

# 2022-2023 ESTIMATE DOCUMENTATION

**BUREAU OF  
RESEARCH**

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**Tom Wolf, Governor**

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# ESTIMATE DOCUMENTATION

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# ESTIMATE DOCUMENTATION

## ECONOMIC OVERVIEW

The Pennsylvania Department of Revenue and the Office of the Budget utilize economic forecast data supplied by IHS Markit and Moody’s Analytics in constructing the official tax revenue estimates and forecasts. Analysis and discussion throughout this section are based upon data from each source in addition to further analysis from the Department of Revenue and the Office of the Budget.

### U.S. Recent Trends and Current Conditions

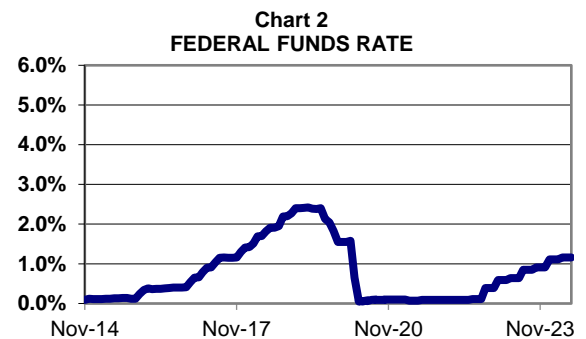
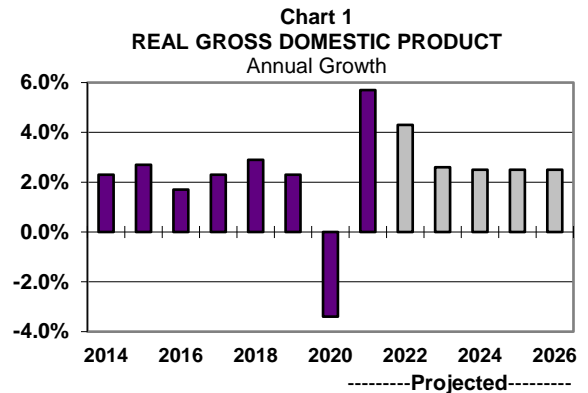
IHS Markit has revised their 2021 forecast of real GDP growth from 5.5% to 5.7%. The 2022 forecast remains 4.3%. The upward revision for 2021 is attributed to unexpected surges in October of exports and inventory investment that, even assuming partial reversals in November, encouraged a revision to IHS Markit’s Q4 growth from 4.4% in December to 7.1% in January.

IHS has also revised their forecast of CPI inflation for 2021 from 4.5% to 4.6% and for 2022 from 3.3% to 3.7%. This was caused by an unexpectedly sharp jump in prices in October that, given its timing, raised the CPI in 2022 more than in 2021. As supply disruptions wane, and with long-run inflation expectations anchored near the Federal Reserve’s 2% objective, IHS expects core PCE inflation to subside to moderately above 2% by 2023.

### The Forecast

Given persistent inflation pressures, a sharp jump in the employment ratio in November, and considering recent public statements, IHS now expects the Federal Reserve to quicken the pace of the “taper”, completing it in March. IHS has also moved “lift-off” of the funds rate from March of 2023 to September of 2022. While the Omicron strain COVID-19 has emerged as a downside risk to the forecast, too little is known about it yet to directly adjust projections of growth and inflation. However, the forecast does incorporate the indirect effects of recent movements in financial conditions and commodity prices in response to the new uncertainties.

Table 1 and Table 2 are U.S. macro forecast projections from IHS. Table 1 outlines the expected outlook for lower unemployment and a decrease in GDP in 2022. Assumptions in this chart, as well as other assumptions, are incorporated in the 2022-23 fiscal year revenue estimates. Table 2 notes that over the next two years there is a 50% probability of real GDP rising 5.7% in 2021 and growth slowing to 4.3% in 2022, consumer spending bouncing back, and business fixed investment recovering. Table 2 also provides narrative for each economic indicator.



# ESTIMATE DOCUMENTATION

## ECONOMIC OVERVIEW

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

Indicator	2020	2021p	2022p	2023p
Nominal GDP	10.0	8.2	4.9	5.0
Real GDP	-3.4	5.7	4.3	2.6
Total Consumption	-3.8	8.1	3.8	2.0
Corporate Profits (After Tax)	-2.3	36.3	-2.2	2.6
Unemployment Rate (Rate)	8.1	5.4	3.6	3.5
CPI	1.2	4.6	3.7	2.3
Federal Funds (Rate)	0.38	0.08	0.17	0.75

p = projected

**Table 2**  
**U.S. Macro Forecast Projection from IHS Global Insight**  
**December 2021**

Baseline Forecast (50% Probability)	
<b>GDP Growth</b>	Real GDP rises 5.7% in 2021 as annualized growth rises from 2.1% in the third quarter to 7.1% by the fourth. Growth slows to 4.3% in 2022 and 2.6% in 2023.
<b>Consumer Spending</b>	Spending jumps 8.1% in 2021 thanks to surges of more than 11% at annual rates in the first and second quarters.
<b>Business Fixed Investment</b>	Jumps 7.4% in 2021 and remains strong at 6.1% growth in 2022 and 4.6% in 2023.
<b>Housing</b>	Housing starts rise from 1.40 million in 2020 to 1.57 million in 2021 before slipping to 1.46 million in 2022 and 1.33 million in 2023.
<b>Exports</b>	Recover 4.2% in 2021 and 5.7% in 2022, surpassing prior peak in the first quarter of 2023 as the pandemic inhibits global trade. Exports rise 8.0% in 2023.
<b>Fiscal Policy</b>	\$1.9 trillion ARP included. Income support drops from \$2.7 trillion (annualized) in first half of 2021 to \$0.7 trillion in second half. Forecast also includes the Infrastructure Investment & Jobs Act.
<b>Monetary Policy</b>	Fed keeps the funds rate at the zero bound until September 2022; taper of asset purchases concludes in March of 2022.
<b>Credit Conditions</b>	Rapidly ease in 2021 before stabilizing at a gentle pace in 2022–2023.
<b>Consumer Confidence</b>	Retrenches slightly in Q4 of 2021 before resuming a steady rise that takes it close to pre-pandemic levels by late 2022.
<b>Oil Prices (Dollars/barrel)</b>	Average price of Brent crude oil rises from \$42/barrel in 2020 to \$71 in 2021 and \$75 in 2022 before falling to \$72 in 2023.
<b>Stock Markets</b>	The year-end value of the S&P 500 rose 16.3% in 2020. It rises 21.9% in 2021 and 1.9% in 2022, then falls 0.4% in 2023.
<b>Inflation (CPI)</b>	Core personal consumption (PCE) price inflation rises from 1.4% in 2020 to 3.2% in 2021, stays elevated at 3.2% in 2022, and falls to 2.3% in 2023.
<b>Foreign Growth</b>	Eurozone GDP rises 5.1% in 2021 and 3.7% in 2022 after a 6.4% drop in 2020, while China's growth rises from 2.3% to 8.1% in 2021 and slows to 5.5% in 2022.
<b>U.S. Dollar</b>	The broad dollar appreciates through early 2022 before gently falling through the end of the forecast horizon.



### Pennsylvania Outlook

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

The Marcellus shale natural gas deposit is a long-term asset for the state and region, although drilling activity has slowed due to low prices for natural gas. The buildout of infrastructure to transport the gas to market continues, with construction of pipelines, compressing stations, and processing facilities continuing to benefit Pennsylvania. Development of natural gas continues to be a factor for Pennsylvania's economic outlook. Direct employment in natural resources and mining is small relative to the total jobs in the state but other industries, such as construction, transportation, and professional services have benefited from the natural gas industry. Longer-term, Pennsylvania's competitiveness in manufacturing should be enhanced by the decreased costs of energy and petrochemical feedstocks coming from beneath the state.

Education and healthcare sectors remain a vital part of the state economy. The healthcare sector expects to benefit from increased demand building upon expanded insurance coverage already provided through the Affordable Care Act. Additionally, the pandemic has placed greater emphasis on the need to invest in the health care workforce. Pennsylvania also boasts many top-flight research hospitals that draw patients from outside the state. The state's education providers, especially its notable research universities, not only provide jobs on campus but also help to nurture new businesses with the graduates they produce. Discussions of "high-tech" sectors often overlook healthcare but should not do so. The outbreak of the pandemic requires cutting-edge research into potential treatments and vaccines.

Pennsylvania's economic growth over the next few years depends greatly on maintaining the progress made in preventing and treating COVID-19, as that will be key to a full reopening of the global economy. Even then, the leisure and hospitality sector may take several years to fully recover as travelers gradually return to the roadways and air; the future of business travel, including conventions, is a big wildcard for major cities. The return of workers to offices, especially in urban centers, also will influence the number of jobs in certain service sectors, including food service, retail, mass transit, and other personal services. Real gross state product will grow by an annual average of 3.5% per year from 2020 to 2025, about the same as the national rate. Personal income will rise 4.2%, compared with 4.7% for the country.

# ESTIMATE DOCUMENTATION

## ECONOMIC OVERVIEW

Table 3 shows various historical and projected key economic indicators for Pennsylvania and the U.S. economy.

**Table 3**  
**Key Economic Indicators for Pennsylvania and the United States**

<b>PENNSYLVANIA: Key Economic Indicators</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Real Gross State Product (in millions, 2012 dollars)	716,173	683,774	716,245	749,498	773,360	794,124
Real Gross State Product (percentage change)	1.7%	-4.5%	4.7%	4.6%	3.2%	2.7%
Total Employment (in thousands)	6,066.0	5,604.4	5,715.3	5,928.9	6,039.9	6,098.8
Total Employment (percentage change)	0.9%	-7.6%	2.0%	3.7%	1.9%	1.0%
Manufacturing Employment (in thousands)	574.7	537.6	545.5	554.8	553.9	552.6
Nonmanufacturing Employment (in thousands.)	5,491	5,067	5,170	5,374	5,486	5,546
Population (in thousands)	12,993	12,993	12,969	12,968	12,978	12,991
Population (percentage change)	0.1%	-	-0.2%	-	0.1%	0.1%
Unemployment Rate (percentage)	4.5%	9.1%	6.5%	4.4%	4.0%	4.1%
Personal Income (percentage change)	2.9%	7.0%	4.8%	1.4%	5.0%	4.9%
<b>U.S. ECONOMY</b>						
Real Gross Domestic Product (percentage change)	2.3%	-3.4%	5.7%	4.3%	2.6%	2.5%
Employment (percentage change)	1.3%	-5.7%	2.7%	3.8%	1.4%	0.7%

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# ESTIMATE DOCUMENTATION

## METHODOLOGY OVERVIEW

For the 2021-22 revised and 2022-23 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,  $\beta_n$ , plus an error term,  $e$ :

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

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

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

$$y_t = \beta_0 + \beta_1 x_1 + \dots + \beta_n x_n + v_t$$

$$v_t = \rho_1 v_{t-1} + \dots + \rho_z v_{t-z} + \varepsilon_t$$

where  $t$  equals the number of observations into the forecast period and  $z$  equals the number of prior periods included in the autoregressive equation. All models for which  $v_t$  is shown are adjusted to correct for a serial correlation bias.

For further information on individual tax types, such as tax rate, tax base, subject entities, exemptions, etc., please refer to the Tax Compendium.

# GENERAL FUND OVERVIEW

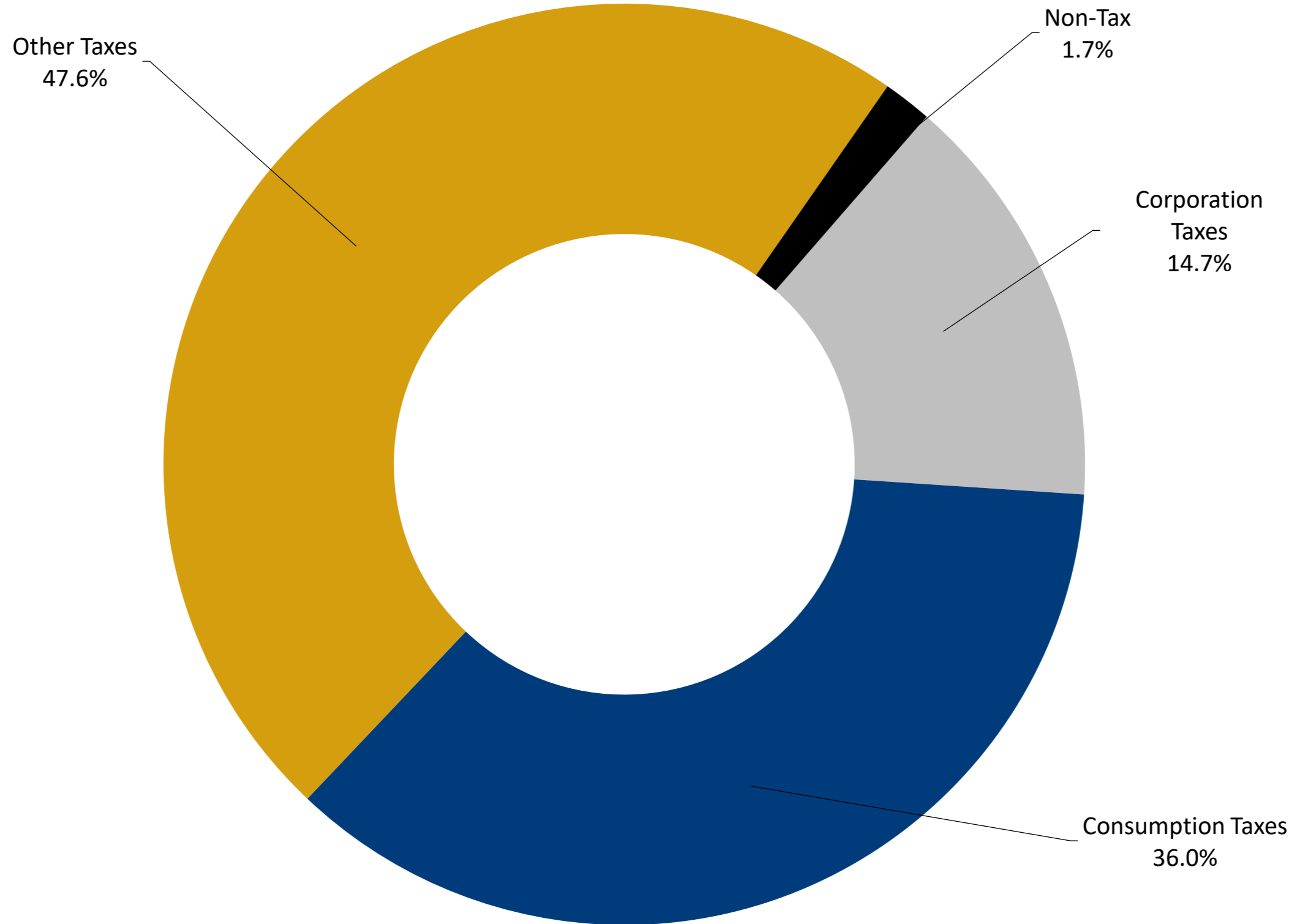
## REVENUE ESTIMATES (\$M)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	GROWTH RATES				
	REVISED	BUDGET	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Total General Fund</b>	<b>44,958.8</b>	<b>41,865.6</b>	<b>42,860.5</b>	<b>44,577.9</b>	<b>46,442.9</b>	<b>48,499.3</b>	<b>-6.9%</b>	<b>2.4%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.4%</b>
<b>Total Tax Revenue</b>	<b>40,424.6</b>	<b>41,150.4</b>	<b>42,178.9</b>	<b>43,900.1</b>	<b>45,765.4</b>	<b>47,822.2</b>	<b>1.8%</b>	<b>2.5%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>4.5%</b>
<b>Total Corporation Taxes</b>	<b>6,458.8</b>	<b>6,135.9</b>	<b>5,789.7</b>	<b>5,871.7</b>	<b>5,881.4</b>	<b>5,676.2</b>	<b>-5.0%</b>	<b>-5.6%</b>	<b>1.4%</b>	<b>0.2%</b>	<b>-3.5%</b>
Accelerated Deposits	0.0	0.0	0.0	0.0	0.0	0.0					
Corporate Net Income	4,532.3	4,194.7	3,860.8	3,926.0	3,921.6	3,700.1	-7.4%	-8.0%	1.7%	-0.1%	-5.6%
Gross Receipts	1,032.2	1,022.0	1,012.1	1,002.2	992.3	982.6	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Utility Property	41.4	41.8	42.2	42.6	43.0	43.4	1.0%	1.0%	0.9%	0.9%	0.9%
Insurance Premium	426.0	446.5	449.2	470.9	489.6	510.6	4.8%	0.6%	4.8%	4.0%	4.3%
Bank Shares	397.4	401.4	395.7	400.1	404.7	409.0	1.0%	-1.4%	1.1%	1.1%	1.1%
Mutual Thrift	29.5	29.5	29.7	29.9	30.2	30.5	0.0%	0.7%	0.7%	1.0%	1.0%
<b>Total Consumption Taxes</b>	<b>15,154.6</b>	<b>15,081.8</b>	<b>15,460.0</b>	<b>16,069.4</b>	<b>16,824.5</b>	<b>17,712.5</b>	<b>-0.5%</b>	<b>2.5%</b>	<b>3.9%</b>	<b>4.7%</b>	<b>5.3%</b>
<b>Sales and Use - Total</b>	<b>13,682.7</b>	<b>13,642.5</b>	<b>14,035.1</b>	<b>14,650.9</b>	<b>15,408.5</b>	<b>16,295.5</b>	<b>-0.3%</b>	<b>2.9%</b>	<b>4.4%</b>	<b>5.2%</b>	<b>5.8%</b>
Nonmotor	11,856.3	12,241.4	12,712.4	13,331.2	14,064.1	14,914.6	3.2%	3.8%	4.9%	5.5%	6.0%
Motor Vehicle	1,826.4	1,401.1	1,322.7	1,319.7	1,344.4	1,380.9	-23.3%	-5.6%	-0.2%	1.9%	2.7%
Cigarette	869.1	814.3	768.8	729.3	691.9	656.0	-6.3%	-5.6%	-5.1%	-5.1%	-5.2%
Other Tobacco Products	145.2	156.5	168.7	181.9	196.1	211.4	7.8%	7.8%	7.8%	7.8%	7.8%
Malt Beverage	22.3	21.6	21.4	21.2	21.0	20.8	-3.1%	-0.9%	-0.9%	-0.9%	-1.0%
Liquor	435.3	446.9	466.0	486.1	507.0	528.8	2.7%	4.3%	4.3%	4.3%	4.3%
<b>Total Other Taxes</b>	<b>18,811.2</b>	<b>19,932.7</b>	<b>20,929.2</b>	<b>21,959.0</b>	<b>23,059.5</b>	<b>24,433.5</b>	<b>6.0%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>6.0%</b>
<b>Personal Income - Total</b>	<b>16,335.7</b>	<b>17,584.6</b>	<b>18,636.7</b>	<b>19,682.3</b>	<b>20,787.4</b>	<b>22,144.8</b>	<b>7.6%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>6.5%</b>
Withholding	11,939.5	12,838.2	13,564.6	14,222.7	14,867.8	15,704.5	7.5%	5.7%	4.9%	4.5%	5.6%
Quarterly	2,325.2	2,508.1	2,652.4	2,919.6	3,249.1	3,580.8	7.9%	5.8%	10.1%	11.3%	10.2%
Annual	2,071.0	2,238.3	2,419.7	2,540.0	2,670.5	2,859.5	8.1%	8.1%	5.0%	5.1%	7.1%
Realty Transfer	761.7	766.7	760.9	765.1	781.7	792.6	0.7%	-0.8%	0.6%	2.2%	1.4%
Inheritance	1,446.3	1,321.1	1,275.8	1,266.9	1,257.6	1,273.7	-8.7%	-3.4%	-0.7%	-0.7%	1.3%
Gaming	320.0	317.0	320.4	326.0	332.2	338.7	-0.9%	1.1%	1.7%	1.9%	2.0%
Minor and Repealed	-52.5	-56.7	-64.6	-81.3	-99.4	-116.3	-8.0%	-13.9%	-25.9%	-22.3%	-17.0%
<b>Total Nontax Revenue</b>	<b>4,534.2</b>	<b>715.2</b>	<b>681.6</b>	<b>677.8</b>	<b>677.5</b>	<b>677.1</b>	<b>-84.2%</b>	<b>-4.7%</b>	<b>-0.6%</b>	<b>0.0%</b>	<b>-0.1%</b>



# GENERAL FUND REVENUE

FY 2022-23 SHARE OF TOTAL



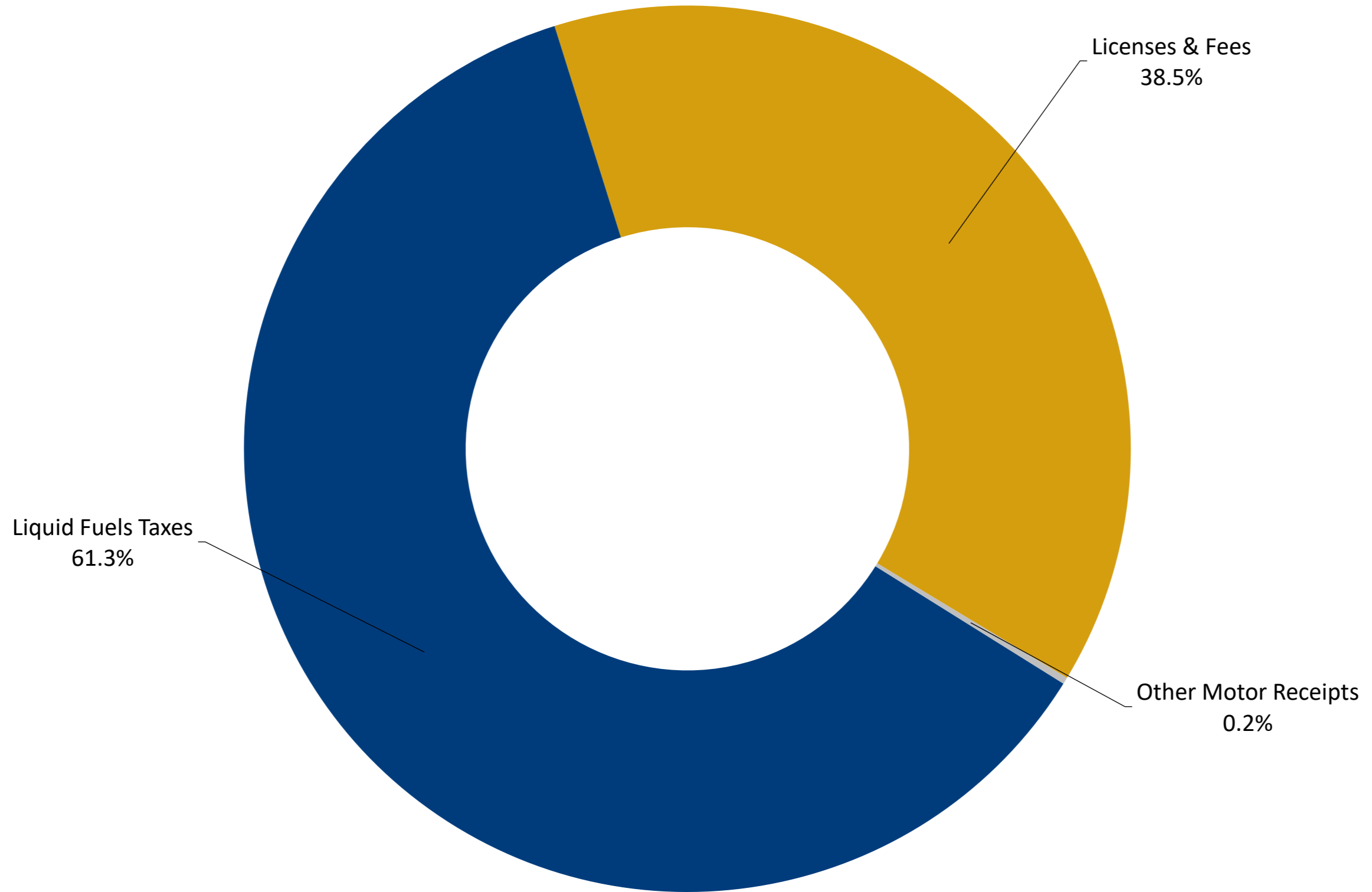
# MOTOR LICENSE FUND OVERVIEW

## REVENUE ESTIMATES (\$M)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	GROWTH RATES				
	REVISED	BUDGET	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	2022-23	2023-24	2024-25	2025-26	2026-27
<b>Total Motor License Fund</b>	<b>2,927.2</b>	<b>2,947.8</b>	<b>2,973.2</b>	<b>3,002.6</b>	<b>3,022.5</b>	<b>3,059.2</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.7%</b>	<b>1.2%</b>
<b>Total - Liquid Fuels Taxes</b>	<b>1,788.0</b>	<b>1,806.1</b>	<b>1,800.4</b>	<b>1,795.1</b>	<b>1,789.8</b>	<b>1,784.6</b>	<b>1.0%</b>	<b>-0.3%</b>	<b>-0.3%</b>	<b>-0.3%</b>	<b>-0.3%</b>
Motor Carriers / IFTA	131.9	131.6	131.4	131.4	131.3	131.2	-0.2%	-0.2%	0.0%	-0.1%	-0.1%
Alternative Fuels	15.0	15.7	16.5	17.3	18.1	19.0	4.7%	5.1%	4.8%	4.6%	5.0%
Oil Company Franchise	1,006.1	1,016.7	1,012.9	1,009.3	1,005.7	1,002.1	1.1%	-0.4%	-0.4%	-0.4%	-0.4%
Contra OCFT	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	0.0%	0.0%	0.0%	0.0%	0.0%
Act 89-2013 OCF - Liquid Fuels	147.8	147.3	147.1	147.0	147.0	147.0	-0.3%	-0.1%	-0.1%	0.0%	0.0%
Act 89-2013 OCF - Fuels	522.2	529.8	527.5	525.1	522.7	520.3	1.5%	-0.4%	-0.5%	-0.5%	-0.5%
Minor and Repealed	0.0	0.0	0.0	0.0	0.0	0.0					
<b>Total - Licenses &amp; Fees</b>	<b>1,132.1</b>	<b>1,134.5</b>	<b>1,165.6</b>	<b>1,200.2</b>	<b>1,225.3</b>	<b>1,267.2</b>	<b>0.2%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>2.1%</b>	<b>3.4%</b>
Special Hauling Permits	32.7	33.0	34.5	34.8	35.9	36.2	0.9%	4.5%	0.9%	3.2%	0.8%
International Registration Plan (IRP)	167.8	181.6	193.0	197.8	207.2	212.4	8.2%	6.3%	2.5%	4.8%	2.5%
Operators' Licenses	75.5	61.6	71.0	72.8	74.6	76.5	-18.4%	15.3%	2.5%	2.5%	2.5%
Real ID	16.3	9.0	9.0	9.0	9.0	9.0	-44.8%	0.0%	0.0%	0.0%	0.0%
Vehicle Registration & Titling	838.5	847.9	856.7	884.4	897.2	931.7	1.1%	1.0%	3.2%	1.4%	3.8%
Miscellaneous Collections	1.3	1.4	1.4	1.4	1.4	1.4	7.7%	0.0%	0.0%	0.0%	0.0%
<b>Total - Other Motor Receipts</b>	<b>7.1</b>	<b>7.2</b>	<b>7.2</b>	<b>7.3</b>	<b>7.4</b>	<b>7.4</b>	<b>1.4%</b>	<b>0.0%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>0.0%</b>
Fines, Pen., & Int.	0.0	0.0	0.0	0.0	0.0	0.0					
Misc.-Treasury	5.0	5.1	5.1	5.2	5.3	5.3	2.0%	0.0%	2.0%	1.9%	0.0%
Other Miscellaneous	2.1	2.1	2.1	2.1	2.1	2.1	0.0%	0.0%	0.0%	0.0%	0.0%

# MOTOR LICENSE FUND REVENUE

FY 2022-23 SHARE OF TOTAL



# GENERAL FUND ESTIMATE METHODOLOGIES

## CIGARETTE TAX

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	$lnCIGADJ_t = 10.0731 - 0.1916 Q1 - 0.0127 T + 0.1273 PANDEMIC + 0.2138 lnCIGADJ_{t-1}$				
2015-16	911.5	-1.7%	<b>VARIABLES</b>	CIGADJ	Quarterly CIG receipts adjusted for transfers			
2016-17	1,261.6	38.4%		Q1	Dummy variable for seasonality			
2017-18	1,198.3	-5.0%		T	Linear time variable (2016Q4 = 1)			
2018-19	1,118.8	-6.6%		PANDEMIC	Dummy variable to account for pandemic effects			
2019-20	924.3	-17.4%		<b>STATISTICS</b>	R <sup>2</sup>	0.991	<b>COEFFICIENT T STATS</b> β <sub>0</sub>	31.46
2020-21	964.2	4.3%			F	427.0	β <sub>1</sub>	-30.99
2021-22	869.1	-9.9%			DW	2.07	β <sub>2</sub>	-23.01
2022-23	814.3	-6.3%	DF		16	β <sub>3</sub>	24.02	
2023-24	768.8	-5.6%	N		21	β <sub>4</sub>	8.51	
2024-25	729.3	-5.1%						
2025-26	691.9	-5.1%						
2026-27	656.0	-5.2%						

Quarterly Cigarette Tax collections are converted to base levels by adding back all transfers. These base collections are then forecasted using time, a dummy variable for Q1 that captures reduced collections during winter months, a dummy variable to capture the effect from the pandemic, and adjusted Cigarette Tax collections from the prior quarter.

The transfer from Cigarette Tax collections to the Local Cigarette Tax fund varies based on collections and must therefore be forecasted separately. That regression uses time, PA collections, and an autoregressive component.



# GENERAL FUND ESTIMATE METHODOLOGIES

## CORPORATE NET INCOME TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC AND STRUCTURAL			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2015-16	2,842.4	1.1%	$lnBASE_t = -2.2861 + 0.7862 lnBASE_{t-4} + 0.4998 ZBADJ_{t-1}$					
2016-17	2,751.5	-3.2%						
2017-18	2,879.0	4.6%	VARIABLES	BASE	Corporate net income tax receipts on a quarterly basis for all corporations.			
2018-19	3,397.5	18.0%		ZBADJ	Weighted average before-tax quarterly US corporate profits, adjusted for tax law changes			
2019-20	2,826.9	-16.8%	STATISTICS	R <sup>2</sup>	0.869	COEFFICIENT T STATS	$\beta_0$	-3.80
2020-21	4,423.8	56.5%		F	176.2	$\beta_1$	11.13	
2021-22	4,532.3	2.5%		DW	1.48	$\beta_2$	4.81	
2022-23	4,194.7	-7.4%		DF	53			
2023-24	3,860.8	-8.0%		N	56			
2024-25	3,926.0	1.7%						
2025-26	3,921.6	-0.1%						
2026-27	3,700.1	-5.6%						

A regression equation forecasts Corporate Net Income Tax (CNIT) payments on a quarterly basis. Payment estimates are then summed to create the fiscal year forecast. Forecasts for the current quarter are determined by corporate net income tax receipts for the same quarter in the previous year and an adjusted corporate profits variable for the previous quarter. The estimate of the Pennsylvania corporate profit base is structurally derived, based on historical corporate tax payment patterns, adjusted for changes in net operating loss (NOL) caps, and national corporate profit estimates from IHS Global Insight.

**The Governor's Executive Budget proposes the following changes to the Corporate Net Income Tax (this impact is included above):**

Effective for tax years beginning on or after January 1, 2023, modernizing the tax base by strengthening current addback requirements, codifying economic nexus rules, and adopting market sourcing for intangibles. Also being proposed are the following rate reductions over the forecast period, targeted at a final rate of 4.99%.

TAX YEAR	RATE
2023	7.99%
2024	7.99%
2025	7.99%
2026	6.99%
2027	5.99%

# GENERAL FUND ESTIMATE METHODOLOGIES

## FINANCIAL INSTITUTIONS TAXES

HISTORY & FORECAST (\$M)			MODEL	STRUCTURAL	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA		
2015-16	330.0	12.2%	$FIT = MTIT + BST$		
2016-17	322.5	-2.3%			
2017-18	371.3	15.1%	<b>VARIABLES</b>	FIT	Financial Institutions Tax
2018-19	380.1	2.4%		MTIT	Mutual Thrift Institutions Tax
2019-20	392.9	3.4%	BST	Bank and Trust Company Shares Tax and Title Insurance Company Shares Tax	
2020-21	423.0	7.7%			
2021-22	426.9	0.9%			
2022-23	430.9	0.9%			
2023-24	425.4	-1.3%			
2024-25	430.0	1.1%			
2025-26	434.9	1.1%			
2026-27	439.5	1.1%			

### MUTUAL THRIFT INSTITUTIONS TAX

The Mutual Thrift Institutions Tax (MTIT) structural model estimates are derived from MTIT history and forecasts based on industry data and other impacts on collections, such as the expansion of tax credit utilization and appeals. Little 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.

### BANK SHARES TAX

The Bank Shares Tax (BST) estimate results from a structural model that utilizes historical BST return data to estimate taxable shares. Growth is determined using historical BST collections and industry trends.

# GENERAL FUND ESTIMATE METHODOLOGIES

## FINES, PENALTIES, AND INTEREST

### HISTORY & FORECAST (\$M)

<u>FISCAL YEAR</u>	<u>RECEIPTS</u>	<u>GROWTH</u>
2015-16	72.0	2.5%
2016-17	79.3	10.2%
2017-18	75.4	-4.9%
2018-19	72.9	-3.2%
2019-20	68.0	-6.8%
2020-21	64.1	-5.7%
-----		
2021-22	62.3	-2.9%
2022-23	62.3	0.0%
2023-24	62.3	0.0%
2024-25	62.3	0.0%
2025-26	62.3	0.0%
2026-27	62.3	0.0%

**MODEL**      STRUCTURAL

Fines, penalties, and interest on taxes are included with their respective tax types. Other fines, penalties, and interest are collected by several different departments. Each of these departments prepares estimates which are reviewed and totaled by the Department of Revenue.

# GENERAL FUND ESTIMATE METHODOLOGIES

## GAMING TAXES

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC AND STRUCTURAL	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	(A)	(B)
2015-16	100.2	4.5%		$GT = TGT + TGT4 + IGT + FCT + SWT$	$lnGTGR_t = -3.2367 + 1.2203 lnTBL_t + v_t$
2016-17	120.6	20.4%			$v_t = 0.6986 v_{t-1}$
2017-18	123.1	2.0%		(C)	$FCT = 0.1937 + 0.0026 T + 0.2251 M1 + 0.1050 M2 -$
2018-19	131.7	7.0%			$0.0872 M8 + 0.1824 M10 + 0.2359 M11 + 0.2171 M12 - 0.1971 P$
2019-20	143.0	8.6%			
2020-21	241.8	43.3%			
2021-22	320.0	32.3%	<b>VARIABLES</b>	GT	Total gaming taxes
2022-23	317.0	-0.9%		TGT	Table Game Taxes
2023-24	320.4	1.1%		TGT4	Category 4 Table Game Taxes
2024-25	326.0	1.7%		IGT	Interactive Gaming Tax
2025-26	332.2	1.9%		FCT	Fantasy Contest Tax
2026-27	338.7	2.0%		SWT	Sports Wagering Tax
				GTGR	Quarterly gross table game revenue
				TBL	Quarterly total tables
				T	Time series (June 2018=1)
				M	Monthly seasonal impact
				P	Pandemic impact
			<b>STATISTICS</b>	<b>EQUATION B</b>	<b>EQUATION C</b>
				R <sup>2</sup>	R <sup>2</sup>
				0.942	0.941
				F	F
				330.5	67.9
				DW	DW
				2.06	2.06
				DF	DF
				41	34
				N	N
				44	43
			<b>COEFFICIENT T STATS</b>	<b>EQUATION B</b>	<b>EQUATION C</b>
				β <sub>0</sub>	β <sub>0</sub>
				-3.46	13.96
				β <sub>1</sub>	β <sub>1</sub>
				9.15	5.26
				β <sub>2</sub>	β <sub>2</sub>
				-6.02	9.17
					β <sub>3</sub>
					4.28
					β <sub>4</sub>
					-4.00
					β <sub>5</sub>
					8.36
					β <sub>6</sub>
					10.80
					β <sub>7</sub>
					9.92
					β <sub>8</sub>
					-9.02



# GENERAL FUND ESTIMATE METHODOLOGIES

## GAMING TAXES (continued)

### TABLE GAME TAXES

The autoregressive equation is used to forecast quarterly gross table game revenues (GTGR) at Category 1, 2, and 3 facilities, which are then summed and multiplied by the tax rate to create the fiscal year estimate. The model uses historical and forecasted total tables (TBL) each quarter to estimate quarterly gross table game revenues, and is corrected for serial autocorrelation bias. The projected number of tables is adjusted based on Pennsylvania Gaming Control Board knowledge of anticipated table game expansion at existing or new facilities.

Act 25-2021 removed the sunset date of the additional 2 percent Table Game Tax on gross table game revenue established by Act 84-2016, and extended by Act 13-2019, which increased the tax from 12 to 14 percent effective August 1, 2016.

Act 42-2017 provided for up to ten Category 4 licensed facilities, operating up to 30 gaming tables each. The projections for revenues from Category 4 facilities are developed in a structural model that is based on the current table game climate and the expected number of facilities. This estimate is added to the projections for Category 1, 2, and 3 facilities. Receipts from Category 4 facilities began in fiscal year 2020-21.

Per Act 1-2010, revenue from Table Game Taxes is deposited to the General Fund until such time as the balance in the Budget Stabilization Reserve Fund exceeds \$750 million. In fiscal year 2021-22, the balance of that fund exceeded the target, so revenue from Table Game Taxes is scheduled to begin to be deposited to the Property Tax Relief Fund in 2022-23.

### FANTASY CONTEST TAX

The autoregressive equation is used to forecast monthly Fantasy Contest Tax revenues (FCT), which are then summed to create the fiscal year estimate. The model uses historical FCT revenues, time series, monthly seasonal impacts, and pandemic impact to estimate future FCT revenues.

### INTERACTIVE GAMING & SPORTS WAGERING TAXES

These tax types are estimated using a structural model based on historical tax collections.

The Interactive Gaming, Fantasy Contest, and Sports Wagering Taxes were all created by Act 42-2017.

### **The Governor's Executive Budget proposes the following changes to the Gaming Taxes (this impact is included above):**

Effective July 1, 2022, eliminating the requirement that Table Games Taxes be deposited into the Property Tax Relief Fund, keeping the taxes in the General Fund. Current law requires Table Games Taxes to be permanently diverted from the General Fund once the Budget Stabilization Reserve Fund exceeds \$750 million on the last day of a fiscal year. With the transfer made from the General Fund in September 2021, the balance of the Budget Stabilization Reserve Fund exceeds this threshold.

# GENERAL FUND ESTIMATE METHODOLOGIES

## GROSS RECEIPTS TAX

### HISTORY & FORECAST (\$M)

<u>FISCAL YEAR</u>	<u>RECEIPTS</u>	<u>GROWTH</u>
2015-16	1,304.9	3.4%
2016-17	1,230.5	-5.7%
2017-18	1,149.9	-6.6%
2018-19	1,250.1	8.7%
2019-20	1,104.3	-11.7%
2020-21	990.0	-10.3%
-----		
2021-22	1,032.2	4.3%
2022-23	1,022.0	-1.0%
2023-24	1,012.1	-1.0%
2024-25	1,002.2	-1.0%
2025-26	992.3	-1.0%
2026-27	982.6	-1.0%

### MODEL            STRUCTURAL

These estimates are derived from a database of Gross Receipts Tax history and liability forecasts 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 forecasted liabilities are transformed to a fiscal year payment basis to obtain the receipts forecast.

# GENERAL FUND ESTIMATE METHODOLOGIES

## INHERITANCE TAX

HISTORY & FORECAST (\$M)			MODEL ECONOMETRIC AND STRUCTURAL						
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA						
2015-16	962.2	-4.0%	<b>FORMULA</b> $ln IT = -0.5231 + 0.2924 SP_{t-3} + 1.0790 D_{t-3} + 0.1089 Q2$						
2016-17	977.9	1.6%							
2017-18	1,019.3	4.2%		<b>VARIABLES</b>	IT	Quarterly Inheritance Tax collections			
2018-19	1,053.6	3.4%			SP	Quarterly Standard and Poor's Index of Common Stocks			
2019-20	1,082.0	2.7%			D	Quarterly PA Deaths			
2020-21	1,345.5	24.3%			Q2	Quarterly seasonal impact			
2021-22	1,446.3	7.5%		<b>STATISTICS</b>	R <sup>2</sup>	0.911	<b>COEFFICIENT T STATS</b>	β <sub>0</sub>	-1.17
2022-23	1,321.1	-8.7%			F	136.5	β <sub>1</sub>	8.48	
2023-24	1,275.8	-3.4%			DW	1.96	β <sub>2</sub>	6.34	
2024-25	1,266.9	-0.7%			DF	40	β <sub>3</sub>	5.78	
2025-26	1,257.6	-0.7%	N		44				
2026-27	1,273.7	1.3%							

The autoregressive equation uses the Standard and Poor's Index (SP) from three quarters prior, PA Deaths from three quarters prior, and Q2 seasonal impact to forecast quarterly Inheritance Tax collections. Quarterly collections are then summed to create the fiscal year estimate. Historical collections are adjusted for unusual payments and the impact of enforcement programs, which occur at various times. A decline in collections is forecasted as Covid-19 accelerated deaths into FYs 2020-21 and 2021-22.

# GENERAL FUND ESTIMATE METHODOLOGIES

## INSURANCE PREMIUMS TAX

HISTORY & FORECAST (\$M)			MODEL ECONOMETRIC AND STRUCTURAL			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2015-16	464.6	2.3%	$IPT_t = -1779.0000 + 0.1876 PAPOPU65_t + 0.6395 CSINS_t + v_t$ $v_t = 0.5316 v_{t-1}$			
2016-17	433.4	-6.7%				
2017-18	450.9	4.0%	<b>VARIABLES</b> IPT Insurance Premiums Tax liabilities by tax year PAPOPU65 PA population under age 65 CSINS US Consumer spending on insurance			
2018-19	444.3	-1.5%				
2019-20	473.6	6.6%				
2020-21	451.8	-4.6%				
2021-22	426.0	-5.7%	<b>STATISTICS</b> R <sup>2</sup> 0.977 F 360.1 DW 1.96 DF 25 N 29	<b>COEFFICIENT T STATS</b> β <sub>0</sub> -4.38 β <sub>1</sub> 4.70 β <sub>2</sub> 8.40 β <sub>3</sub> -2.99		
2022-23	446.5	4.8%				
2023-24	449.2	0.6%				
2024-25	470.9	4.8%				
2025-26	489.6	4.0%				
2026-27	510.6	4.3%				

The regression equation forecasts Insurance Premiums Tax (IPT) payments by tax year based on the Pennsylvania population below 65 and consumer spending on insurance, with an adjustment for serial correlation bias. A structural model then transforms tax year payments and liabilities into regular and estimated payments that are distributed to the appropriate fiscal years.

Assessments paid to the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) generate tax credits to be used against IPT liabilities. Due to recent large assessments, the use of these credits is expected to impact IPT collections during the next several fiscal years.



# GENERAL FUND ESTIMATE METHODOLOGIES

## LICENSES, FEES, AND MISCELLANEOUS

### HISTORY & FORECAST (\$M)

<u>FISCAL YEAR</u>	<u>RECEIPTS</u>	<u>GROWTH</u>
2015-16	571.8	-39.8%
2016-17	621.0	8.6%
2017-18	2,303.1	270.9%
2018-19	543.6	-76.4%
2019-20	411.8	-24.2%
2020-21	963.2	133.9%
-----		
2021-22	4,286.8	345.1%
2022-23	467.8	-89.1%
2023-24	434.2	-7.2%
2024-25	430.4	-0.9%
2025-26	430.1	-0.1%
2026-27	429.7	-0.1%

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

Additionally, tax from video gaming terminals (VGTs) is deposited into the General Fund as a transfer. The tax is remitted bimonthly, and collections net of the transfer to the Compulsive and Problem Gambling Treatment Fund are transferred to the General Fund on the last day of the fiscal year. This tax is forecasted in a structural model.

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 changes to Licenses, Fees, and Miscellaneous (this impact is included above):**

To comply with the intent of Act 16 of 2016, fiscal year 2022-23 reflects a transfer of the undistributed fund balance of the Medical Marijuana Program Fund to the General Fund for Department of Health operations (\$36.6 million). The change to transfers will increase nontax miscellaneous revenue by \$36.6 million.

# GENERAL FUND ESTIMATE METHODOLOGIES

## LIQUOR STORE PROFITS

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	0.0	-100.0%
2016-17	216.4	NA
2017-18	185.1	-14.5%
2018-19	185.1	0.0%
2019-20	185.1	0.0%
2020-21	185.1	0.0%
2021-22	185.1	0.0%
2022-23	185.1	0.0%
2023-24	185.1	0.0%
2024-25	185.1	0.0%
2025-26	185.1	0.0%
2026-27	185.1	0.0%

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

# GENERAL FUND ESTIMATE METHODOLOGIES

## LIQUOR TAX

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2015-16	348.1	4.1%	$lnLIQ_t = 0.2083 + 0.9613lnLIQ_{t-4}$					
2016-17	361.9	4.0%						
2017-18	371.5	2.7%	VARIABLES	LIQ	Quarterly Liquor Tax revenues			
2018-19	381.9	2.8%	STATISTICS	R <sup>2</sup>	0.994	COEFFICIENT T STATS	β <sub>0</sub>	4.04
2019-20	365.7	-4.2%		F	6881.6		β <sub>1</sub>	82.96
2020-21	415.8	13.7%		DW	2.00			
2021-22	435.3	4.7%		DF	40			
2022-23	446.9	2.7%		N	42			
2023-24	466.0	4.3%						
2024-25	486.1	4.3%						
2025-26	507.0	4.3%						
2026-27	528.8	4.3%						

Base Liquor Tax receipts are forecasted using an econometric model with collections from four quarters prior used as the explanatory variable. Collections are adjusted in the second quarter of 2020 to account for the effect of liquor stores being closed due to the pandemic.

# GENERAL FUND ESTIMATE METHODOLOGIES

## MALT BEVERAGE TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2015-16	24.9	1.9%	$\ln MBT_t = 1.8943 - 0.0023 T + v_t$ $v_t = 0.9268 v_{t-4}$			
2016-17	24.4	-2.2%				
2017-18	24.1	-1.1%	<b>VARIABLES</b> MBT Quarterly Malt Beverage Tax revenues T Linear time variable (2003 Q3 = 1)			
2018-19	23.5	-2.4%				
2019-20	23.2	-1.6%	<b>STATISTICS</b> R <sup>2</sup> 0.835 <b>COEFFICIENT T STATS</b> β <sub>0</sub> 28.81 F 184.3 β <sub>1</sub> -2.00 DW 2.11 β <sub>2</sub> -17.24 DF 71 N 74			
2020-21	23.3	0.4%				
2021-22	22.3	-4.2%				
2022-23	21.6	-3.1%				
2023-24	21.4	-0.9%				
2024-25	21.2	-0.9%				
2025-26	21.0	-0.9%				
2026-27	20.8	-1.0%				

Malt Beverage Tax (MBT) receipts are forecasted using an econometric model, adjusted for serial correlation bias, utilizing time as an explanatory variable.

# GENERAL FUND ESTIMATE METHODOLOGIES

## MINOR AND REPEALED TAXES

### HISTORY & FORECAST (\$M)

<u>FISCAL YEAR</u>	<u>RECEIPTS</u>	<u>GROWTH</u>
2015-16	145.2	-34.8%
2016-17	-5.8	-104.0%
2017-18	-35.4	513.4%
2018-19	-23.0	35.0%
2019-20	-44.2	-91.9%
2020-21	-37.9	14.3%
-----		
2021-22	-52.5	-38.5%
2022-23	-56.7	-8.0%
2023-24	-64.6	-13.9%
2024-25	-81.3	-25.9%
2025-26	-99.4	-22.3%
2026-27	-116.3	-17.0%

Minor and Repealed tax revenues are derived from:

- the tax on legal documents
- the Tavern Games Tax
- the Excess Vehicle Rental Tax
- the Corporate Loans Tax, repealed for taxable years beginning after December 31, 2013
- the tax on electric cooperatives
- the tax on agricultural cooperative associations
- the Wine Excise Tax
- the Consumer Fireworks Fax created by Act 43 of 2017
- the Capital Stock & Franchise Tax, repealed for taxable years beginning after December 31, 2015.

In addition, Minor and repealed includes the General Fund impact of:

- the Neighborhood Improvement Zone,
- the City Revitalization and Improvement Zones,
- the Military Installation Remediation Project, created by Act 101 of 2019

# GENERAL FUND ESTIMATE METHODOLOGIES

## OTHER TOBACCO PRODUCTS TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2015-16	NA	NA	$lnOTP_t = 3.3598 + 0.0192 T - 0.0990 Q1 - 0.0999 FED - 0.0580 PANDEMIC$					
2016-17	83.9	NA						
2017-18	119.1	0.4						
2018-19	129.9	9.1%						
2019-20	127.3	-2.0%						
2020-21	134.9	6.0%						
2021-22	145.2	7.6%						
2022-23	156.5	7.8%						
2023-24	168.7	7.8%						
2024-25	181.9	7.8%						
2025-26	196.1	7.8%						
2026-27	211.4	7.8%						
			STATISTICS	R <sup>2</sup>	0.955	COEFFICIENT T STATS	$\beta_0$	293.69
			F	73.5		$\beta_1$	11.54	
			DW	1.60		$\beta_2$	-8.74	
			DF	14		$\beta_3$	-5.24	
			N	19		$\beta_4$	-3.56	

Other Tobacco Products (OTP) Tax receipts are forecasted using an econometric model, utilizing time as an explanatory variable, Q1 as a dummy variable to adjust for seasonality, and dummy variables to account for the federal law change increasing the minimum smoking age to 21 and decreased collections due to pandemic effects.

# GENERAL FUND ESTIMATE METHODOLOGIES

## PERSONAL INCOME TAX

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2015-16	12,506.0	3.3%	(A)	$PIT = WITH + ANN + EST$				
2016-17	12,664.4	1.3%	(B)	$lnQWITH_t = 2.0215 + 0.9924 lnPAWAGES_t + 0.0643 Q1 - 0.0299 Q2 - 0.0433 Q3 + 0.0423 WEDS$				
2017-18	13,399.0	5.8%	(C)	$lnANN_t = -4.0796 + 0.7631 lnANN_{t-1} - 0.4444 lnRENT_t + 0.4422 lnRENT_{t-1} + 0.4822 lnDIV_t + 0.3451 lnCG_t - 0.3333 lnCG_{t-1} - 0.5699 lnPROP_{t-1} + 0.6484 lnINT_{t-2}$				
2018-19	14,095.5	5.2%	(D)	$lnEST_t = -7.3990 + 0.8567 lnPROP_t - 0.4124 lnPROP_{t-2} + 1.1957 lnINT_t - 0.4191 lnINT_{t-2} + 0.1022 lnCG_t - 0.1741 lnRENT_{t-1} + 0.2766 lnDIV_{t-2}$				
2019-20	12,835.0	-8.9%						
2020-21	16,283.4	26.9%						
2021-22	16,335.7	0.3%						
2022-23	17,584.6	7.6%	VARIABLES	PIT Fiscal year personal income tax receipts				
2023-24	18,636.7	6.0%		WITH Fiscal year employer withholding receipts				
2024-25	19,682.3	5.6%		Cash quarterly personal income tax receipts from employer withholding payments rate adjusted to 3.07%				
2025-26	20,787.4	5.6%		QWITH adjusted to 3.07%				
2026-27	22,144.8	6.5%		ANN Yearly annual personal income tax payments rate adjusted to 3.07%				
				EST Yearly estimated personal income tax payments rate adjusted to 3.07%				
				PAWAGES Pennsylvania wages and salaries				
				Q1 First quarter seasonal variable				
				Q2 Second quarter seasonal variable				
				Q3 Third quarter seasonal variable				
				WEDS Number of Wednesdays in quarter (in excess of 12)				
				RENT Pennsylvania rent				
				DIV Pennsylvania dividends				
				CG Pennsylvania capital gains				
				PROP Pennsylvania farm and nonfarm proprietors' income				
				INT Pennsylvania interest				
			STATISTICS					
				EQUATION B				
				EQUATION C				
				EQUATION D				
			R <sup>2</sup>	0.995	R <sup>2</sup>	0.989	R <sup>2</sup>	0.994
			F	1521.4	F	245.4	F	517.9
			DW	2.68	DW	1.90	DW	2.58
			DF	39	DF	21	DF	22
			N	45	N	30	N	30



# GENERAL FUND ESTIMATE METHODOLOGIES

## PERSONAL INCOME TAX (continued)

COEFFICIENT	T STATS	EQUATION B	EQUATION C	EQUATION D		
$\beta_0$		29.02	$\beta_0$	-2.41	$\beta_0$	-5.12
$\beta_1$		82.10	$\beta_1$	5.90	$\beta_1$	7.87
$\beta_2$		17.39	$\beta_2$	-3.42	$\beta_2$	-3.21
$\beta_3$		-8.25	$\beta_3$	3.39	$\beta_3$	8.34
$\beta_4$		-11.91	$\beta_4$	3.26	$\beta_4$	-2.74
$\beta_5$		9.10	$\beta_5$	6.41	$\beta_5$	4.34
			$\beta_6$	-5.28	$\beta_6$	-4.74
			$\beta_7$	-3.12	$\beta_7$	3.67
			$\beta_8$	3.38		

A regression equation is used to forecast quarterly employer withholding payments (QWITH), using timing and Pennsylvania wage and salary income as explanatory variables. The variable WEDS accounts for the number of Wednesdays in the quarter in excess of 12; larger employer withholding payments are typically made on Wednesdays.

An econometric model using vector autoregression is used to forecast annual payments (ANN) and estimated payments (EST) by tax year to capture relationships between annual and estimated payments and other independent variables across time.

**The Governor's Executive Budget proposes the following changes which affect Personal Income Tax collections (this impact is included above):**

A transfer of \$12.3 million from the Personal Income Tax to the Environmental Stewardship Fund for Growing Greener debt service payments is proposed.

A transfer of \$45 million from the Personal Income Tax to the School Safety and Security Fund for grant payments is also proposed.

Effective July 1, 2022, an increase in the minimum wage from \$7.25 per hour to \$12.00 per hour is proposed. The minimum wage increases annually by \$0.50 per hour each July 1 until it reaches \$15.00 per hour. The increase would also impact tipped workers currently making less than minimum wage.

# GENERAL FUND ESTIMATE METHODOLOGIES

## PUBLIC UTILITY REALTY TAX

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	39.2	2.8%
2016-17	40.2	2.5%
2017-18	33.8	-15.8%
2018-19	36.3	7.3%
2019-20	37.8	4.2%
2020-21	40.2	6.3%
2021-22	41.4	2.9%
2022-23	41.8	1.0%
2023-24	42.2	1.0%
2024-25	42.6	0.9%
2025-26	43.0	0.9%
2026-27	43.4	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 forecasted liabilities were transformed into a fiscal year basis to obtain the receipts forecasts.

# GENERAL FUND ESTIMATE METHODOLOGIES

## REALTY TRANSFER TAX

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	$\ln RTT = -14.6655 + 1.1255 \ln VALUE - 0.2035 Q1 + 0.1475 Q3$				
2015-16	481.7	16.4%	<b>VARIABLES</b>	RTT	Quarterly realty transfer tax receipts			
2016-17	478.0	-0.8%		VALUE	PA home sales revenue			
2017-18	514.4	7.6%		Q1	Quarter one dummy			
2018-19	534.0	3.8%		Q3	Quarter three dummy			
2019-20	497.8	-6.8%		<b>STATISTICS</b>	R <sup>2</sup>	0.923	<b>COEFFICIENT T STATS</b> β <sub>0</sub>	-15.62
2020-21	640.2	28.6%			F	174.8	β <sub>1</sub>	20.82
2021-22	761.7	19.0%			DW	1.62	β <sub>2</sub>	-5.80
2022-23	766.7	0.7%	DF		44	β <sub>3</sub>	4.21	
2023-24	760.9	-0.8%	N		48			
2024-25	765.1	0.6%						
2025-26	781.7	2.2%						
2026-27	792.6	1.4%						

A regression equation is used to forecast quarterly Realty Transfer Tax (RTT). The equation forecasts quarterly realty transfer tax collections using Pennsylvania home sales (VALUE). The equation also uses dummy variables in quarter one Q1 and quarter three Q3 to account for seasonality.

Act 58-2015 provided for a transfer from Realty Transfer Tax funds to the Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund beginning in fiscal year 2015-16. The transfer amount is to be the lesser of \$25 million or 40 percent of the difference between the total dollar amount of the realty transfer tax collected in the prior fiscal year and the total dollar amount of the realty transfer tax official estimate for fiscal year 14-15 (\$447.5 million). Act 13-2019 increased the maximum transfer to \$40 million beginning in FY 2019-20.

# GENERAL FUND ESTIMATE METHODOLOGIES

## SALES AND USE TAX

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC AND STRUCTURAL			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	(A)			
2015-16	9,795.2	3.2%		(A)	$ST = NON-MOTOR + MV$		
2016-17	10,004.5	2.1%		(B)	NON-MOTOR = NON-ECOMCASH + ECOMCASH		
2017-18	10,381.4	3.8%		(C)	$lnNONECOMCASH_t = 3.4712 + 0.3482 lnDURABLES_t + 0.2855 lnFOODACC_t - 0.1160 Q1 + 0.0235 Q4$		
2018-19	11,099.6	6.9%		(D)	$lnECOMCASH = -20.5353 + 0.0368 lnACT84 + 0.0591 lnACT43 + 0.0348 lnACT13 + 3.7924 INCOME + 0.2562 Q4 + 0.1790 STIM$		
2019-20	10,817.8	-2.5%		(E)	$lnMVCASH_t = 1.3793 + 0.7009 lnPCE_t - 0.1964 Q1 - 0.1342 Q4 + v_t$		
2020-21	12,834.9	18.6%			$v_t = 0.5809 v_{t-1} + 0.2597 v_{t-3}$		
2021-22	13,682.7	6.6%					
2022-23	13,642.5	-0.3%					
2023-24	14,035.1	2.9%	VARIABLES	ST	Fiscal year sales and use tax receipts		
2024-25	14,650.9	4.4%		NON-MOTOR	Fiscal year non-motor vehicle sales and use tax receipts		
2025-26	15,408.5	5.2%		MV	Fiscal year motor vehicle sales and use tax receipts		
2026-27	16,295.5	5.8%		NON-ECOMCASH	Quarterly non-motor vehicle sales and use tax receipts less receipts from e-commerce		
				ECOMCASH	Quarterly non-motor vehicle e-commerce receipts		
				ECOMCASH	Quarterly non-motor vehicle e-commerce receipts		
				DURABLES	PA personal consumption of durables, less motor vehicles		
				INCOME	PA personal income		
				FOODACC	PA personal consumption expenditures on food services & accommodations		
				ACT84	PA consumption of durables beginning with the enactment of Act 84-2016		
				ACT43	PA consumption of durables beginning with the enactment of Act 43-2018		
				ACT13	PA consumption of durables beginning with the enactment of Act 13-2019		
				MVCASH	Quarterly vehicle sales and use tax receipts		
				PCE	US consumer expenditures on new and used vehicles, less parts, plus gross non-residential investment in transportation equipment		
				Q1	Q1 seasonal dummy		
				Q4	Q4 seasonal dummy		
				STIM	A dummy variable to account for federal stimulus payments during the pandemic		
			STATISTICS		EQUATION C	EQUATION D	EQUATION E
				R <sup>2</sup>	0.988	R <sup>2</sup>	0.929
				F	485.7	F	215.6
				DW	1.47	DW	2.11
				DF	23	DF	82
				N	28	N	88

# GENERAL FUND ESTIMATE METHODOLOGIES

## SALES AND USE TAX (continued)

COEFFICIENT T STATS	EQUATION C	EQUATION D	EQUATION E		
$\beta_0$	24.55	$\beta_0$	-8.75	$\beta_0$	3.06
$\beta_1$	22.16	$\beta_1$	6.73	$\beta_1$	9.90
$\beta_2$	13.28	$\beta_2$	9.81	$\beta_2$	-17.53
$\beta_3$	-21.85	$\beta_3$	5.32	$\beta_3$	-11.99
$\beta_4$	4.40	$\beta_4$	10.48	$\beta_4$	-6.05
		$\beta_5$	9.29	$\beta_5$	-2.61
		$\beta_6$	4.52		

Total fiscal year Sales and Use Tax (SUT) estimates are equal to cash from non-motor vehicle collections plus motor vehicle collections.

Econometric models are used to predict NONECOMCASH and ECOMCASH; levels are combined to determine total NON-MOTOR collections. The model for NONECOMCASH uses PA personal income, PA personal consumption of durables (less motor vehicles), PA consumption of food services and accommodations, and seasonal dummies in Q1 and Q4. ECOMCASH is forecasted using PA consumption of durables, with variables accounting for the commencements of Acts 84-2016, 43-2017, and 13-2019. PA personal income, a dummy variable for Q4 to account for seasonality, and a dummy variable to account for the federal stimulus payments issued during the pandemic were also utilized.

The equation for MV is an econometric model, adjusted for a serial correlation bias, which forecasts quarterly motor vehicle sales using US consumer expenditures on new and used autos and light trucks, as well as gross non-residential investment in transportation equipment and dummy variables in Q1 and Q4 to account for seasonality.

**The Governor's Executive Budget proposes the following changes which affect Personal Income Tax collections (this impact is included above):**

Effective July 1, 2022, an increase in the minimum wage from \$7.25 per hour to \$12.00 per hour is proposed. The minimum wage increases annually by \$0.50 per hour each July 1 until it reaches \$15.00 per hour. The increase would also impact tipped workers currently making less than minimum wage.

As workers receive higher wages, they will likely increase their purchases of taxable good and services, which increases SUT collections.

# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## ALTERNATIVE FUELS

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	9.4	160.2%
2016-17	11.1	17.4%
2017-18	14.2	28.3%
2018-19	15.6	9.6%
2019-20	13.0	-16.8%
2020-21	12.2	-6.2%
<hr/>		
2021-22	15.0	23.4%
2022-23	15.7	4.7%
2023-24	16.5	5.1%
2024-25	17.3	4.8%
2025-26	18.1	4.6%
2026-27	19.0	5.0%

**MODEL**      STRUCTURAL

Alternative fuels tax estimates are calculated using a compound annual growth rate that is based on historical consumption data. The tax rates are calculated from the current oil company franchise tax rate on gasoline indexed to the energy content of the alternative fuel.

# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## LICENSES & FEES

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	962.7	1.2%
2016-17	1,000.5	3.9%
2017-18	1,045.6	4.5%
2018-19	992.4	-5.1%
2019-20	954.0	-3.9%
2020-21	1,151.4	20.7%
2021-22	1,132.1	-1.7%
2022-23	1,134.5	0.2%
2023-24	1,165.6	2.7%
2024-25	1,200.2	3.0%
2025-26	1,225.3	2.1%
2026-27	1,267.2	3.4%

### MODEL STRUCTURAL

The commonwealth receives revenue from the collection of fees levied on the registration of motor vehicles and for the issuance of learners' permits, operators' licenses, and transfers of registration. The implementation of Real IDs in Pennsylvania began during fiscal year 2018-19. Real IDs are optional and require an additional fee over and above the traditional driver's license fee.

# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## MINOR AND REPEALED

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	-0.8	-117.6%
2016-17	0.1	-107.5%
2017-18	0.0	-86.3%
2018-19	0.0	142.3%
2019-20	0.0	-217.5%
2020-21	0.0	-73.5%
2021-22	-	NA
2022-23	-	NA
2023-24	-	NA
2024-25	-	NA
2025-26	-	NA
2026-27	-	NA

### MODEL            STRUCTURAL

Effective January 1, 2014, Act 89 of 2013 repealed the permanent 12 cents per gallon tax imposed upon liquid fuels and fuels used or sold and delivered by registered distributors within the commonwealth. Revenue from this tax is reported under Minor and Repealed. Motor fuel tax notice payments were temporarily deposited here in fiscal year 2018-19.



# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## MOTOR CARRIERS ROAD/IFTA TAXES

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	95.3	32.6%
2016-17	99.9	4.9%
2017-18	134.7	34.8%
2018-19	134.0	-0.5%
2019-20	128.9	-3.7%
2020-21	123.1	-4.5%
-----		
2021-22	131.9	7.1%
2022-23	131.6	-0.2%
2023-24	131.4	-0.2%
2024-25	131.4	0.0%
2025-26	131.3	-0.1%
2026-27	131.2	-0.1%

### MODEL STRUCTURAL

Motor Carriers Road/IFTA tax estimates are calculated using the growth from the autoregressive equation that forecasts diesel consumption within the Oil Company Franchise Tax model.

Effective January 1, 1996, Pennsylvania implemented the International Fuel Tax Agreement (IFTA). Under this agreement, qualified vehicles are subject to base state reporting and payment of fuel tax obligations. Qualified vehicles are those with two axles greater than 26,000 pounds, combinations greater than 26,000 pounds and those with three or more axles regardless of weight. Identification markers cost \$12 per qualified vehicle. The underlying fuel tax rates are unaffected by IFTA.

# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## OIL COMPANY FRANCHISE TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC AND STRUCTURAL			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2015-16	1,555.3	4.9%	(A)		$OCFT = OCFT + ACT89LF + ACT89F$			
2016-17	1,621.6	4.3%	(B)		$lnDIESEL_t = 18.5659 - 0.0815 DRATE_t - 1.0128 COVID_t + v_t$			
2017-18	1,697.5	4.7%			$v_t = 0.2896 v_{t-1} + 0.1360 v_{t-3} - 0.1707 v_{t-4} - 0.1844 v_{t-6} + 0.6156 v_{t-12} - 0.2783 v_{t-13}$			
2018-19	1,687.6	-0.6%	<b>VARIABLES</b>	OCFT	The 57 mills portion of the Oil Company Franchise Tax on gasoline and diesel fuel			
2019-20	1,566.5	-7.2%		ACT89LF	The 39 mills portion of the Oil Company Franchise Tax on gasoline			
2020-21	1,521.1	-2.9%		ACT89F	The 39 mills portion of the Oil Company Franchise Tax on diesel fuel			
2021-22	1,641.1	7.9%		DIESEL	Monthly diesel fuel consumption in gallons			
2022-23	1,658.8	1.1%		DRATE	PA tax rate on diesel			
2023-24	1,652.5	-0.4%		COVID	Pandemic adjustment proportion			
2024-25	1,646.4	-0.4%						
2025-26	1,640.4	-0.4%						
2026-27	1,634.4	-0.4%						
			<b>STATISTICS</b>	<b>EQUATION B</b>	<b>COEFFICIENT T STATS</b>	<b>EQUATION B</b>		
				R <sup>2</sup>	0.690	β <sub>0</sub>	936.40	
				F	50.0	β <sub>1</sub>	-2.48	
				DW	1.85	β <sub>2</sub>	-6.23	
				DF	133	β <sub>3</sub>	-3.74	
				N	142	β <sub>4</sub>	-2.34	
						β <sub>5</sub>	3.35	
						β <sub>6</sub>	3.33	
						β <sub>7</sub>	-9.85	
						β <sub>8</sub>	3.39	

The amounts in the preceding table include non-restricted Oil Company Franchise Tax (OCFT) revenue within the Motor License Fund. This includes amounts reported as OCFT (57 mills out of the 153.5 mills on gasoline and 208.5 mills on diesel fuel), Act 89 OCFT Liquid Fuels (additional mills added by Act 89-2013 on gasoline), and Act 89 OCFT Fuels (additional mills added by Act 89 on diesel fuel). Act 89 also provided for a transfer of \$35 million annually to the Multimodal Transportation Fund beginning in fiscal year 2015-16. The amounts provided are net of that transfer.

## MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

### OIL COMPANY FRANCHISE TAX (continued)

Annual gasoline consumption is forecasted using a structural model that incorporates historical consumption data and United States Energy Information Administration projections on petroleum consumption. The annual forecast is converted to months using historical consumption data.

An autoregressive equation is used to forecast monthly diesel consumption (DIESELt). The model forecasts monthly diesel consumption using the Pennsylvania tax rate on diesel (DRATEt) and a pandemic adjustment proportion (COVIDt). The equation is adjusted for serial correlation bias.

A structural model applies tax rates to these consumption forecasts and transforms estimated liabilities into monthly collections.

Act 89-2013 increased the OCFT rates beginning in calendar year 2014. Those rates were phased-in through calendar year 2017. Thereafter, the rate is calculated as the product of an uncapped average wholesale price (AWP) and a millage rate. There is an AWP floor in place in calendar year 2017 and thereafter, as well.

# MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

## OTHER MOTOR RECEIPTS

### HISTORY & FORECAST (\$M)

<b>FISCAL YEAR</b>	<b>RECEIPTS</b>	<b>GROWTH</b>
2015-16	35.7	-63.7%
2016-17	25.3	-29.0%
2017-18	56.5	122.9%
2018-19	19.7	-65.2%
2019-20	1.0	-94.9%
2020-21	17.9	1690.9%
<hr/>		
2021-22	7.1	-60.2%
2022-23	7.2	1.4%
2023-24	7.2	0.0%
2024-25	7.3	1.4%
2025-26	7.4	1.4%
2026-27	7.4	0.0%

### MODEL      STRUCTURAL

The Commonwealth receives revenue from other Motor License Fund transactions. The main source of other Motor License Fund revenue results from Treasury investment income. Other sources include but are not limited to fees for reclaiming abandoned vehicles, fees for right to know requests, highway encroachment permits, the sale of maps and plans, and revenue from the sale of unserviceable property. Per Act 89-2013, all revenue generated from inspection sticker fees has been deposited in the Multimodal Transportation Fund and the Public Transportation Trust Fund since July 2017.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

Significant pieces of legislation affecting revenues for the General Fund, Motor License Fund and certain special funds are outlined below.

**ACT #26 of June 30, 2021 made the following changes:**

To the Public School Code:

- Increases the total aggregate amount of all tax credits approved for contributions from business firms to scholarship organizations, educational improvement organizations, and pre-kindergarten scholarship organizations in a fiscal year from \$185 million to \$225 million.
- Increases the minimum amount of the total aggregate amount to be used to provide tax credits for contributions from business firms to scholarship organizations from \$135 million to \$175 million.

**ACT #25 of June 30, 2021 made the following changes:**

To the Sales and Use Tax:

- Provides that the sale at retail of tangible personal property manufactured for the purpose of initiating, supporting, or sustaining breast feeding is exempt from sales and use tax, effective for sales after December 31, 2021.
- Provides that, effective 60 days from passage, the sale at retail of flight simulators, training materials, and corresponding software, and the lease of helicopters and similar rotocraft are exempt from sales and use tax.
- Provides that the sale at retail of multipurpose agriculture vehicles used in farming is exempt from sales and use tax, effective for sales at retail or uses after December 31, 2021.
- Ends the current Computer Data Center Equipment Incentive Program. Tax refunds cannot be issued by the Department of Revenue under the program for the tax imposed upon the sale or use of computer data center equipment purchased after December 31, 2021.
- Replaces the Computer Data Center Equipment Incentive Program with the Computer Data Center Sales and Use Tax Exemption Program. Beginning January 1, 2022, certified entities can annually submit for a sales and use tax certificate of exemption for purchased computer data center equipment used exclusively in the data center certified by the state.

To the Personal Income Tax:

- Allows farmers to defer income received from disaster-related crop insurance payments for one year, mirroring federal law, applicable to taxable years beginning after December 31, 2020.
- Requires that personal income tax payments equal to or greater than \$15,000 must be made electronically, applicable to payments made after December 31, 2021. Payments not made electronically will be subject to a penalty equaling 3% of the payment amount not to exceed \$500.
- Makes technical clarifications to conform the Tax Reform Code with the new Federal form 1099-NEC.

To the Corporate Net Income Tax:

- Provides that the qualified manufacturing and reinvestment deductions shall be applied to the taxable income of a taxpayer to reduce the taxpayer's qualified tax liability following the allocation and apportionment of income, applicable to tax years beginning after December 31, 2020.

### To the Bank and Trust Company Shares Tax:

- Provides that the income of two or more banking institutions shall be combined on income statements of Reports of Condition in the event of mergers or acquisitions.

### To the Table Games Tax:

- Removes the sunset date on the additional 2% state tax on casino table games, making permanent the total 14% state tax on table games.

### To the Bad Check Fees:

- Changes the maximum fee assessed on bad checks decreases from \$1,000 to \$100, effective 120 days after passage of the Act.

### To the Keystone Innovation Zone Program:

- Moves the application deadline from September 15 of each year for prior taxable year to December 1 for prior tax year.
- Moves the certificate award deadline from December 15 of each year to May 1 of each year following calendar year of application.
- Moves the report deadline from December 31 of each year to October 1 of each year following calendar year of application.

### To the Keystone Opportunity Zone Program:

- Extends the application and approval deadlines for the Additional Keystone Opportunity Expansion Zones, authorized under Act 13 of 2019, from October 1, 2021 to October 1, 2022 and from December 31, 2021 to December 31, 2022, respectively.
- Allows the Department of Community and Economic Development may grant a five-year extension for a Keystone Opportunity Zone located within a county of the third class with a population between 350,000 and 410,000.

### To the Local Resource Manufacturing Tax Credit:

- Reduces the maximum number of Local Resource Manufacturing Tax Credit recipients from four to two. Additionally, the department can now award unallocated credits to no more than one taxpayer if additional capital investment and job requirements are met.

### To the Mixed-Use Development Tax Credit:

- Increases the total aggregate amount of tax credits available in any fiscal year from \$3 million to \$4.5 million.

### To the Pennsylvania Housing Tax Credit:

- Makes an appropriation of \$10 million to the credit, effective for fiscal year 2021-22.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Research and Development Tax Credit:

- Moves the application deadline from September 15 to December 1.
- Moves the deadline for department approval from December 15 of the calendar year to May 1 of the second calendar year following the close of the taxable year during which the expense was incurred.
- Moves the annual report from March 15 of the following calendar year to October 1 of the following calendar year.

### To the Film Production Tax Credit:

- Permits the award of credits to multi-film projects now within the program, if produced by the same taxpayer over a period of no less than one year and no more than four years and permits the Department of Revenue to reissue tax credits only after allowing taxpayers 90 days to submit applications for alternative individual films.

### To the Entertainment Economic Enhancement Program:

- Allows unallocated credits to be carried forward to the next program year.
- Expands the parameters of eligible concert tour equipment, tour expenses, and qualified taxpayers.
- Permits streaming performances to be eligible under the PA Live Events Industry Covid-19 Emergency Assistance Program for fiscal years beginning on July 1, 2021 and ending June 30, 2023.
- Expands eligible venues to include qualified rehearsal facilities when used for streaming performances beginning on July 1, 2021 and ending June 30, 2023.

### To the Administration of Tax Credit Programs:

- Permits the Department of Revenue is to require electronic filing for applications for tax credits or tax benefits, effective within 30 days of the bill's passage.
- Provides that the department may require the submission of additional documentation and verification, in-person or virtual interviews, and site inspections, effective within 30 days of the bill's passage.
- Empowers the department to develop risk-scoring criteria for applications for tax credits or tax benefits, effective within 30 days of the bill's passage.
- Permits the department to issue assessments against taxpayers in the event of improper use or conferring of tax credits or tax benefits and may be represented in all petition-related proceedings, , effective within 30 days of the bill's passage.
- Requires tax credit brokers to register and post \$50,000 bond with the Department of Revenue. Brokers also face a civil fine of up to \$25,000 for the first offense and \$50,000 for each additional offense if broker registration requirements are violated. Fines are payable to the Department of Revenue. The provisions are effective 180 days from the bill's passage.
- Expands reporting requirements to allow for greater transparency. Taxpayers shall report annually to the Department of Revenue or the administering agency after approval and until the tax credit or tax benefit is fully used. Additionally, the Department of Revenue or administering agency is required to provide taxpayer data on the utilization of tax credits or tax benefits to the Independent Fiscal Office, if applicable.
- Puts in place an appeals process for taxpayers, brokers, and the Department of Revenue concerning the administration of tax credits and tax benefits.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### **ACT #24 of June 30, 2021 made the following changes:**

#### To the Fiscal Code:

- Provides that any information gained by any administrative department, board, or commission providing for credits as administered by the Department of Revenue independently or in conjunction with other agencies or revenue transfers to improvement or economic development zones shall be confidential except for official purposes. This does not include information regarding the amount of refunds or credits and the identity of the entitled persons or corporations.
- Provides for the extension of the transfer of revenues from the Cigarette Tax to the Tobacco Settlement Fund for Fiscal Year 2021-22.
- Provides for the transfer of \$12,289,000 to the Environmental Stewardship Fund from Personal Income Tax revenue for FY 2021-22.

### **ACT #10 of April 22, 2021 made the following changes:**

#### To the Tax Reform Code:

- Directs the Department of Revenue to disregard the period after April 14, 2021, and before May 17, 2021, in the calculation of interest, a penalty or an addition to tax for failure to meet an extended deadline for Personal Income Tax, in light of tax administration challenges due to the COVID-19 pandemic.
- Provides various clarifications on filing deadlines for Corporate Net Income Tax, in light of tax administration challenges due to the COVID-19 pandemic.

### **ACT #1 of February 5, 2021 made the following changes:**

#### To the Fiscal Code:

- Provides that federal Paycheck Protection Plan (PPP) loans used to pay business expenses during the COVID-19 pandemic that are subsequently forgiven by the lender are not taxable income for Pennsylvania personal income tax purposes. The bill also states that for PA personal income tax purposes, no deduction may be disallowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan.
- Provides specifically that stimulus checks, otherwise known as economic impact payments, being distributed by the federal government are not subject to Pennsylvania personal income tax under the Tax Reform Code. The payments are already classified as a rebate that is non-taxable for Pennsylvania personal income tax purposes.

### **ACT #136 of November 25, 2020 made the following changes:**

#### To the Public School Code:

- Allows Educational Improvement and Opportunity Scholarship Tax Credits awarded to a business firm during the 2020-21 or 2021-22 fiscal year that cannot be used by the firm during the fiscal year in which it was awarded to be carried forward and used during the two taxable years following the taxable year in which the tax credit was awarded.

### **ACT #132 of November 25, 2020 made the following changes:**

#### To the Mobile Telecommunication Broadband Investment Tax Credit:

- Provides that the Department of Revenue may not award any credits after June 30, 2020, and repeals the credit, effective immediately. The act establishes the Unserved High-Speed Broadband Funding Program as a grant program to be administered by the Commonwealth Financing Authority.



# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### **ACT #129 of November 25, 2020 made the following changes:**

#### To Title 75:

- Permits political subdivisions and volunteer emergency services to enter into written agreements for the commingling of tax-free motor fuels, effective November 25, 2020. A political subdivision may also transfer tax-free motor fuels to a volunteer emergency service.
- Provides that Department of Revenue tax agents may report public safety violations related to motor fuels to appropriate enforcement authorities for investigation.

### **ACT #118 of November 25, 2020 made the following changes:**

#### To the Local Option Small Games of Chance Act:

- Provides that, beginning November 25, 2020, club licensees may utilize all proceeds received from small games of chance for operating expenses beginning with the 2020 calendar year through a period of one year after the termination of either: (1) The proclamation of disaster emergency issued by the Governor on March 6, 2020; (2), or a declaration of disaster emergency related to COVID-19 that is issued after March 6, 2020.
- Requires licensees to report amounts retained on its annual report to the Department of Revenue.

### **ACT #114 of November 23, 2020 made the following changes:**

#### To the Fiscal Code:

- Repealed and reinstated a transfer of \$13,782,000 to the Environmental Stewardship Fund from Personal Income Tax revenue for FY 2020-21.
- Provides for a transfer of up to \$200,000,000 from Personal Income Tax revenues to the Property Tax Relief Fund to ensure that \$621,000,000 in property tax relief is generated for FY 2020-21.
- Provides for \$531,175,000 in transfers from special funds to the General Fund. Large transfers include \$100,000,000 from the Budget Stabilization Reserve Fund and \$185,000,000 from the Workers' Compensation Security Fund. The transfer from the Workers' Compensation Security Fund must be repaid by July 1, 2028.

#### To Keystone Opportunity Zones:

- Provides that a political subdivision may apply to the Department of Community and Economic Development for approval as a Keystone Opportunity Improvement Zone of a property previously designated by the Governor by executive order as a proposed improvement subzone in a township of the second class located in a county of the Second Class A. The application must be made no later than December 31, 2020.

#### To Military Investment Remediation Projects:

- Grants access to the qualified authority and each local taxing authority to a report and certification filed under chapter 3-A of the Transit Revitalization Investment District Act, as well as state or local tax information, filed on or after November 27, 2019, by a qualified business for a designated parcel to document the project's required certification.

### **ACT #107 of November 3, 2020 made the following changes:**

#### To the City Revitalization and Improvement Zones (CRIZ) Program:

- Provides a temporary extension of the timeline to file state and local zone reports due in calendar year 2020.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Provides that the grants and loans authorized under Act 68 of 2020 only apply to zones located in a count of the third class that has not adopted a home rule charter (Lancaster).

### To the Pennsylvania Housing Tax Credit:

- Creates the Pennsylvania Housing Tax Credit to encourage the development of low-income housing projects within the commonwealth. The program is to be administered by the Pennsylvania Housing Finance Agency and the Department of Revenue. The credit is available to individuals, business firms, corporations, business trusts, limited liability companies, partnerships, limited liability partnerships, associations or any other forms of legal business entities.
- Details that to make credits available, the Secretary of the Budget shall submit a notice to the Legislative Reference Bureau to appear in the Pennsylvania Bulletin. Until such notice, no credits will be awarded.
- Provides that the credit may be applied against personal income tax, corporate net income tax, bank and trust company shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, and mutual thrift institutions tax. The credit may not exceed 50 percent of a taxpayer's liability in a taxable year. The credit may be carried forward up to five taxable years but may not be carried back or refunded.

### **ACT #68 of July 23, 2020 made the following changes:**

#### To the City Revitalization and Improvement Zones (CRIZ) Program:

- Amends section 1813-C of Article XVIII-C of the Tax Reform Code of 1971 regarding restrictions on the utilization of money transferred to a contracting authority in a CRIZ. Specifically, the money may be used to provide grants and loans to qualifying businesses, political subdivisions, and municipal authorities operating within the CRIZ that have been negatively impacted by the proclamation of disaster emergency related to COVID-19 for the following purposes: business operating expenses; working capital; business loan payments to financial institutions; payroll to current employees as a means of retaining employees; and establishment of short-term loan guarantee accounts. These provisions expire June 30, 2021.
- Specifies that the prohibition under current law on the use of money for maintenance or repair of a facility does not apply for the period of April 1, 2020 through June 30, 2021.
- Clarifies that the contracting authority's report submitted by April 15, used in calculating the excess monies to be transferred back to the General Fund, includes monies budgeted or appropriated by official resolution of the contracting authority.

#### To the Rural Jobs and Investment Tax Credit:

- Requires that at least 60% of a rural growth fund's investment authority shall be comprised of credit-eligible capital contributions. The investment shall purchase an equity interest in the rural growth fund or purchase, at par value or premium, a debt instrument that has a maturity date at least five years from the closing date.
- Reduces the amount the Department of Revenue may approve in investment authority from \$100 million to \$50 million.
- Amends the definition of "qualified tax liability" to include any other retaliatory tax imposed on a business firm in this commonwealth. These changes to the Rural Jobs and Investment Tax Credit are effective 60 days from enactment.

### **ACT #66 of July 23, 2020 made the following changes:**

#### To the Realty Transfer Tax:

- Expands the exemption to any transfer of real estate to or by a volunteer EMS company, volunteer fire company, or volunteer rescue company, effective immediately.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Local Resource Manufacturing Tax Credit:

- Establishes the Local Resource Manufacturing Tax Credit program providing a tax credit equal to \$0.47 per unit of dry natural gas that is purchased and used by a qualified taxpayer in the manufacturing of petrochemicals or fertilizers at the project facility.
- A “qualified taxpayer” is a company that: (1) purchases dry natural gas for use in manufacturing petrochemicals or fertilizers at a project facility in the commonwealth which has been placed in service on or after the effective date; (2) has made a capital investment of at least \$400 million in order to construct the project facility; (3) has created a minimum aggregate total of 800 new jobs and permanent jobs; (4) has made good faith efforts to recruit and employ, and to encourage any contactors or subcontractors to recruit and employ, workers from the local labor market for employment during construction of the project facility; and (5) has demonstrated that the new jobs created at the project facility are paid at least the prevailing minimum wage and benefit rates for each craft or classification as determined by the Department of Labor and Industry.
- The tax credit is capped at \$26,666,668 per fiscal year. No more than four qualified taxpayers may receive a tax credit annually, for a maximum credit of \$6,666,667 each. The Department of Revenue, at its discretion, may issue unallocated credits to a qualified taxpayer, notwithstanding the maximum credit limit per taxpayer. The credits may be used against personal income tax, corporate net income tax, bank and trust company shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, and mutual thrift institutions tax.
- The tax credit must first be applied against up to 20% of the qualified taxpayer’s tax liabilities in the year in which the tax credit was approved. The qualified taxpayer is ineligible for other tax credits in the Tax Reform Code. A qualified taxpayer holding a tax credit through the end of the calendar year in which the tax credit was awarded may sell or assign any unused tax credit in whole or in part, provided the sale is effective by the close of the following calendar year.

### **ACT #29 of June 5, 2020 made the following changes:**

#### To the Liquor Code:

- Exempts national veterans’ organizations and volunteer fire companies from the \$700 application surcharge for the renewal of restaurant, club, or catering club liquor licenses.
- Removes the liquid fuel prohibition contained in the Liquor Code for restaurant, hotel and club licensees, malt and brewed beverage licensees, and malt and brewed beverage manufacturers, distributors, and importing distributors. In addition, the legislation allows the use of all cash registers by malt or brewed beverage sales by licensees, retail dispenser licensees, and wine expanded permit holders provided they meet certain conditions.

### **ACT #23 of May 29, 2020 made the following changes:**

#### To the Fiscal Code:

- Provides for the extension of the transfer of revenues from the Cigarette Tax to the Tobacco Settlement Fund for Fiscal Year 2020-21.
- Provides a Category 1, 2, or 3 slot machine licensee that holds a sports wagering certificate and is affiliated with a Category 4 licensed facility (mini-casino) may conduct sports wagering at the Category 4 facility without having to pay an additional sports wagering authorization fee. In the event a Category 4 facility would change ownership and no longer be affiliated with a sports wagering certificate holder, the facility would be required to pay the sports wagering authorization fee to continue to offer sports wagering at the facility.
- Provides that within 90 days of the effective date, the Pennsylvania Gaming Control Board (board) shall conduct an auction for the Category 4 (mini-casino) license for which the board denied the application filed by the winning bidder of the initial auction.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Creates a transfer of \$13,782,000 to the Environmental Stewardship Fund from Personal Income Tax revenue for FY 2020-21.

### **ACT #21 of May 21, 2020 made the following changes:**

#### To the Liquor Code:

- Allows an entity holding a restaurant or hotel liquor license that has lost more than 25% of their average monthly sales as a result of restrictions imposed during the COVID-19 disaster emergency to sell prepared beverages and mixed drinks for off-premises consumption where meals prepared for pickup or curbside pick-up are also available.
- The legislation is effective immediately and specifies that sales authorized under this section may continue for the period after the disaster emergency when the licensee is operating at less than 60% capacity.

### **ACT #20 of May 19, 2020 made the following changes:**

#### To the Property Tax/Rent Rebate Program:

- Extends the filing deadline for calendar year 2019 claims to December 31, 2020.
- Requires the Secretary of Revenue to expedite a claim satisfying PTRR eligibility requirements for calendar year 2019 which had a calendar year 2018 claim approved for reimbursement.
- Provides that, if funds are available, a reimbursement on a claim for calendar year 2019 may be made from the State Lottery Fund immediately.

### **ACT #10 of March 27, 2020 made the following changes:**

#### To the Fiscal Code:

- Permanently establishes the Enhanced Revenue Collections Account (ERCA) within General Fund. Revenues collected and the amount of refunds avoided as a result of expanded tax return reviews and tax collection activities by the Department of Revenue will be deposited into the account.
- Adds new Article I-A (Emergency Finance and Tax Provisions) to the Fiscal Code, which in part, authorizes the Department of Revenue to extend filing and payment deadlines related to the personal income tax (PIT) as follows: extends the deadline for declarations of estimated PIT; extends the deadline for payments of estimated PIT; and extends the deadline for the filing of informational returns related to Pennsylvania S corporations and partnerships, estates and trusts (Form PA20S/PA-65). The authorization to extend tax filing and payment dates expires July 31, 2020.

### **ACT #101 of November 27, 2019 made the following change:**

#### To the Transit Revitalization Investment District Act:

- Beginning November 27, 2019, state tax revenue resulting from the development of a qualified former military installation and nearby parcels is directed to a qualified municipal authority created to fund military installation remediation projects.

### **ACT #97 of November 27, 2019 made the following change:**

#### To the State Lottery Law:

- For fiscal years beginning after June 30, 2019, and ending June 30, 2024, the mandated minimum rate of return on revenues accruing from the sale of lottery tickets is temporarily reduced from 25% to 20%. For fiscal years beginning after June 30, 2024, the rate returns to 25%.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### **ACT #90 of November 27, 2019 made the following changes:**

#### To the Time Period for Collection of Assessed Taxes:

- Beginning January 1, 2021, the time period for collection of taxes owed to the commonwealth is ten years from the date of the settlement, determination, or assessment of the tax — except in cases of fraud or willfully failing to file a return. The statute of repose applies to all commonwealth taxes except Inheritance Tax.

#### To Criminal Tax Enforcement:

- Provides the department additional time for investigation, development, and prosecution of quality cases focusing on those who are stealing “trust fund” taxes. This provision is effective immediately.

#### To the Financial Institution Data Match Program:

- Updates the bank attachment process previously established by Act 85 of 2012 by authorizing the department to enter into agreements with financial institutions to electronically share certain bank account information of delinquent taxpayers for the purposes of tax collection. Changes are effective January 26, 2020.

#### To Sales and Use Tax:

- Beginning November 27, 2019, the sale at retail or use by a financial institution of canned computer software directly utilized in conducting the business of banking is excluded from Sales and Use Tax. The term “financial institution” means an institution doing business in the commonwealth subject to the Bank and Trust Company Shares Tax or the Mutual Thrift Institutions Tax.

### **ACT #65 of July 2, 2019 made the following change:**

#### To the Beginning Farmer Tax Credit:

- Act 65-2019 established the Beginning Farmer Tax Credit, which allows an owner of agricultural assets to take a credit against the personal income tax for the sale or rental of agricultural assets to a beginning farmer. The tax credit shall be equal to: (1) 5 percent of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of \$32,000; or (2) 10 percent of the gross rental income in each of the first, second, and third years of a rental agreement, up to a maximum of \$7,000 per year. No more than \$5 million shall be allocated for the taxable year beginning after December 31, 2019, and no more than \$6 million for the taxable years beginning after December 31, 2020. Any amount authorized but not allocated in any taxable year does not cancel and is added to the allocation for the next taxable year. The tax credit may not be sold, passed through, carried forward or refunded. The tax credit expires for taxable years beginning after December 31, 2029.

### **ACT #20 of June 28, 2019 made the following changes:**

#### To Transfers and Payments:

- Provided that an amount equal to the annual debt service due in fiscal year 2019-20 shall be transferred to the Tobacco Settlement Fund from Cigarette Tax revenues. The amount certified by the Secretary of the Budget shall be deposited by April 30, 2020.
- Provided that any funds from fiscal years ending before July 1, 2019, not committed for local law enforcement grants on September 1, 2019, shall be transferred to the General Fund. From those transferred funds, \$1.192 million shall be transferred to the Video Gaming Fund.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Created a restricted revenue account for the Department of General Services to make payments related to the Farm Show Complex and provides that transfers will be made from Personal Income Tax revenues into this account in each fiscal year beginning with the 2019-20 fiscal year.
- Provided that \$3.852 million will be transferred to the State Employees Retirement System from Personal Income Tax revenues.
- Provided that, by September 1, 2020, \$45 million will be transferred to the School Safety and Security Fund from Personal Income Tax revenues.
- Provided that \$20 million will be transferred to the Environmental Stewardship Fund from Personal Income Tax revenues.

### **ACT #16 of June 28, 2019 made the following changes:**

#### To the Public School Code:

- Increased the total aggregate amount of tax credits available in any fiscal year for the Educational Improvement Tax Credit (EITC) to \$185 million from \$160 million beginning July 1, 2019.
- Increased the total aggregate amount of tax credits available in any fiscal year for the Opportunity Scholarship Tax Credit (OSTC) to \$55 million from \$50 million beginning July 1, 2019.
- Beginning July 1, 2019 and applicable to tax year 2019, a qualified subchapter S trust is considered a pass-through entity for EITC/OSTC purposes.

### **ACT #15 of June 28, 2019 made the following change:**

#### To the Administrative Code:

- Provided technical changes to the Pub. 1075 requirements previously adopted in Act 40 of 2017. The requirements provide that all executive branch state agencies or political subdivisions that use federal tax information (FTI) are to require any current or prospective employee or contractor whose duties and responsibilities require access to FTI to submit to fingerprinting and a criminal history background check.

### **ACT #13 of June 28, 2019 made the following changes:**

#### To the Sales and Use Tax:

- Beginning July 1, 2019, vendors who have no physical presence but whose direct sales and facilitated marketplace sales attributed to Pennsylvania exceed \$100,000 must register to collect and remit Pennsylvania sales tax. The act suspended the Act 43-2017 election and notice requirements.
- The sale at retail of building materials and supplies used for the construction or repair of an animal housing facility is exempt from sales and use tax beginning January 1, 2020.
- Beginning January 1, 2020, volunteer firemen's organizations do not have to charge sales tax on food and beverages sold to raise funds.
- Beginning January 1, 2020, youth centers do not have to charge sales tax on food and beverages sold to raise funds.
- Beginning July 1, 2019, sellers are permitted to include sales tax in the retail price of an item. When including the tax in the retail price sellers are required to list the sales tax paid on behalf of the purchaser on any receipt or sales documentation.



# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Inheritance Tax:

- The rate of inheritance tax upon the transfer of property to or for the use of a child 21 years of age or younger from a parent who dies after December 31, 2019 shall be 0%.

### To the Personal Income Tax:

- Effective July 1, 2019, the value of medals awarded by and prize money received from the United States Olympic Committee on account of competition in the Olympic Games or Paralympic Games are exempt from personal income tax.
- Applicable to tax years beginning after December 31, 2019, a fiduciary may make and file a joint tax return for an estate and trust for the taxable years when trust income is reported as part of estate income.
- Beginning January 1, 2020, each paid tax return preparer is required to sign and list their IRS preparer tax identification number (PTIN) on each Pennsylvania personal income tax return they prepare.
- Beginning in tax year 2020, the Department of Revenue shall provide personal income taxpayers the option to voluntarily designate a contribution from their tax refund to the Veterans' Trust Fund.
- Applicable to tax years beginning after December 31, 2019, net gains or income, net losses, and dividends which are excluded from federal income in a Federal Opportunity Zone are also excluded from Pennsylvania personal income tax.
- Applicable to tax years beginning after December 31, 2019, net gains or income, net losses, and dividends which are excluded from federal income in a Federal Opportunity Zone are also excluded from Pennsylvania personal income tax.

### To the Realty Transfer Tax:

- Beginning July 1, 2019, any transfer of real estate that is subject to agricultural conservation easement to a qualified beginner farmer is exempt from realty transfer tax.
- Beginning in fiscal year 2019-20, the annual transfer from realty transfer tax revenue to the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) Fund increased from a \$25 million minimum to a \$40 million minimum or the difference between total realty transfer tax collections for the prior fiscal year and the official estimate for fiscal year 2014-15.

### To the Surplus Lines Tax:

- For policies placed after June 30, 2019, premiums received for surplus lines insurance sold to a charter school, regional charter school, or cyber charter school are not subject to surplus lines tax.

### To the Table Games Tax:

- The additional 2% state tax on casino table games is extended until August 1, 2021. This keeps the total state tax on table games at 14% through the extension period.

### To the City Revitalization and Improvement Zone (CRIZ) Program:

- A contracting authority may now use CRIZ funds to make improvements within and outside of the zone without state approval for the expended funds on utilities, water, sewer, storm water, parking, road improvements, or telecommunications. Additionally, CRIZ funds may be utilized to establish a revolving loan for a qualified business.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Coal Refuse Energy and Reclamation Tax Credit:

- Beginning July 1, 2019, the total amount of credits that can be awarded increases from \$10 million to \$20 million per fiscal year. The commonwealth may reduce the amount of credits awarded to applicants that participate in a similar Federal Coal Refuse Reclamation Tax Credit Program that has yet to be created. Additionally, the sunset date of the program is extended to December 31, 2036.

### To the Computer Data Center Equipment Incentive Program:

- The total aggregate amount of state tax refunds approved in any fiscal year for the Computer Data Center Equipment Incentive Program increases to \$7 million from \$5 million, effective July 1, 2019.

### To the Entertainment Production Tax Credit:

- Applicable to fiscal years beginning on or after July 1, 2019, numerous changes were made to these tax credit programs:
  - o Under the Entertainment Economic Enhancement Program (EEEP), eligible postproduction and rehearsal expenses and qualified taxpayers are expanded. Further, the cap structure was amended, and total credits available will increase to \$8 million from \$4 million.
  - o The Film Production Tax Credit Program cap will increase to \$70 million from \$65 million. Special procedures are created for sale, assignment, and usage of credits within the same federal consolidated group. For Film Production Tax Credit districts, the size, investment, and technical requirements for the districts are amended.

### To the Historic Preservation Tax Credit:

- A number of changes are made to this credit program effective July 1, 2019. Among the changes, the credit is expanded to include non-commercial and workforce housing projects. The total aggregate amount of tax credits available in any fiscal year for the Historic Preservation Tax Credit increases to \$5 million from \$3 million. The deadline to file an application for the credit requires the payment of a processing fee and requires applications to be submitted between October 1 and October 31. No applications will be accepted after February 1, 2031.

### To the Keystone Opportunity Expansion Zone Program:

- Three additional Keystone Opportunity Expansion Zones may be established. Applications that meet population criteria within this expansion must be received prior to October 1, 2021.

### To the Mixed-Use Development Tax Credit:

- The total aggregate amount of tax credits available in any fiscal year for the Mixed-used Development Tax Credit shall increase to \$3 million from \$2 million.

### To the Neighborhood Assistance Tax Credit:

- Effective July 1, 2019, youth and adolescent development services have been added as a defined activity by a neighborhood organization. Business firms may contribute to a neighborhood organization which engages in the activities of providing youth and adolescent development services. No more than \$2 million of the total aggregate amount of tax credits available may be used towards youth and adolescent development services.



# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Qualified Manufacturing Innovation and Reinvestment Deduction:

- Applicable to tax years beginning after December 31, 2019, manufacturers that invest between \$60 million and \$100 million in the creation of new or refurbished manufacturing capacity may deduct up to 7.5% of capital investment from taxable income for corporate net income tax purposes annually for ten years, up to a maximum of 37.5% of the investment. Manufacturers that invest more than \$100 million are still permitted to deduct up to 5% of capital investment annually for ten years, for a maximum of 25% of the investment.

### To the Resource Enhancement and Protection (REAP) Tax Credit:

- The total aggregate amount of tax credits available in any fiscal year for the REAP Tax Credit shall increase to \$13 million from \$10 million, with \$3 million to be used for projects in the Chesapeake Bay watershed area. Additionally, the program now permits joint filing for utilization of the credit. Changes are effective July 1, 2019.

### To the Rural Jobs and Investment Tax Credit:

- The total amount of tax credits available in any fiscal year for the Rural Jobs and Investment Tax Credit is increased to \$6 million from \$1 million. Total awards, in the aggregate, may not exceed \$30 million. This change is effective July 1, 2019.

### To the Strategic Development Area (SDA) Program:

- Applicable to tax years beginning on or after January 1, 2019, certain items used within and outside of a designated SDA by a business qualified for the program are exempt from state and local sales and use tax when exclusively used by an employee assigned to a location in the SDA.

### To the Tax Credit for New Jobs:

- DCED may not approve applications for the Tax Credit for New Jobs after June 30, 2020.

## **ACT #131 of October 24, 2018 made the following changes:**

### To the Corporate Net Income Tax:

- Allows “qualified air freight forwarding companies” to utilize special income apportionment based on revenue miles, for tax years starting after December 31, 2016.
- Qualified companies are those engaged in the air freight forwarding business and primarily use an airline with which it has common ownership and control. Such companies shall use the revenue miles of the airline.

## **ACT #109 of October 24, 2018 made the following changes:**

### To the Hotel Occupancy Tax:

- Provides that booking agents that act as intermediaries in facilitating the short-term booking of an occupancy are required to collect and remit hotel occupancy tax on the room as well as any additional amounts charged, including service and accommodation fees, effective January 22, 2019.
- Directs that the tax collected on accommodation fees will be deposited into the Tourism Promotion Fund and disbursed for the purpose of promoting tourism within the commonwealth.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### **ACT #100 of October 24, 2018 made the following changes:**

#### To the Neighborhood Assistance Program Tax Credit:

- Increases the Neighborhood Assistance Program Tax Credit cap from \$18 to \$36 million, effective July 1, 2019.

#### To the Realty Transfer Tax:

- Exempts from tax transfers of real estate by a housing authority created under the Housing Authorities Law to a nonprofit organization, which is utilizing the real estate for the purpose of Rental Assistance Demonstration administered by the U.S. Department of Housing and Urban Development. This applies to a county of the fifth class with a population between 115,000 and 118,000 that filed an appeal with the Board of Finance and Revenue after December 31, 2015.

### **ACT #72 of June 28, 2018 made the following changes:**

#### To the Corporate Net Income Tax:

- For property placed in service after September 27, 2017, companies can take an additional deduction under Internal Revenue Code §167 and §168 on their Pennsylvania return, which generally would be depreciation under modified acceleration cost recovery system or other accounting methods. The act is effective immediately for tax years beginning on or after January 1, 2017.

### **ACT #52 of June 28, 2018 made the following changes:**

#### To the Gross Receipts Tax:

- Excludes from Gross Receipts Tax the sales of telephones, telephone handsets, modems, tablets, and related accessories, including cases, chargers, holsters, clips, hands-free devices, screen protectors and batteries from both landline receipts and mobile telecommunications receipts. The act is effective immediately and retroactively applies to gross receipts from transactions occurring on or after January 1, 2004, except claims for refund or credit for a tax paid prior to the effective date.

### **ACT #42 of June 22, 2018 made the following changes:**

#### To the Property Tax/Rent Rebate (PTRR) Program:

- Effective for claim year 2018 and thereafter, retired federal civil service employees receiving benefit payments from the Civil Service Retirement System (CSRS) who did not have to contribute to Social Security for that equivalent period of employment will be able to exclude 50% of the average annual Social Security benefit amount from their PTRR income on claim forms reporting their eligibility income for Property Tax and Rent Rebate purposes.

#### To the Neighborhood Improvement Zone:

- Effective immediately, adds the definition of “entertainment business financial management firm” to enable the contracting authority to identify the responsible party required to fulfill reporting compliance on behalf of a qualified business, for concerts or other performances in a facility in the zone.

#### To the Entertainment Economic Enhancement Program:

- For fiscal year 2018-19 only, increases the number of tours that may be awarded concert rehearsal and tour tax credits from five to 10 tours. The Department of Community and Economic Development in consultation with the Department of Revenue may advance the award of tax credits for qualified rehearsal and tour expenses incurred or to be incurred to a maximum of two additional tours in fiscal year 2018-19.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Enhanced Revenue Collections Account:

- Provides that the Enhanced Revenue Collection Account (ERCA) in the Department of Revenue will continue through FY 2019-20. For fiscal years from 2018-19 and 2019-20, up to \$30 million is appropriated to the department to fund the costs associated with the increased tax collection enforcement and reduction of tax refund errors.

### To Transfers and Payments:

- Provides that \$5.2 million and \$4.901 million shall be transferred to the Public School Employees Retirement System and the State Employees Retirement System, respectively, from Personal Income Tax revenues.
- Provides that, by September 1, 2018, \$15 million shall be transferred to the School Safety and Security Fund from Personal Income Tax Revenues.
- Provides that if the Secretary of the Budget certifies that there is a surplus in the General Fund for fiscal year 2017-18, 50 percent of the surplus shall be deposited by the end of the next succeeding fiscal quarter into the Budget Stabilization Reserve Fund.

### **ACT #39 of June 22, 2018 made the following changes:**

#### To the Public School Code:

- Educational Tax Credits: Increases funding from \$135 million to \$160 million for the aggregate amount of all tax credits approved for contributions from business firms to scholarship organizations, educational improvement organizations and pre-kindergarten scholarship organizations.

### **ACT #55 of November 7, 2017 made the following changes:**

#### To The Public School Code:

- Educational Tax Credits: Increases funding from \$125 million to \$135 million for the aggregate amount of all tax credits approved for contributions from business firms to scholarship organizations, educational improvement organizations and pre-kindergarten scholarship organizations.

### **ACT #48 of October 30, 2017 made the following changes:**

#### To Tax Credit Programs:

- Provides that the Independent Fiscal Office (IFO) will review all tax credit programs and that every tax credit program is reviewed at least once during a five-year period. The director of the IFO and the Secretary of the Budget are to develop a schedule for review of all tax credits within 30 days of the legislation's effective date.

### **ACT #44 of October 30, 2017 made the following changes:**

#### To Transfers and Payments:

- Provides that during fiscal year 2017-18, \$300 million shall be transferred from amounts available in special funds and restricted accounts to the General Fund.
- Provides for \$200 million to be transferred from the Pennsylvania Professional Liability Joint Underwriting Association on or before December 1, 2017.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Enhanced Revenue Collections Account:

- Provides that the Enhanced Revenue Collection Account (ERCA) in the Department of Revenue will continue through FY 2019-20. For fiscal years from 2017-18 through 2019-20, up to \$30 million is appropriated to the department to fund the costs associated with the increased tax collection enforcement and reduction of tax refund errors.
- Specifies that the balance of the money in the account shall be returned proportionately to the General Fund revenue or refund accounts that were the source of the money no later than the 28th day of each month of the fiscal year.

### **ACT #43 of October 30, 2017 made the following changes:**

#### To the Sales and Use Tax:

- Effective October 30, 2017, help desk or call center support for canned software is exempt from sales and use tax when separately invoiced.
- Effective October 30, 2017, kegs used to contain malt or brewed beverages are exempt from sales and use tax as part of wrapping and packaging supplies.
- Makes provisions for marketplace sales:
  - Sellers of products on the internet not maintaining a place of business in the commonwealth and not collecting Pennsylvania sales tax, making sales of at least \$10,000 into Pennsylvania in the previous calendar year, must file an election by March 1, 2018, opting either to begin to collect sales and use tax by April 1, or commit to sending use tax notices with each sale. Additionally, sellers sending notices must also send an annual summary of purchases both to the customer and to the Department of Revenue.
  - Defines affected entities to include: marketplace facilitators, persons who list or advertise property for sale in any forum and who either directly or indirectly collect the payment from the purchaser and transmit the payment to the person selling the property; remote sellers, persons that do not maintain a place of business in the commonwealth and sell at retail into the commonwealth; and referrers, persons who provide a forum for interaction between buyers and sellers but do not directly participate in the sale. Marketplace facilitators and referrers are required to file an election on behalf of all the sellers participating in their system. If the election is made to collect sales tax, then the marketplace facilitator or referrer is required to collect and remit sales tax on all of its taxable marketplace sales.
  - Provides that, for entities opting to collect sales tax, the new provisions require collection to begin by April 1, 2018, for tangible personal property. The effective date is delayed until April 1, 2019, for digital goods such as electronic copies of books, canned software, music and similar items.

#### To the Personal Income Tax:

- Effective October 30, 2017, a contributor to an Achieving a Better Life Experience (ABLE) account may deduct up to the current dollar limit under Internal Revenue Code Section 2503(b) from Pennsylvania taxable income, provided the deduction does not reduce the contributor's taxable income to less than zero. Note that under the IRC, yearly total contributions from all contributors to an ABLE account are limited to the amount in IRC Section 2503(b).
- Further clarifies that ABLE accounts, undistributed earnings, and distributions for qualified disability expenses of the account beneficiary are exempt from tax.
- Effective October 30, 2017, repeals the expired Korea/Vietnam Memorial National Education Center refund donation checkoff, and repeals the expiration of the refund donation checkoffs for the Wild Resource Conservation Fund, Organ and Tissue Donation Awareness Trust Fund, Military Family Relief Assistance Program, Pennsylvania Children's Trust Fund and American Red Cross.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Effective January 1, 2018, requires payers of nonemployee compensation and business income to non-resident individuals (or disregarded entities with a non-resident owner) to withhold income tax from such payments. The United States government, the Commonwealth of Pennsylvania, their agencies, instrumentalities, and any political subdivisions of Pennsylvania are excluded from this withholding requirement. Further, lessees of Pennsylvania real estate making “lease payments” to non-resident lessors are also required to withhold personal income tax on such payments. Residential rental payments are exempt from the withholding requirement. Withholding of tax is required for payments of \$5,000 or more annually and is optional on payments less than \$5,000.

### To the Corporate Net Income Tax:

- Provides that if any part of the net operating loss (NOL) deduction is declared to be unconstitutional by the Pennsylvania Supreme Court, the Department of Revenue is required to publish a notice of the decision in the Pennsylvania Bulletin.
- Effective upon publication of the notice, the \$5 million cap on NOL deductions is removed, and the deduction is capped at 35% of taxable income for tax year 2018 and capped at 40% of taxable income for tax year 2019 and after.
- Creates the Qualified Manufacturing Innovation & Reinvestment Deduction, which allows a qualified business to deduct five percent of its capital investment from their corporate net income tax liability if it invests at least \$100 million in the creation of new or refurbished manufacturing capacity within 3 years of a designated start date. The deduction would be available to each qualifying business for five years and cannot exceed 50 percent of the corporation’s tax liability. The deduction is effective December 29, 2017.

### To the Realty Transfer Tax:

- Effective October 30, 2017, broadens the category of veterans’ service organizations defined as tax-exempt.

### To the Inheritance Tax:

- Clarifies existing requirements regarding the filing of returns for the inheritance tax exemption on transfers of certain family owned farms and family owned businesses. Any inheritance tax return filed after July 1, 2012, under Section 2136 (returns) that reports transfers of property which are exempt from inheritance tax under Section 2111 (transfers not subject to tax) will be considered timely if filed within one year of the tax return due date, including an extended due date.

### To the Public Transportation Assistance Fund:

- Effective October 30, 2017, provides for a prorated fee for partial day car sharing services as a clarification of the current vehicle rental fee. Rentals of less than two hours will be subject to a \$0.25 fee. Rentals of two to three hours will be subject to a fee of \$0.50. Rentals of more than three but less than four hours will be subject to a \$1.25 fee. Rentals of four or more hours will be subject to a fee of \$2.00.

### To the Fireworks Tax:

- Incorporates the existing Fireworks Law into the Tax Reform Code and modernizes and expands the definition of legal consumer fireworks. The Department of Agriculture will continue to administer the Fireworks Law.
- Effective October 30, 2017, imposes a 12 percent tax on the sale price of consumer fireworks suitable for use by the public. The fireworks tax will be in addition to the sales and use tax already imposed on such sales.

### To Tax Credit and Economic Development Programs:

- Provides that before a tax credit can be awarded, the Department of Revenue may make a finding that the taxpayer has filed all required state tax reports and returns and paid any balance due, unless the tax due is currently under appeal.

- Amends the existing Film Production Tax Credit to authorize the creation of not more than two film production tax credit districts. The districts must meet certain location, size, technical, and investment requirements, and the designation will expire after 15 years. Tax credits for these districts are in addition to the existing Film Production Tax Credit and may be approved beginning in fiscal year 2019-20.
- Moves the authorizing language for the Entertainment Economic Enhancement Program from Title 12, Chapter 33 to the Tax Reform as Subarticle E of the Entertainment Production Tax Credits. The program's Concert Rehearsal and Tour Tax Credit remains available to up to five tours per year at a maximum credit of \$800,000 per tour.
- Effective in one year, amends the Neighborhood Improvement Zone (NIZ) program to allow the contracting authority to transfer parcels out of the zone and replace with parcels not to exceed the acreage transferred out. The Department of Revenue and municipality must certify that there is no activity in the parcels being transferred that generates tax receipts or other revenue.
- Effective October 30, 2017, amends the City Revitalization and Improvement Zone (CRIZ) program to allow an inactive parcel to be transferred out of the zone and replaced with a parcel of equal or lesser acreage. Such a transfer of parcels in and out of the zone does not need to occur simultaneously. Provides that excess money transferred to a CRIZ fund for utilization in a pilot zone is not required to be returned to the commonwealth by the pilot zone's contracting authority and must be used in accordance with the current utilization provisions in the article.
- Extends the application deadline for additional Keystone Opportunity Zones from October 2016 to October 2018 and extends the date for DCED action on applications for additional KOZs from December 2016 to December 2018.

### To Petitions for Reassessment:

- For petitions for refunds, petitions for reassessments, and petitions for redeterminations filed with the Department on or after December 29, 2017, reduces the period of time for a taxpayer to file a petition for reassessment, review or adjustment with the Board of Appeals (BOA) from 90 days to 60 days after the mailing date of the notice of assessment, and additionally reduces the time period for appeal to the Board of Finance and Revenue (BF&R) by a taxpayer from 90 days to 60 days.

### **ACT #42 of October 30, 2017 made the following changes:**

#### To Title 4 Amusements (Gaming):

- Provides for the implementation of interactive gaming operated by slot machine licensees and qualified gaming entities and the taxes and fees associated therewith.
- Provides for an interactive gaming certificate holder to conduct interactive gaming at a qualified airport through the use of multi-use computing devices.
- Accelerates repayment of loans provided under Section 1901 to be deposited to the General Fund instead of the State Gaming Fund.
- Provides for ten Category 4 slot machine licenses, along with the taxes and fees associated with the slots and tables operated therein.
- Provides for Category 3 facilities to add up to 250 additional slots and 15 additional tables for an additional fee.
- Provides for the removal of Category 3 license conditions, defining which individuals may enter a gaming area, for a one-time fee to be deposited in the General Fund.
- Provides for video gaming at licensed truck stop establishments and establishes the Video Gaming Fund in which the taxes on gross terminal revenue are to be initially deposited.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Provides for the conduct of fantasy contests by licensed operators and the taxes and fees associated therewith.
- Eliminates the higher tax rate of 14 percent of daily gross table game revenue applicable for a period of two years following commencement of table games operations at a licensed facility.
- Provides for the conduct of sports wagering by sports wagering certificate holders and the taxes and fees associated therewith.

### **ACT #39 of October 30, 2017 made the following changes:**

#### To the Personal Income Tax:

- Creates a new personal income tax refund donation checkoff option for donations to pediatric cancer research, beginning with tax year 2018 returns.

### **ACT #7 of June 22, 2017 made the following changes:**

#### To the Concert Rehearsal and Tour Tax Credit/Entertainment Economic Enhancement Program:

- Moves the authorizing language from the Tax Reform Code to the Entertainment Economic Enhancement Program under Title 12, Chapter 33 of the Pennsylvania Consolidated Statutes.
- Changes the structure of the program cap from \$4 million per year to permitting awards to up to five tours per year with a maximum award of up to \$800,000 per tour.

### **ACT #175 of November 21, 2016 made the following changes:**

#### To the Realty Transfer Tax:

- Clarifies timelines for the applicability of definition changes for the terms “conservancy” and “veterans’ organization”.

### **ACT #151 of November 4, 2016 made the following changes:**

#### To the Sales and Use Tax:

- Provides for an annual \$700,000 transfer to the Transit Revitalization Investment District (TRID) Fund for 20 calendar years beginning June 1, 2016.

### **ACT #117 of November 2, 2016 made the following changes:**

#### To the Property Tax or Rent Rebate (PTRR) Program:

- Amended the definition of income to exclude federal veterans’ disability payments and state veterans’ benefits. The changes are effective within 60 days and will first impact claim year 2017 rebates.

### **ACT #93 of July 20, 2016 made the following changes:**

#### To the Personal Income Tax:

- Effective within 180 days, provides that in the case of any taxpayer due to receive a personal income tax refund, the Department of Revenue shall deduct the amount of any court-ordered obligations arising from criminal prosecution or proceeding and pay the amount to the clerk of courts for the county in which the order was entered.



### **ACT #86 of July 13, 2016 made the following changes:**

#### To the Public School Code:

- The Educational Tax Credit statute was moved back to the Public School Code from the Tax Reform Code by Act 86 of 2016 as well.
- Educational Tax Credits: Funding has increased from \$100 million to \$125 million for the aggregate amount of all tax credits approved for contributions from business firms to scholarship organizations, educational improvement organizations and pre-kindergarten scholarship organizations. Additionally, a new procedural change effective for the 2016-17 fiscal year requires the Department of Community and Economic Development to notify applicants of the status of the application in writing within 90 days of submitting the application to the Department.

### **ACT #85 of July 13, 2016 made the following changes:**

#### To the Fiscal Code:

- Under the Cigarette and the Sales and Use taxes, starting August 1, 2016, the mandatory cost of doing business (selling cigarettes) increases from 6.0 percent to 7.0 percent, resulting in a minimum price increase of \$0.06.
- In fiscal year 2016-17, \$350.2 million in payments will be made from the Tobacco Settlement Fund to fund health related programs.
- In fiscal year 2016-17, the following transfers, totaling \$265.5 million, will be made to the General Fund:
  - \$5.0 million from the Alternative Fuels Incentive Fund;
  - \$2.0 million from the Local Law Enforcement Block Grants;
  - \$9.0 million from the Recycling Fund;
  - \$28.5 million from the Tobacco Settlement Fund;
  - \$9.0 million from the Volunteer Companies Loan Fund;
  - \$200.0 million from the unappropriated surplus of the Pennsylvania Professional Liability Joint Underwriting Association; and
  - \$12.0 million from the CFA Building Pennsylvania program account.
- For any slot machine issued in fiscal year 2016-17, the Pennsylvania Gaming Control Board shall require the slot machine license fee (\$50.0 million) and the table games authorization fee (\$24.75 million) to be paid in full to the General Fund no later than June 30, 2017.
- Authorized a transfer to the Commonwealth Financing Authority (CFA) restricted revenue account from sales and use tax for such amounts as may be necessary to make payment for principal and interest obligations coming due in each fiscal year, beginning July 1, 2016 and thereafter.



### **ACT #84 of July 13, 2016 made the following changes:**

#### To the Sales and Use Tax:

- Starting August 1, 2016, the sales and use tax specifically extends to items delivered to a customer electronically or digitally or by streaming. This includes music or any other audio, video - such as movies and streaming services - e-books and any otherwise taxable printed matter. Also now taxable are items such as apps and in-app purchases, ringtones, online games, canned software - frequently referred to as off-the-shelf software - and any updates, maintenance or support of these items. Items that are exempt in physical form are not subject to tax.
- For sales tax returns for periods ending after August 1, 2016, the sales tax vendor discount is capped at the lesser of one percent of the amount of sales tax collected or \$25 on a monthly return, \$75 on a quarterly return or \$150 on a semi-annual return.
- Effective immediately, the possession, sale or distribution of zappers or sales suppression software with the intent to evade taxes is deemed an offense and individuals could be fined up to \$10,000 and one year in prison.
- Effective immediately, returnable corrugated boxes used to deliver snack food products when purchased by a manufacturer are exempt from the sales and use tax.
- Effective September 11, 2016, the sale at retail or use of services related to the setup, teardown, or maintenance of tangible personal property rented by an authority to exhibitors at the Pennsylvania Convention Center and the David L. Lawrence Convention Center is exempt from sales and use tax.
- Effective July 1, 2017, property and services directly and predominately used in timbering operations are exempt from sales and use tax when purchased by a company primarily engaged in the business of harvesting trees. Timbering does not include the harvesting of trees for clearing land for access roads.

#### To the Cigarette and Tobacco Products Taxes:

- Starting August 1, 2016, the state tax on cigarettes is \$2.60 per pack, a \$1.00 per pack increase. In Philadelphia the tax will be \$4.60 per pack.
- Effective October 1, 2016, pipe tobacco, chewing tobacco, snuff, and any other tobacco products for chewing, ingesting or smoking, except cigars, will be subject to a \$0.55 per ounce tax, with a minimum tax per package of \$0.66. Electronic cigarettes including both the liquid product and the delivery device will be subject to a 40 percent tax on the wholesale price.
- The tax on roll-your-own tobacco at \$0.55 per ounce will be effective 60 days after the Attorney General publishes a notice in the Pennsylvania Bulletin that the tax is permitted under the Master Settlement Agreement with the tobacco companies.
- A transfer of monies from the General Fund to the Local Cigarette Tax Fund is established to occur if the amount of monies deposited in the Local Cigarette Tax Fund in fiscal year 2016-17 and thereafter falls below the amount deposited in fiscal year 2015-16. The transfer amount shall be equal to the difference between the amount deposited in the Local Cigarette Tax Fund in the given fiscal year and \$58 million. The transfer, if it is necessary, will occur annually by July 15th.
- The expiration date of the Local Cigarette Tax of June 30, 2019 is eliminated.

#### To the Corporate Net Income Tax:

- For tax years beginning after December 31, 2015, corporate net income tax reports (RCT-101) are due 30 days after the federal report is due, or would be due if that corporation were required to file federally.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Beginning with amended reports filed after December 31, 2016, the Act provides procedures for corporations filing amended corporate tax reports (RTC-101). Taxpayers will have three years from the due date of the original report to file an amended report. The department will have one year from the date the amended report is filed to notify the taxpayer if the changes are accepted. If the taxpayer is not notified within one year, the report is deemed accepted.

### To the Bank Shares Tax:

- Effective January 1, 2017, the bank shares tax rate changes from 0.89 percent to 0.95 percent.
- Effective January 1, 2018 a phased-in deduction is allowed for Edge Act corporation equity.
- The source for income in the receipts definition is changed from the federal tax return to the Consolidated Reports of Condition.
- The deduction for goodwill generated from combination activity and for the apportionment of receipts from investment and trading assets and activities has been clarified.

### To the Personal Income Tax:

- Retroactive to January 1, 2016, the Pennsylvania personal income tax applies to cash prizes from the Pennsylvania Lottery.
- Starting in the 2016 tax year, taxpayers receiving a personal income tax refund will have the option of designating all or a portion of the refund as a contribution to a Tuition Account Program (TAP) directly from their personal income tax return.
- The Act clarifies the language specifying the treatment of intangible drilling costs in the personal income tax.
- Effective September 11, 2016, Section 1033 of the Internal Revenue Code shall be applicable to the personal income tax. This federal provision allows a taxpayer to acquire replacement property and make an election to defer recognition of gain following an involuntary conversion, for example when the original property is destroyed by fire or natural disaster.

### To the Realty Transfer Tax:

- Agricultural, conservation, or historic preservation easements transferred or sold to certain dedicated conservancies as well as government entities may be made without the seller paying the realty transfer tax.
- Transfers by not-for-profit veterans' organizations that are recognized by the Internal Revenue Service as 501(c)(19) tax-exempt organizations are exempt from realty transfer tax, though other parties to the transaction may still be liable.
- Transfers to or from a land bank, which can be established by government entities in the commonwealth, are excluded from tax under the Realty Transfer Tax.
- All three provisions take effect September 11, 2016.

### To the Inheritance Tax:

- The exemption for family farms and family businesses are amended, allowing for farms and businesses that are transferred "to or for the benefit of" a member of the same family to be exempt from the taxable estate. This language extends the family farm and business exclusions to transfers of trusts for the benefit of members of the same family. This amendment also added relatives of a decedent's spouse to the definition of "members of the same family." The farm provision is effective retroactive to dates of death after December 31, 2012, while the business provision is retroactive to dates of death after June 30, 2013.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

### To the Tax Amnesty Program:

- The Act provides for a tax amnesty program to be implemented by the Department of Revenue. The Governor will establish the 60-day period that must end by June 30, 2017. During amnesty, the department will waive 100 percent of penalties and half of the interest due on taxes delinquent as of December 31, 2015. The department is required to publish guidelines for the program within 60 days of the effective date of Act 84, including an explanation of the program, the amnesty period dates, a sample tax return, and estimates for amnesty revenue.

### To the Table Game Taxes:

- The 12 percent tax on casinos' gross table games revenue is increased to 14 percent effective August 1, 2016. This additional 2 percent tax is set to expire on June 30, 2019.

### To the Tax Credits and Economic Development Programs

- The sunset provision of December 31, 2015, for the Research and Development (R&D) tax credit has been removed from the law.
- The Film Production Tax Credit is renamed the Entertainment Production Tax Credit. There are three subsections: An expanded Film Production Tax Credit, and two new tax credits, the Concert Rehearsal and Tour Tax Credit and the Video Game Production Tax Credit.
  - Film Production Tax Credit: The scope for eligible production expenses used to quantify the tax credit and permitted uses of the credit against tax liability has been expanded. Additionally, the budget allocation has also been increased from \$60 million to \$65 million per year beginning in the 2017-18 fiscal year. Additionally, the Department of Community and Economic Development may now reissue unused Film Production Tax Credits from prior fiscal years, beginning in the 2017-18 fiscal year.
  - Concert Rehearsal and Tour Tax Credit: This tax credit is designed to attract investment in the commonwealth by awarding tax credits to tour operators representing musicians for rehearsals and live musical performances within the state. Credits may be awarded for up to 40 percent of eligible expenses up to \$800,000 per taxpayer per fiscal year. The budget allocation is \$4 million a year beginning in the 2017-18 fiscal year.
  - Video Game Production Tax Credit: This new tax credit is designed to attract investment in the commonwealth by awarding tax credits for production expenses incurred by video game production companies. Credits may be awarded for up to 25 percent of qualified expenses in the first four years of production and 10 percent for each year thereafter per taxpayer per fiscal year. The budget allocation is \$1 million a year beginning in the 2017-18 fiscal year.
- Coal Refuse Energy and Reclamation Tax Credit: This new tax credit is designed to incentivize eligible facilities that generate electricity in the commonwealth to use coal refuse for power generation, control acid gasses for emission control and use ash produced by the facility to reclaim mining-affected sites. Credits may be awarded at a rate of \$4 per 2,000 pounds of qualified refuse capped at 22.2 percent of the available budget allocation per fiscal year. The allocation is \$7.5 million for the 2016-17 fiscal year and \$10 million each fiscal year thereafter.
- Waterfront Development Tax Credit: This new tax credit is designed to generate funding for waterfront development projects that provide or improve public access to waterfront sites within the commonwealth. Contributions in the form of cash or personal property may be donated to an approved waterfront organization for up to a 75 percent equivalent tax credit per contributed dollar. The budget allocation is \$1.5 million a year beginning in the 2017-18 fiscal year.
- Repealed Article XVII-F of the Tax Reform Code containing the provisions of the Educational Tax Credit Program.

- **Tax Credit for New Jobs:** Formerly referred to as the Job Creation Tax Credit program, this tax credit has been amended to include an incentive for businesses to hire veterans for a job tax credit equivalent to \$2,500 per veteran hired. The amendment is effective immediately.
- **The City Revitalization and Improvement Zone (CRIZ) Program** is amended to include broadened definitions regarding the scope and administration of the program. Amendments include: changes to program eligibility for qualifying cities and municipalities, new CRIZ eligible tax types, and expanded powers or duties of the contracting authority. Other notable changes include an amended formula for the calculation of the annual certification, a lowered cap on annual borrowing by zones, and permitted uses of CRIZ funds by the contracting authority. The amendment is effective immediately.
- **Manufacturing and Investment Tax Credit:** This new tax credit is designed to support job creation. Eligible taxpayers, capable of increasing annual taxable payroll by a minimum of \$1 million through the creation of new full-time jobs can earn a tax credit up to 5 percent of the taxpayer's increase in annual taxable payroll. Jobs must be maintained for at least five years. The budget allocation is \$4 million a year beginning in the 2017-18 fiscal year.
- **Rural Jobs and Investment Tax Credit:** This new tax credit is designed to stimulate growth and job creation in rural areas by providing access to capital to rural businesses from businesses supporting rural growth funds. Credit for eligible contributions made by a business firm may be approved for up to a 90 percent equivalent tax credit per contributed dollar. The budget allocation is \$1 million a year beginning in the 2017-18 fiscal year, and is not to exceed \$4 million for the duration of the program.
- **The Neighborhood Assistance Tax Credit program** is amended with new definitions for affordable housing, domestic violence or veterans' housing assistance. By inclusion of these amendments, tax credits may be awarded equivalent to 75 percent of the total amount contributed by business firms participating in the program. The amendment is effective immediately.
- **Neighborhood Improvement Zone (NIZ) Program:** The NIZ program has been amended to include broadened definitions regarding the scope and administration of the program for the state and contracting authority. Amendments include new penalty provisions, acceptance of late reports within the program reconciliation and an annual program audit by an independent auditing firm. Other notable changes include the prohibition of assessing real estate taxes on any property owned by the contracting authority in a zone, collection and distribution changes to local hotel taxes within the zone, and property valuation prohibitions for property within the zone for use by the county.
- The sunset date for the **Keystone Special Development Zone (KSDZ) Tax Credit program** has been changed from 2026 to 2035. The amendment is effective immediately.
- The **Keystone Opportunity Zone (KOZ) program** has been expanded to include the designation of 12 new Keystone Opportunity Expansion Zones consisting of 375 acres each for a period of up to 10 years effective January 1, 2017 to December 31, 2026. In addition, existing parcels can be extended up to 10 years for state tax benefits, if the applicant can meet the job creation and capital investment requirements in the enabling legislation.
- **Mixed-Use Development Tax Credit:** This new tax credit is designed to help communities address affordable housing shortages and support business growth. The program allows developers to access funds for construction or rehabilitation projects that enable affordable housing and business in the same structure. Tax credit availability is based on the sale of the credits from the Pennsylvania Housing Finance Agency. The budget allocation is \$2 million a year beginning in the 2017-18 fiscal year.
- The budget allocation for the **Keystone Innovation Zone (KIZ) tax credits** is reduced to \$15 million per fiscal year from \$25 million per fiscal year effective immediately.
- The **Malt Beverage Tax Credit** will be reinstated in the 2017-18 fiscal year with a \$5 million a year budget allocation. The credit was formerly effective from January 1, 1974, to December 31, 2008.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Computer Data Center Equipment Incentive Program: This new program is designed to attract new investment from businesses that operate within facilities containing equipment such as servers or data storage equipment necessary to operate a computer data center. Applicants must meet capital investment and annual compensation requirements for employees working within the data center. The budget allocation is \$5 million a year beginning in the 2017-18 fiscal year.
- Effective December 1, 2016, the Promoting Employment Across Pennsylvania (PEP) tax credit is repealed.

### **ACT #39 of June 8, 2016 made the following changes:**

#### To the Liquor Code:

- Allows restaurants and hotels to purchase an expanded wine permit to sell up to 3,000 mL of wine (4 bottles) for off-premise consumption.
- The initial permit fee is \$2,000 and the renewal fee is equal to 2.0 percent of the cost of wine purchased from the board for off-premise consumption.
- Allows the LCB to sell PA Lottery tickets through instant ticket vending machines, player activated terminals and technologies for the self-service sale of PA Lottery tickets and provides that the licensee commission be deposited in the General Fund.
- Authorizes the LCB to issue licenses to casinos for a fee of \$1 million to sell alcohol 24 hours a day, 7 days a week. The renewal fee will be \$1 million for the next four years and will be set at \$250,000 per year thereafter.
- Allows a restaurant license that ceased to exist under law to be auctioned by the LCB once a year to the highest bidder with the minimum bid set at \$25,000.
- Allows for the conversion of an eating place license to a restaurant license for a fee of \$30,000.
- Provides for up to \$1 million annually for the awarding of grants for the purpose of increasing production of malt and brewed beverages made in PA. Provides for up to \$1 million annually for the awarding of grants for the purpose of increasing production of wines made in PA.
- Effective 60 days after enactment.

### **ACT #25 of April 25, 2016 made the following changes:**

#### To the Fiscal Code:

- Reduces the statutory annual transfer from the Oil and Gas Lease Fund to the Marcellus Legacy Fund for transfer to the Environmental Stewardship Fund for FY 2015-16 to \$20,000,000 to align with amounts available and modifies the distribution to agencies from that transfer to ensure that mandatory debt service continues to be paid and to preserve the funding for the Agricultural Conservation Easement Program.
- The legislation provides language necessary to allow a business which participates in the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs during FY 2015-16 to utilize the credit in either the tax year in which the application or the contribution is made.
- The legislation directs that any payment of a slot machine license fee received by the Pennsylvania Gaming Control Board after June 30, 2014, is to be deposited in and credited to the General Fund. The transfer is estimated to generate a deposit of \$50 million by June 30, 2016.
- By June 1, 2016, \$4,500,000 shall be transferred from the Dormitory Sprinkler System fund to the General Fund.

# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- The Enhanced Revenue Collection Account (ERCA) in the Department of Revenue will continue through FY 2019-20. Revenues collected will be deposited into the account. Of the funds in the account, for each of the fiscal years from FY 2015-16 through FY 2019-20, up to \$25,000,000 is appropriated to the department to fund the costs associated with the increased tax collection enforcement and reduction of tax refund errors. The balance in account on June 15, 2014 and each June 15 thereafter shall be deposited into the General Fund. The department will generate a report to the governor and General Assembly including a detailed breakdown of administrative costs, the amount of revenue collected and the amount of refunds avoided.

### **ACT #16 of April 18, 2016 made the following changes:**

#### Created the stand alone Medical Marijuana Act:

- Establishes a program for the use of medical marijuana (MM) to be administered by the Pennsylvania Department of Health (DOH). This legislation is effective in 30 days after enactment.
- An excise tax of 5.0 percent is imposed on the gross receipts from the sale of MM by a grower/processor to a dispensary. The tax shall be paid by the grower/processor and shall not be paid by dispensary or the patient or caregiver. The proceeds of the tax are to be deposited in the Medical Marijuana Program Fund. This fund is established in the State Treasury. The sale of MM to a patient or caregiver is exempt from sales tax.
- DOH and the Department of Revenue shall monitor the price of medical marijuana sold by a grower/processor and by a dispensary, including the per-dose price. If both DOH and the Department of Revenue determine that prices are unreasonable or excessive, a cap may be placed on the price of medical marijuana for a period of six months.

### **ACT #17 of April 18, 2016 made the following changes:**

#### Created the Pennsylvania ABLE Act:

- Created the Pennsylvania ABLE (Achieving a Better Life Experience) Act and provides that contributions made to an ABLE account, any increase in the value of those contributions, the retention or transfer during life or as a result of death of any legal interest in an account and payment of qualified disability expenses of eligible individuals from an account shall be exempt from all taxation by the commonwealth and its political subdivisions.
- An amount that is distributed from an account which is not described as being exempt from taxation under this act shall be subject to tax under the Pennsylvania personal income tax.

### **ACT #7 of February 23, 2016 made the following changes:**

#### To the Administrative Code:

- Repealed the Race Horse Industry Reform Act (P.L. 534, No. 135) and Article XV1-B of the Tax Reform Code of 1971, related to Nonlicensed Corporation Pari-Mutuel Wagering Tax, and added Article XXVIII-D, Race Horse Industry Reform, providing for the regulatory oversight of horse and harness racing.
- Maintained the existing Pari-Mutuel Tax rate, which is deposited to the State Racing Fund, but eliminated the Admissions Tax. The established Pennsylvania Sire Stakes Fund and Pennsylvania Breeding Fund and established distributions are maintained in the bill.
- Imposed the Pari-Mutuel Tax on Secondary Pari-Mutuel Organizations, which were previously subject to the Nonlicensed Corporation Pari-Mutuel Wagering Tax, which was deposited into the Advanced Deposit Wagering Collections Account, a restricted account within the General Fund. From those funds, up to \$5 million was appropriated to the State Racing Commission in the Department of Agriculture for general government operations.



# ESTIMATE DOCUMENTATION

## LEGISLATIVE OVERVIEW

- Provided that 37.5 percent of the breakage retained by licensed racing entities conducting horse race meetings (currently 25 percent by licensed entities conducting thoroughbred race meetings) shall be paid to the Department of Revenue for credit to the State Racing Fund. Breakage is defined as "the odd cents of redistributions to be made on contributions to pari-mutuel pools exceeding a sum equal to the next lowest multiple of ten."
- Provided, beginning July 1, 2016, and annually thereafter, that one percent of the previous fiscal year deposits to the Pennsylvania Race Horse Development Fund shall be transferred to the State Racing Fund for the promotion of horse racing.
- Established the Pennsylvania Race Horse Testing Program, providing all cost for medication testing and research be paid out of the Pennsylvania Race Horse Development Fund, in 52 equal, weekly payments to the State Racing Fund. This transfer expires on June 30, 2020.
- Provided for various licenses for horse racing, which are deposited to the State Racing Fund, including a new annual license fee to conduct electronic wagering, at an initial fee of \$500,000, with a \$100,000 annual renewal. However, if an applicant that is also a Category 1 slot machine licensee paid the license fee under 4 Pa.C.S. § 1209 (relating to slot machine license fee), this fee shall be deemed paid and the amount of the fee shall be transferred to the State Racing Fund upon certification of the Secretary of the Budget.

### **ACT #58 of November 4, 2015 made the following changes:**

#### To the Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund:

- Provides for a transfer of realty transfer tax funds to the Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund, beginning in fiscal year 2015-16.
- Specifies that the annual transfer is to be the lesser of \$25 million or 40 percent of the difference between (a) the total dollar amount of the realty transfer tax collected in the prior fiscal year and (b) the total dollar amount of the realty transfer tax official estimate for the fiscal year 2014-15 (\$447.5 million).