tax receipts adjusted for PA tax rate

Q1 - First quarter dummy

Q3 - Third quarter dummy

TIME - Linear time variable

STATISTICS:

$\bar{R}^2$ = 0.809 DF = 35

F = 54.81 N = 39

COEFFICIENT T-STATS :

β_0 = -5.25 β_1 = 4.09

β_2 = -10.37 β_3 = 83.07

CIGARETTE TAX (Cont'd)

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.

CORPORATE NET INCOME TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	2,022.4	-5.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	2,491.7	23.2%
2013-14	2,567.6	3.0%
2014-15	2,580.8	0.5%
2015-16	2,508.0	-2.8%
2016-17	2,430.0	-3.1%
2017-18	2,288.2	-5.8%

MODEL: Econometric and Structural

EQUATION:

A) $CNI = MFG + UTIL + INFO + OTHER$

B) $\ln MFG = 0.4281 \ln MFGPROFITS + 4.0686$

C) $\ln UTIL = 0.1286 \ln UTILPROFITS + 0.4096 (1/TIME) + 4.8387$

D) $INFO = 1.0036\ INFOPROFITS + 92.8045\ INFOD - 13.3477\ TIME + 247.4236$

E) $\ln OTHER = 0.2159 \ln OTHERPROFITS + 0.3304 \ln (OTHERPROFITS - 1) + 3.6275$

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

UTIL - Tax year CNI payments – Utility companies

INFO - Tax year CNI payments – Information companies

OTHER - Tax year CNI payments – All other companies

CORPORATE NET INCOME TAX (Cont'd)

MFGPROFITS	-	Annual US corporate profits – Manufacturers
UTILPROFITS	-	Annual US corporate profits – Utilities
INFOPROFITS	-	Annual US corporate profits – Information
OTHERPROFITS	-	Annual US corporate profits – All other companies
INFOD	-	Dummy variable used to capture unusual payment patterns
TIME	-	Linear time variable: 1998 = 1, 1999=2, etc.

STATISTICS (Equation B):

$\overline{R}^2$	=	0.718	DF	=	11
F	=	31.54	N	=	13

STATISTICS (Equation C):

$\overline{R}^2$	=	0.6038	DF	=	10
F	=	10.14	N	=	13

STATISTICS (Equation D):

$\overline{R}^2$	=	0.7071	DF	=	9
F	=	10.66	N	=	13

STATISTICS (Equation E):

$\overline{R}^2$	=	0.8703	DF	=	10
F	=	41.25	N	=	13

COEFFICIENT T-STATS (Equation B):

β_0	=	5.62	β_1	=	10.68

CORPORATE NET INCOME TAX (Cont'd)

COEFFICIENT T-STATS (Equation C):

β_0	=	2.04	β_1	=	3.77
β_2	=	23.35			

COEFFICIENT T-STATS (Equation D):

β_0	=	3.03	β_1	=	3.00
β_2	=	-3.76	β_3	=	14.06

COEFFICIENT T-STATS (Equation E):

β_0	=	2.18	β_1	=	3.22
β_2	=	9.29			

The regression equation predicts tax year revenues for all corporations. These revenues are at a constant rate and are adjusted to exclude the impact of the changing treatment of net operating loss (NOL) carryforwards and the sales factor in the apportionment formula. Act 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. Act 85-2012 increased the sales factor used in the apportionment formula to 100% for tax year 2013 and beyond.

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

The Governor’s Executive Budget proposes the following changes to the Corporate Net Income Tax:

The Net Operating Loss Deduction cap will be increased from the current law of $3 million or 20% of taxable income to $4 million or 25% of taxable income for tax year 2014 and $5 million or 30% of taxable income for tax year 2015 and after .

The rate would be phased down to 6.99% in tax year 2025 and after, beginning with a rate reduction to 9.89% in tax year 2015.

CORPORATE NET INCOME TAX (Cont'd)

The sourcing of sales for calculating the apportionment of income would be at the location of the customer.

There is a proposed minimum non-filing penalty of $500.

These changes are reflected in the above estimates.

FINANCIAL INSTITUTIONS TAXES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	Receipts	Growth	Year	Receipts	Growth
2006-07	213.6	4.3%	2012-13	316.7	16.2%
2007-08	191.9	-10.2%	2013-14	322.7	1.9%
2008-09	198.5	3.4%	2014-15	328.8	1.9%
2009-10	222.8	12.2%	2015-16	335.0	1.9%
2010-11	237.6	6.7%	2016-17	341.4	1.9%
2011-12	272.5	14.7%	2017-18	347.9	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: Structural

The bank shares tax (BST) estimate results from a structural model that utilizes the FDIC Call Report to estimate taxable shares. Growth for 2013-14 and beyond is determined using historical BST collections.

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

FINES, PENALTIES, AND INTEREST

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	66.4	322.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	63.9	-3.8%
2013-14	92.4	44.6%
2014-15	92.4	0.0%
2015-16	92.4	0.0%
2016-17	92.4	0.0%
2017-18	92.4	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 change to Fines, Penalties, and Interest:

> The redirection of certain Motor License Fund fines to the General Fund is proposed for 2013-14 and after.

This change is reflected in the above estimates.

GROSS RECEIPTS TAX

HISTORICAL DATA ($ Millions)			FORECASTED DATA ($ Millions)		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	1,293.3	12.4%	2012-13	1,325.8	-0.3%
2007-08	1,348.9	4.3%	2013-14	1,295.9	-2.3%
2008-09	1,376.8	2.1%	2014-15	1,301.3	0.4%
2009-10	1,286.7	-6.5%	2015-16	1,306.7	0.4%
2010-11	1,225.2	-4.8%	2016-17	1,321.6	1.1%
2011-12	1,330.0	8.6%	2017-18	1,336.7	1.1%

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.

INHERITANCE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	827.7	2.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	823.5	-0.5%
2013-14	849.2	3.1%
2014-15	901.7	6.2%
2015-16	927.5	2.9%
2016-17	970.2	4.6%
2017-18	1,002.6	3.3%

MODEL: Econometric and Structural

EQUATION: *ASSETS = 0 .6982 GDP + 2.1549 SP + 812.2758*

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:

$\bar{R}^2$ = 0.989 | DF = 18

F = 891.28 | N = 21

COEFFICIENT T-STATS:

β_0 = 19.06 | β_1 = 7.38

β_2 = 3.53

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 Pennsylvania estate tax is based on the federal estate tax credit of state death taxes. As a result of the passage of The American Taxpayer Relief Act of 2012, the state death tax credit will not return. Accordingly, 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.

INSURANCE PREMIUMS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2006-07	412.5	5.7%
2007-08	418.2	1.4%
2008-09	431.5	3.2%
2009-10	459.5	6.5%
2010-11	428.6	-6.7%
2011-12	458.4	7.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	444.2	-3.1%
2013-14	442.9	-0.3%
2014-15	457.2	3.2%
2015-16	475.7	4.0%
2016-17	493.9	3.8%
2017-18	511.8	3.6%

MODEL: Econometric and Structural

EQUATION: *PAYMENTS = 0.8005 OTHERINC + 26.5675*

VARIABLES:

PAYMENTS - Total tax year insurance premiums tax receipts

OTHERINC - Other labor income excluding health benefits

STATISTICS:

$\bar{R}^2$	=	0.906	DF	=	18
F	=	184.82	N	=	20

COEFFICIENT T-STATS:

β_0	=	13.59	β_1	=	1.20

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)

Assessments paid to the Property and Casualty Insurance Guarantee Association (PIGA) generate tax credits to be used against IPT. Due to the return of old assessments paid by members of PIGA, liabilities were generated in order to pay back tax credits used by taxpayers in the past. This impacted fiscal years 2011-12 and 2012-13 tax collections.

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.

LICENSES, FEES, AND MISCELLANEOUS

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	383.0	-58.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	398.2	4.0%
2013-14	356.4	-10.5%
2014-15	358.9	0.7%
2015-16	361.8	0.8%
2016-17	364.5	0.7%
2017-18	367.2	0.7%

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.

The Governor's Executive Budget proposes the following change to Licenses, Fees, and Miscellaneous:

> A transfer of funds from the Race Horse Development Fund to the General Fund is proposed for 2013-14 and after.

This change is reflected in the above estimates.

LIQUOR STORE PROFITS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
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%
2011-12	80.0	-23.8%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
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%
2017-18	80.0	0.0%

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

LIQUOR TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	298.1	5.8%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	310.4	4.1%
2013-14	325.4	4.8%
2014-15	341.1	4.8%
2015-16	357.6	4.8%
2016-17	374.9	4.8%
2017-18	393.0	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.

MALT BEVERAGE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
2006-07	25.2	-3.8%
2007-08	26.3	4.4%
2008-09	26.0	-1.1%
2009-10	26.6	2.3%
2010-11	25.9	-2.5%
2011-12	25.9	-0.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	26.0	0.4%
2013-14	26.0	0.0%
2014-15	26.0	0.0%
2015-16	26.0	0.0%
2016-17	26.0	0.0%
2017-18	27.0	3.8%

MODEL: Structural

These estimates are based on current collection patterns.

MINOR AND REPEALED TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	3.2	-51.5%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	(13.1)	-508.5%
2013-14	(12.7)	3.1%
2014-15	(12.3)	3.1%
2015-16	(12.3)	0.0%
2016-17	(12.4)	-0.8%
2017-18	(12.4)	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.

Act 50-2009 created a Neighborhood Improvement Zone (NIZ) in the city of Allentown. Beginning in 2012, state and local taxes remitted from entities conducting business in the zone are to be used to repay bonds issued to fund various economic development projects within the zone.

OTHER SELECTIVE BUSINESS TAXES

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
2006-07	17.3	-16.0%
2007-08	16.6	-4.0%
2008-09	14.1	-15.1%
2009-10	16.2	14.9%
2010-11	13.5	-16.7%
2011-12	10.0	-26.1%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2012-13	11.5	14.9%
2013-14	11.3	-1.7%
2014-15	3.4	-69.9%
2015-16	1.1	-67.6%
2016-17	0.4	-63.6%
2017-18	0.0	-100.0%

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 change to Other Selective Business Taxes:

Effective in tax years 2014 and after, the corporate loans tax is proposed for repeal.

This change is reflected in the above estimates.

PERSONAL INCOME TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	10,261.6	7.7%	2012-13	11,471.7	6.2%
2007-08	10,907.7	6.3%	2013-14	11,764.8	2.6%
2008-09	10,198.6	-6.5%	2014-15	12,432.3	5.7%
2009-10	9,968.7	-2.3%	2015-16	13,049.8	5.0%
2010-11	10,435.7	4.7%	2016-17	13,616.5	4.3%
2011-12	10,800.5	3.5%	2017-18	14,254.2	4.7%

MODEL: Econometric and Structural

EQUATIONS:

A) $PIT = WITH + NONWITH$

B) $\ln QWITH = 0.9926 \ln PAWAGES + 0.0711\, Q1 - 0.0177\, Q3 - 4.8076$

C) $\ln EST = 0.7658 \ln PRID + 0.1251 \ln CAPGAIN + 0.6981$

D) $\ln ANNUALS = 1.0244 \ln USID + 0.2574 \ln CAPGAIN - 1.1589$

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%

PAWAGES - Quarterly Pennsylvania wages and salaries

Q1 - First quarter dummy

PERSONAL INCOME TAX (Cont'd)

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*	=	60
F	=	2309.03	*N*	=	64

COEFFICIENT T-STATS (Equation B):

β_0	=	81.98	β_1	=	15.10
β_2	=	-3.77	β_3	=	-32.23

STATISTICS (Equation C):

$\bar{R}^2$	=	0.958	*DF*	=	19
F	=	242.61	*N*	=	22

COEFFICIENT T-STATS (Equation C):

β_0	=	11.00	β_1	=	3.48
β_2	=	1.47			

STATISTICS (Equation D):

$\bar{R}^2$	=	0.937	*DF*	=	19
F	=	158.1	*N*	=	22

COEFFICIENT T-STATS (Equation D):

β_0	=	7.82	β_1	=	4.44
β_2	=	-1.38			

PERSONAL INCOME TAX (Cont'd)

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 Personal Income Tax:

The federal rules for like-kind exchanges would now apply, permitting the like-kind exchange of property without a state tax consequence.

Federal law permitting business to deduct $5000 in the year of the start-up would now be followed.

The resident credit would no longer be permitted for income taxes paid to foreign counties.

Additional filing requirements and enforcement initiatives are proposed to apply to certain pass through businesses, including estates and trusts.

These changes are reflected in the above estimates.

PUBLIC UTILITY REALTY TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	28.7	-16.6%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	30.5	6.2%
2013-14	30.8	1.0%
2014-15	31.1	1.0%
2015-16	31.4	1.0%
2016-17	31.7	1.0%
2017-18	32.0	0.9%

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.

REALTY TRANSFER TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	292.2	4.7%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	338.4	15.8%
2013-14	374.2	10.6%
2014-15	448.5	19.9%
2015-16	486.8	8.5%
2016-17	491.1	0.9%
2017-18	496.2	1.0%

MODEL: Econometric

EQUATION: $\ln RTT = 1.1206 \ln AVGPRICE + 0.8703 \ln PASTSALE - 4.8600$

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 = 28

F = 929.03 N = 31

COEFFICIENT T-STATS:

β_0 = 32.77 β_1 = 14.36

β_2 = -15.75

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 change to Realty Transfer Tax:

> The circumstances in which the transfer of interests in a real estate company is subject to tax is proposed for expansion.

This change is reflected in the above estimates.

SALES AND USE TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	8,772.3	2.1%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	8,968.1	2.2%
2013-14	9,372.6	4.5%
2014-15	9,779.4	4.3%
2015-16	9,976.1	2.0%
2016-17	10,218.1	2.4%
2017-18	10,448.3	2.3%

MODEL: Econometric and Structural

EQUATIONS:

A) *ST = NON-MOTOR + MV*

B) *ln NMCASH = 0.6235 ln CEMOD + 0.1543 ln ADJFI + 0.1139 Q2 + 0.0912 Q3 + 0.1457 Q4 + 2.6042*

C) *ln MVCASH = 0.9197 ln CEAUTO – 5.6028 PAAGE-RATIO + 9.9849*

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 including furniture and household equipment but excluding automobiles

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

SALES AND USE TAX (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

STATISTICS (Equation B):

$\bar{R}^2$	=	0.976	*DF*	=	45
F	=	413.12	*N*	=	51

COEFFICIENT T-STATS (Equation B):

β_0	=	16.64	β_1	=	5.08
β_2	=	17.14	β_3	=	13.72
β_4	=	21.49	β_5	=	20.94

STATISTICS (Equation C):

$\bar{R}^2$	=	0.963	*DF*	=	34
F	=	468.97	*N*	=	37

COEFFICIENT T-STATS (Equation C):

β_0	=	25.80	β_1	=	-6.48
β_2	=	67.20			

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.

Act 85-2012 provided sales tax licensees whose actual tax liability for the third calendar quarter of the preceding year was at least $25,000 but less than $100,000 with an alternative payment option to the requirement of paying 50 percent of the tax liability for the same month of the preceding calendar year. In the event that the same month of the preceding calendar year was not reflective of the monthly sales of the licensee in the current year, the licensee is permitted to remit a lesser amount as long as the amount paid is equal to or greater than 50 percent of the actual tax liability required to be reported for the same month in the current year. This provision applied to returns filed after September 30, 2012.

The Governor's Executive Budget proposes the following change to Sales and Use Tax:

The repeal of certain tax credits is proposed.

This change is reflected in the above estimates.

TABLE GAME TAXES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	NA	NA	2012-13	89.0	-6.3%
2007-08	NA	NA	2013-14	95.4	7.2%
2008-09	NA	NA	2014-15	97.9	2.6%
2009-10	NA	NA	2015-16	100.2	2.3%
2010-11	68.7	NA	2016-17	102.7	2.5%
2011-12	95.0	38.4%	2017-18	105.2	2.4%

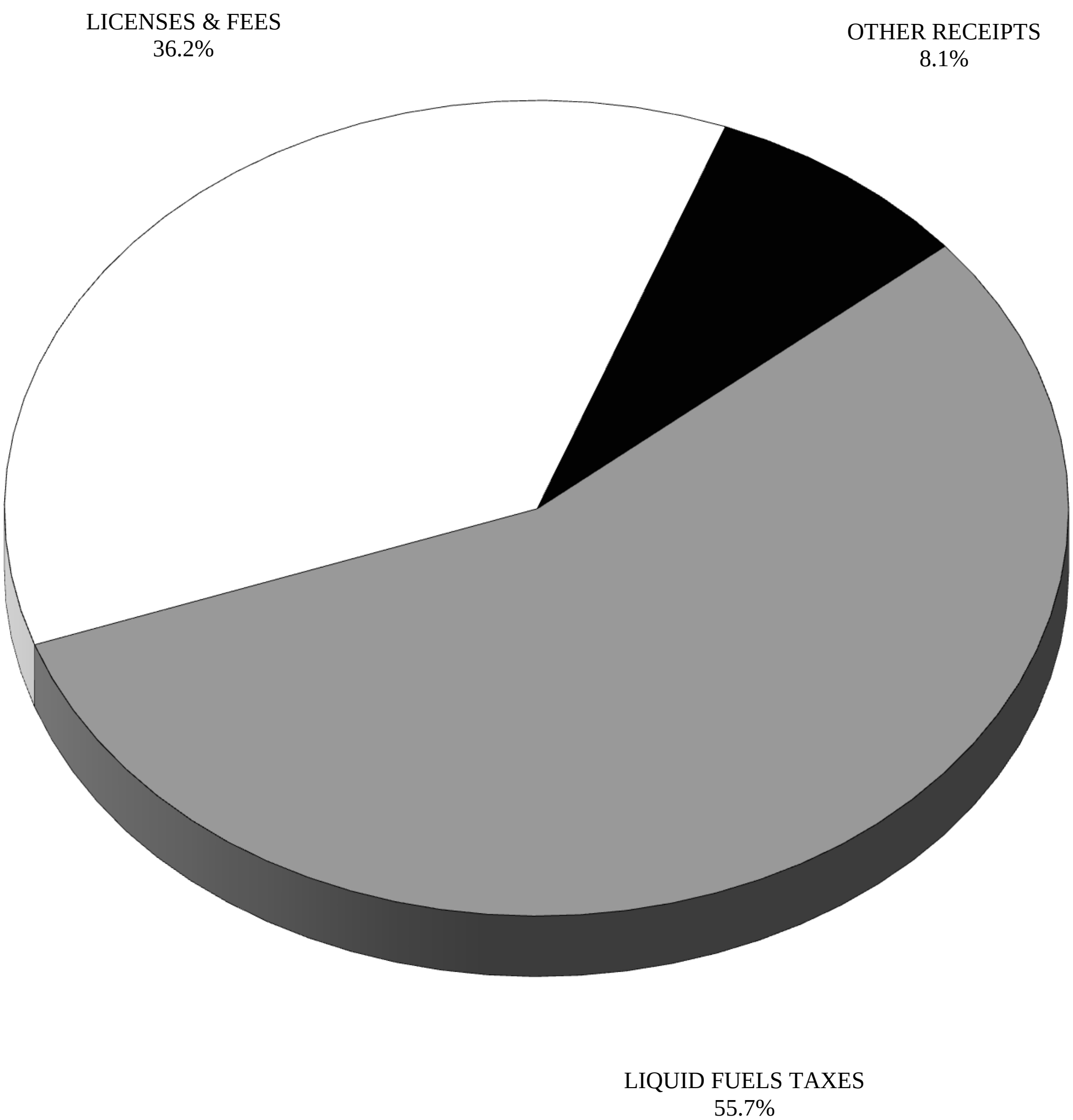
MODEL: Structural

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.

MOTOR LICENSE FUND REVENUE

Fiscal Year 2013-14



LIQUID FUELS TAX

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	561.4	-1.2%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	555.8	-1.0%
2013-14	509.7	-8.3%
2014-15	460.5	-9.7%
2015-16	456.4	-0.9%
2016-17	457.9	0.3%
2017-18	459.7	0.4%

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 2012-13 estimate is based on year-to-date actual collections projected through the end of the fiscal year.

The Governor’s Executive Budget proposes the following change to Liquid Fuels Tax:

> Reduce the Liquid Fuels Tax to 11 cents per gallon in 2013-14 and to 10 cents per gallon in 2014-15 and thereafter.

This change is reflected in the above estimates.

FUELS TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	162.8	0.2%	2012-13	155.7	0.0%
2007-08	157.1	-3.5%	2013-14	143.5	-7.8%
2008-09	149.6	-4.8%	2014-15	130.4	-9.1%
2009-10	145.3	-2.9%	2015-16	129.7	-0.5%
2010-11	152.0	4.6%	2016-17	130.6	0.7%
2011-12	155.7	2.4%	2017-18	131.6	0.8%

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 2012-13 estimate is based on year-to-date actual collections projected through the end of the fiscal year.

The Governor's Executive Budget proposes the following change to Fuels Tax:

> Reduce the Fuels Tax to 11 cents per gallon in 2013-14 and to 10 cents per gallon in 2014-15 and thereafter.

This change is reflected in the above estimates.

ALTERNATIVE FUELS

HISTORICAL DATA

$ Millions

Year	Receipts	Growth
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%
2011-12	0.3	-50.0%

FORECASTED DATA

$ Millions

Year	Receipts	Growth
2012-13	1.1	266.7%
2013-14	1.0	-9.1%
2014-15	1.1	10.0%
2015-16	1.4	27.3%
2016-17	1.5	7.1%
2017-18	1.5	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.

The fiscal year 2012-13 estimate is based on year-to-date actual collections projected through the end of the fiscal year.

MOTOR CARRIERS ROAD/IFTA TAXES

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	48.7	13.0%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	48.9	0.4%
2013-14	49.2	0.6%
2014-15	49.4	0.4%
2015-16	49.7	0.6%
2016-17	49.9	0.4%
2017-18	50.2	0.6%

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 2012-13 estimate is based on year-to-date actual collections projected through the end of the fiscal year. Future estimates reflect a conservative growth rate.

OIL COMPANY FRANCHISE TAX

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	462.8	4.0%	2012-13	454.3	-0.8%
2007-08	447.7	-3.3%	2013-14	659.8	45.2%
2008-09	452.8	1.1%	2014-15	772.5	17.1%
2009-10	448.0	-1.1%	2015-16	884.9	14.6%
2010-11	455.0	1.6%	2016-17	922.0	4.2%
2011-12	457.9	0.6%	2017-18	990.0	7.4%

MODEL: Structural

The oil company franchise tax (OCFT) 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 2013 the rates are 19.2 cents per gallon for liquid fuels and 26.1 cents per gallon for fuels. The OCFT 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.

The fiscal year 2012-13 estimate is based on year-to-date actual collections projected through the end of the fiscal year.

The Governor's Executive Budget proposes the following change to Oil Company Franchise Tax:

> Phase in the uncapping of the average wholesale price used to calculate the Oil Company Franchise Tax.

This change is reflected in the above estimates.

LICENSES & FEES

HISTORICAL DATA $ Millions			FORECASTED DATA $ Millions		
Year	**Receipts**	**Growth**	**Year**	**Receipts**	**Growth**
2006-07	870.0	-0.9%	2012-13	903.4	1.2%
2007-08	872.1	0.2%	2013-14	884.5	-2.1%
2008-09	883.8	1.3%	2014-15	1,116.1	26.2%
2009-10	857.7	-3.0%	2015-16	867.0	-22.3%
2010-11	891.6	4.0%	2016-17	884.9	2.1%
2011-12	892.6	0.1%	2017-18	856.8	-3.2%

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.

The Governor's Executive Budget proposes the following changes to License and Fees:

Redirect certain motor vehicle fees to public transit and multimodal transportation programs.

Authorize a fee option in lieu of suspension for driving without insurance.

Vehicle registration renewals be on a biennial cycle rather than the current annual cycle.

Driver license renewals be on a six year cycle rather than the current four year cycle.

These changes are reflected in the above estimates.

OTHER MOTOR RECEIPTS

HISTORICAL DATA
$ Millions

Year	Receipts	Growth
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%
2011-12	297.6	-27.6%

FORECASTED DATA
$ Millions

Year	Receipts	Growth
2012-13	289.8	-2.6%
2013-14	199.1	-31.3%
2014-15	200.9	0.9%
2015-16	140.4	-30.1%
2016-17	142.2	1.3%
2017-18	81.9	-42.4%

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. Because Interstate 80 was not able to be converted into 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 annually.

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.

The Governor's Executive Budget proposes the following changes to Other Motor Receipts:

Restructure Act 44 2007 payments.

Redirect vehicle code fines revenue and subsequent distribution from the Motor License Fund to the General Fund.

Redirect a portion of inspection fees to public transit and multimodal programs.

These changes are reflected in the above estimates.