

2024-2025 ESTIMATE DOCUMENTATION

**BUREAU OF
RESEARCH**

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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 use economic forecast data from S&P Global Market Intelligence (S&P) and other economic sources to inform 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

The forecasted real GDP growth for 2024 has been revised from 1.4% to 1.5%, driven by recent widespread easing of financial conditions. As GDP is projected to increase, the S&P forecast for 2024 unemployment has been revised down from 4.3% to 4.0%.

A downward adjustment in the S&P unemployment forecast suggests a corresponding upward adjustment in the inflation forecast. However, S&P did not change the CPI forecast for 2023 due to recent favorable inflation reports combined with unsustainably tight labor markets. S&P revised the projected CPI all items forecast from 2.7% to 2.6% in 2024.

S&P projects the Federal Reserve (Fed) to hold its policy rate of 5.25% to 5.50% through mid-2024 before reversing course in June 2024. While the economy's resilience has tempered concerns of an imminent recession, a period of below-trend growth and an accompanying increase in the unemployment rate will be necessary to reduce wage growth to a range consistent with core PCE inflation near the Fed's objective of 2% within an acceptable timeframe.

The Forecast

S&P projects real GDP will continue to grow, albeit at a rate below recent trends. With growth slowing in 2024 and 2025, S&P projects unemployment to rise to 4.5% by mid-2026. Corporate profits are expected to grow by 5% in 2024, then slow to 0.4% in 2025 and rebound to 3.2% in 2026.

Tables 1 and 2 present U.S. macro forecast projections from S&P's December 2023 baseline scenario. Table 1 outlines the expected outlook for moderately higher unemployment and increased corporate profits in 2024. Table 2 provides a narrative snapshot for each economic indicator.

Chart 1
REAL GROSS DOMESTIC PRODUCT
Annual Growth

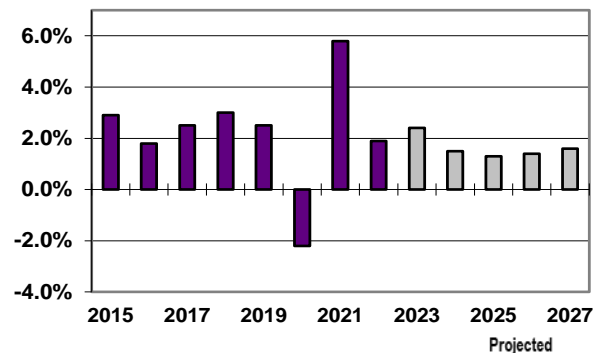
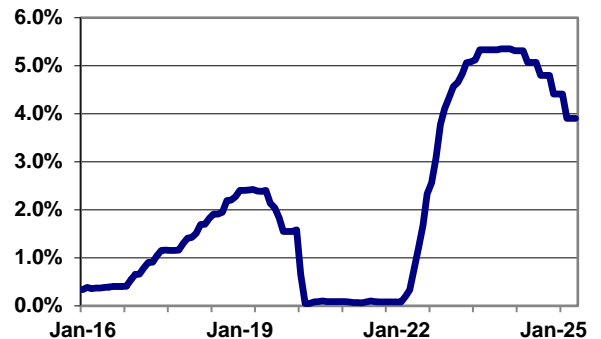


Chart 2
FEDERAL FUNDS RATE



ESTIMATE DOCUMENTATION

ECONOMIC OVERVIEW

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

Indicator	2023	2024p	2025p	2026p
Nominal GDP	6.2	4.0	3.5	3.7
Real GDP	2.4	1.5	1.3	1.4
Total Consumption	2.2	1.8	1.2	1.5
Corporate Profits (After Tax)	-0.7	5.0	0.4	3.2
Unemployment Rate (Rate)	3.6	4.0	4.3	4.5
CPI	3.6	2.6	2.0	2.5
Federal Funds (Rate)	5.03	5.13	3.80	2.73

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2023-24 fiscal year revenue estimates

p = projected

Table 2
U.S. Macro Forecast Projection from IHS Global Insight
December 2023

Baseline Forecast	
GDP Growth	Rose 2.4% in 2023. Growth continues at 1.5% in 2024 and 1.3% in 2025.
Consumer Spending	Dropped from 2.5% in 2022 to 2.2% in 2023. Growth continues at 1.8% in 2024 and 1.2% in 2025.
Business Fixed Investment	Increased 4.5% in 2023, 1.9% in 2024, and 1.3% in 2025.
Housing	Housing starts fell from 1.55 million in 2022 to 1.40 million in 2023 before continuing downward to 1.34 million in 2024 and ticking up to 1.35 million in 2025.
Exports	Rose 2.7% in 2023 and are expected to rise to 3.9% in 2024 and 4.0% in 2025.
Fiscal Policy	Government shutdown is avoided in early 2024; spending limited by caps through 2025.
Monetary Policy	Upper end of the federal funds rate target to remain at 5.50% through mid-2024.
Credit Conditions	Tightened in 2022; tightening persists throughout the forecast amidst higher interest rates.
Consumer Confidence	Gently escalated through 2023.
Oil Prices (Dollars/barrel)	Brent crude oil averages fell from \$101/barrel in 2022 to \$83 in 2023, rise to \$85 in 2024, and fall to \$77 in 2025.
Stock Markets	S&P 500 fell 19.4% in 2022. The index grew 20.3% over 2023, slows to 0.7% in 2024, and falls 1.2% in 2025.
Inflation (CPI)	CPI excluding food and energy fell from 6.1% in 2022 to 4.8% in 2023; falls to 3.1% in 2024 and 2.5% in 2025.
Foreign Growth	Eurozone GDP slipped from 3.5% in 2022 to 0.5% in 2023.
U.S. Dollar	Gently falls through the end of the forecast horizon.

Pennsylvania Outlook

Pennsylvania boasts a highly diversified economy with a mix of industries. The real gross state product is projected to grow at an annual average of 1.5% from 2023 to 2026. Personal income is expected to increase by 4.8%, compared with 4.9% for the country. Pennsylvania's annual median household income grew to \$74,900 in 2023 with an anticipated 3.0% per annum growth through 2026. Pennsylvania retail sales are expected to moderate to an average annual growth of 1.6% through 2026 after experiencing above-average growth in recent years.

As of December 2023, Pennsylvania total nonfarm employment was up by 2.5% from 2022 levels. As in much of the country, the health care and social services sector contribute the largest share of the gains, led by the ongoing recovery in ambulatory health care services, social services, and nursing and residential care services. The leisure and hospitality sector continues to post gains. Professional, scientific, and technical services will continue to be a bright spot for the state in terms of job growth and economic output gains. High-tech fields such as artificial intelligence, industrial automation, and biosciences will see the most growth, while more traditional fields like legal services will see more moderate gains. The state and local government services sector, including public education, continues to experience weak job growth. It is the only sector where payrolls remain well below pre-pandemic levels, with public sector entities struggling to compete with rapidly rising private-sector wages.

The state's labor force has not yet recovered to its pre-pandemic peak, although the state has added around 26,000 workers (up 0.4%) over the past year. A more robust pace of labor force growth has provided a boost to public-sector hiring in other states and would likely do the same in Pennsylvania. As it stands, the state's unemployment rate had dropped to the mid-3 percent range by late 2023, compared with the mid-4 percent range in early 2020.

The Federal Housing Finance Agency's Purchase-Only House Price Index in Pennsylvania was 4.8% higher than a year earlier in the first quarter of 2023. This was below the national average price appreciation of 5.9% over the same period and down from a 9.6% gain in the third quarter of 2022. Pennsylvania's home prices have surged in recent years due to a shortage of homes for sale, but price growth is now decelerating to more typical levels.

After a decade of rapid growth, Pennsylvania's natural gas production, primarily from the Marcellus Shale, has plateaued since 2021. The state is the nation's second-largest natural gas producer after Texas, with expanded pipeline capacity allowing production to reach more markets. In 2022, Pennsylvania accounted for 19% of marketed U.S. natural gas production. S&P expects the rate of gain to slow in the near future, but remain positive, as the development of additional takeaway capacity via pipeline faces challenges on many fronts. Construction activity related to the state's natural gas industry has cooled after years of completing new wells and building pipelines. Persistently low market prices have slowed well drilling, while the buildout of pipeline infrastructure is mostly complete for now. The ethane cracker plant in Beaver County began operation in November 2022 and is expected to provide an important outlet for natural gas liquids produced in western Pennsylvania.

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

PENNSYLVANIA: Key Economic Indicators	2021	2022	2023	2024	2025	2026
Real Gross State Product (in millions, 2012 dollars)	764,602	772,336	789,706	806,419	816,895	826,770
Real Gross State Product (percentage change)	3.8%	1.0%	2.2%	2.1%	1.3%	1.2%
Total Employment (in thousands)	5,759.7	5,990.5	6,140.4	6,181.2	6,171.3	6,163.7
Total Employment (percentage change)	2.8%	4.0%	2.5%	0.7%	(0.2)%	(0.1)%
Manufacturing Employment (in thousands)	544.3	563.6	566.8	559.5	536.8	525.7
Nonmanufacturing Employment (in thousands.)	5,215.4	5,426.9	5,573.6	5,621.7	5,634.4	5,638.0
Population (in thousands)	13,005.3	12,968.7	12,956.7	12,959.9	12,965.3	12,974.3
Population (percentage change)	0.0%	(0.3)%	(0.1)%	0.0%	0.0%	0.1%
Unemployment Rate (percentage)	6.0%	4.3%	3.8%	4.2%	4.8%	5.1%
Personal Income (percentage change)	6.3%	0.4%	5.8%	5.4%	4.9%	4.3%

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ESTIMATE DOCUMENTATION

METHODOLOGY OVERVIEW

For the 2023-24 revised and 2024-25 budget estimates, three types of models were used: (1) econometric, (2) structural, and (3) combined structural and econometric models. An econometric model assumes that tax revenues are a function of one or more economic factors. An example of such a model is the realty transfer tax model. Structural models forecast revenue based on the statutory requirements, on the timing of tax remittances, and on projected changes in aggregate liabilities. Projected changes in tax liabilities are estimated either from economic data or from historic patterns.

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

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

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, ρ (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.

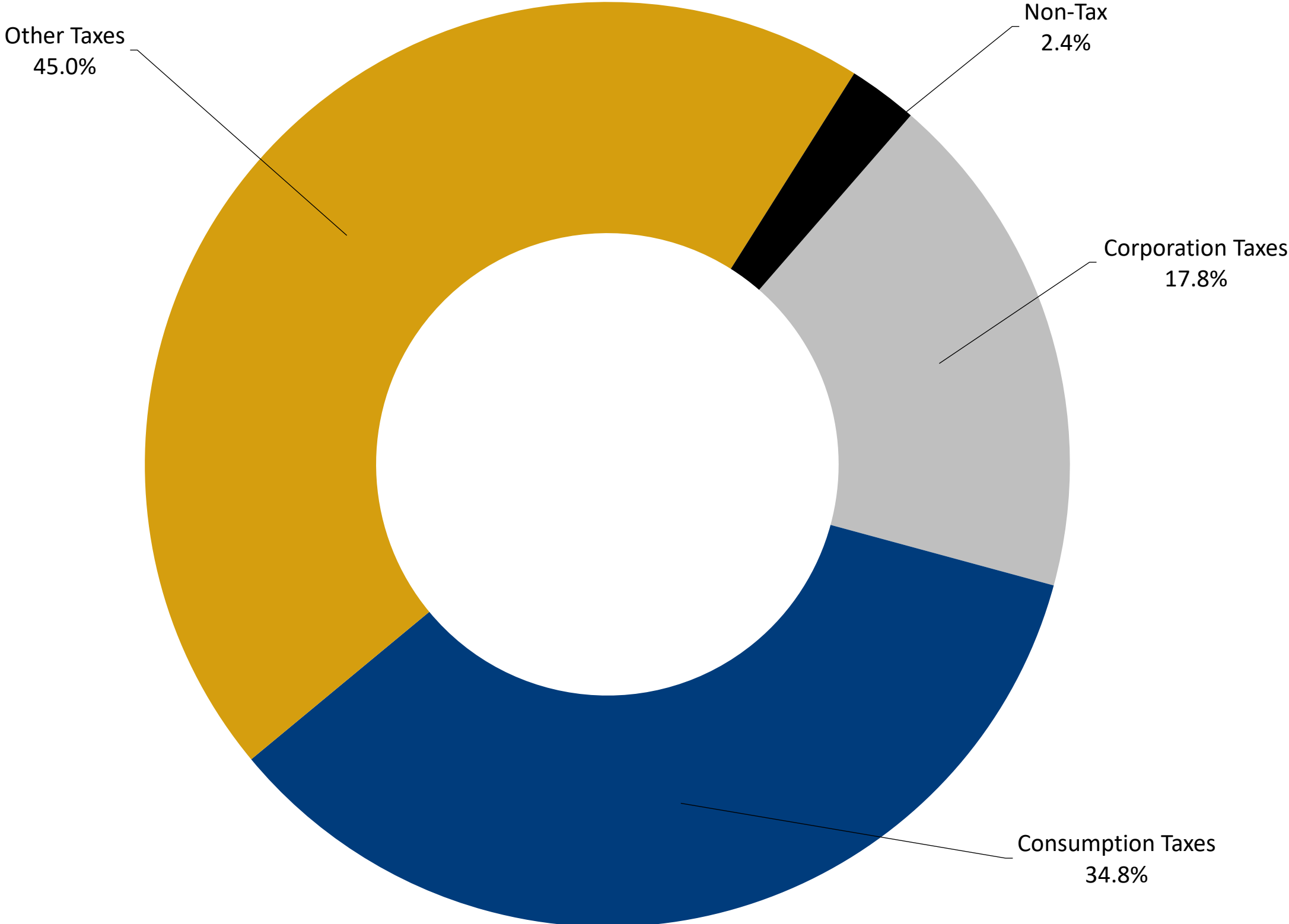
GENERAL FUND OVERVIEW

REVENUE ESTIMATES (\$M)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	GROWTH RATES				
	REVISED	BUDGET	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	2024-25	2025-26	2026-27	2027-28	2028-29
Total General Fund	45,267.1	46,275.8	47,725.2	49,130.0	50,068.7	51,311.3	2.2%	3.1%	2.9%	1.9%	2.5%
Total Tax Revenue	43,933.9	44,984.7	46,338.2	47,704.7	48,687.2	50,030.9	2.4%	3.0%	2.9%	2.1%	2.8%
Total Corporation Taxes	8,083.1	8,026.2	7,945.1	7,764.3	7,561.2	7,410.9	-0.7%	-1.0%	-2.3%	-2.6%	-2.0%
Accelerated Deposits	0.0	0.0	0.0	0.0	0.0	0.0					
Corporate Net Income	5,815.1	5,657.1	5,500.7	5,277.7	5,072.0	4,909.0	-2.7%	-2.8%	-4.1%	-3.9%	-3.2%
Gross Receipts	1,307.5	1,322.9	1,356.3	1,373.2	1,368.6	1,361.1	1.2%	2.5%	1.2%	-0.3%	-0.5%
Utility Property	48.8	49.7	50.6	51.5	52.4	53.4	1.8%	1.8%	1.8%	1.7%	1.9%
Insurance Premium	548.0	576.7	586.8	603.2	612.7	620.1	5.2%	1.8%	2.8%	1.6%	1.2%
Bank Shares	331.1	387.5	417.7	424.9	421.0	432.1	17.0%	7.8%	1.7%	-0.9%	2.6%
Mutual Thrift	32.6	32.3	33.0	33.8	34.5	35.2	-0.9%	2.2%	2.4%	2.1%	2.0%
Total Consumption Taxes	15,494.4	15,652.4	16,108.6	16,511.2	16,875.9	17,338.1	1.0%	2.9%	2.5%	2.2%	2.7%
Sales and Use - Total	14,144.8	14,329.2	14,784.2	15,185.0	15,546.3	16,002.1	1.3%	3.2%	2.7%	2.4%	2.9%
Nonmotor	12,805.6	13,023.8	13,428.3	13,789.9	14,094.3	14,477.3	1.7%	3.1%	2.7%	2.2%	2.7%
Motor Vehicle	1,339.2	1,305.4	1,355.9	1,395.1	1,452.0	1,524.8	-2.5%	3.9%	2.9%	4.1%	5.0%
Cigarette	706.9	668.4	640.1	611.5	583.1	555.3	-5.4%	-4.2%	-4.5%	-4.6%	-4.8%
Other Tobacco Products	154.9	161.0	171.0	181.2	191.7	203.7	3.9%				
Malt Beverage	22.3	22.0	21.8	21.5	21.5	21.6	-1.3%	-0.9%	-1.4%	0.0%	0.5%
Liquor	465.5	471.8	491.5	512.0	533.3	555.4	1.4%				
Total Other Taxes	19,988.1	20,245.9	21,073.8	22,024.2	23,156.4	23,934.2	1.3%	4.1%	4.5%	5.1%	3.4%
Personal Income - Total	17,668.0	18,050.9	18,784.0	19,627.7	20,596.6	21,252.1	2.2%	4.1%	4.5%	4.9%	3.2%
Withholding	12,634.1	13,048.6	13,534.8	14,015.2	14,642.3	14,960.4	3.3%	3.7%	3.5%	4.5%	2.2%
Quarterly	2,914.6	3,070.0	3,274.5	3,500.2	3,721.0	3,949.8	5.3%	6.7%	6.9%	6.3%	6.1%
Annual	2,119.3	1,932.3	1,974.7	2,112.3	2,233.3	2,341.9	-8.8%	2.2%	7.0%	5.7%	4.9%
Realty Transfer	634.5	534.1	630.7	728.0	875.5	975.9	-15.8%	18.1%	15.4%	20.3%	11.5%
Inheritance	1,413.7	1,393.5	1,390.0	1,408.4	1,434.5	1,467.7	-1.4%	-0.3%	1.3%	1.9%	2.3%
Gaming	340.6	357.6	368.1	379.1	391.0	403.6	5.0%	2.9%	3.0%	3.1%	3.2%
Minor and Repealed	-68.7	-90.2	-99.0	-119.0	-141.2	-165.1	-31.3%	-9.8%	-20.2%	-18.7%	-16.9%
Total Nontax Revenue	988.4	1,092.5	940.7	859.0	805.7	772.0	10.5%	-13.9%	-8.7%	-6.2%	-4.2%

GENERAL FUND OVERVIEW

FY 2024-25 SHARE OF TOTAL



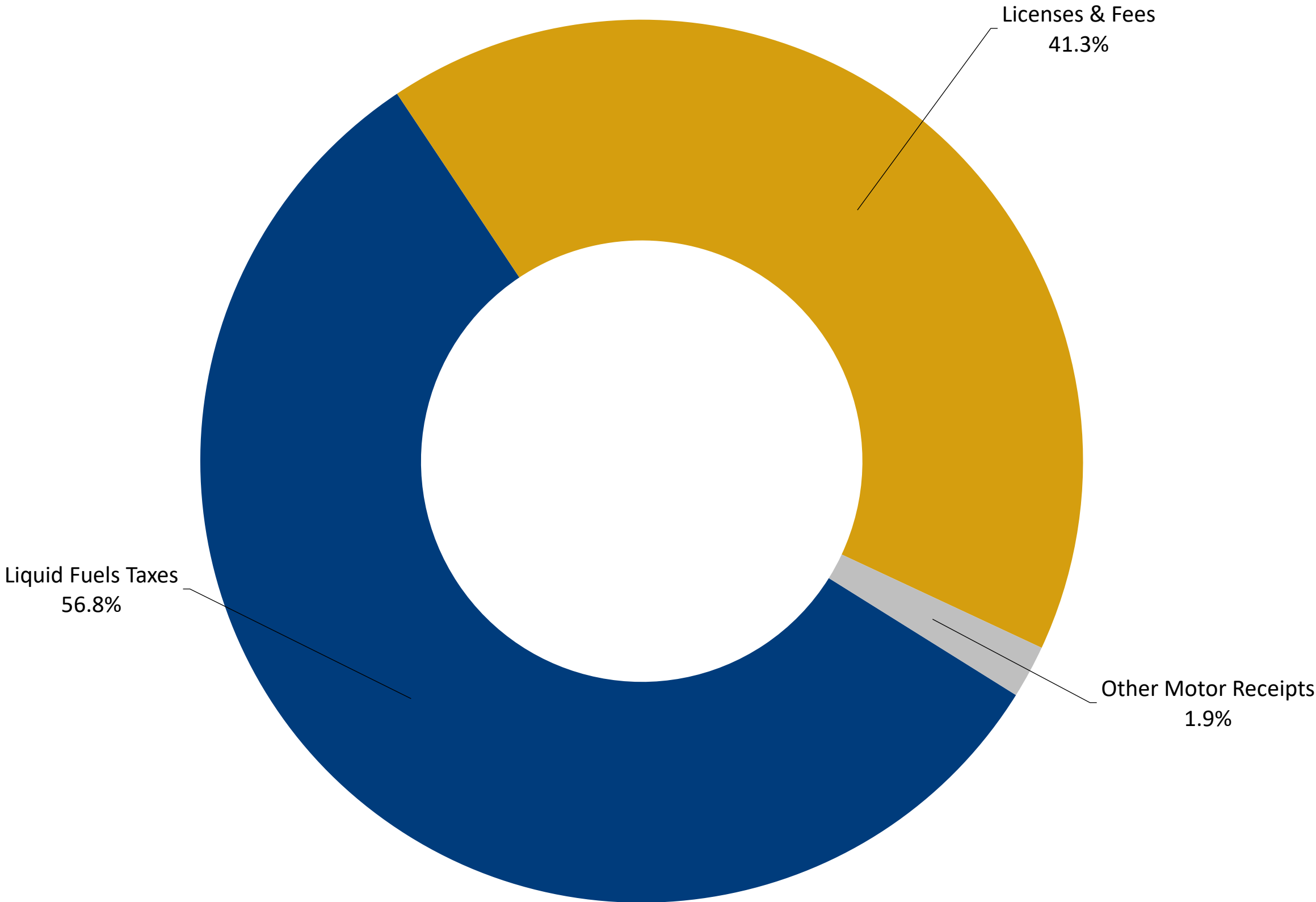
MOTOR LICENSE FUND OVERVIEW

REVENUE ESTIMATES (\$M)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	GROWTH RATES				
	REVISED	BUDGET	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE	2024-25	2025-26	2026-27	2027-28	2028-29
Total Motor License Fund	3,153.0	3,019.4	2,998.6	2,985.7	3,005.6	3,002.7	-4.2%	-0.7%	-0.4%	0.7%	-0.1%
Total - Liquid Fuels Taxes	1,783.9	1,713.8	1,683.8	1,639.1	1,603.2	1,570.4	-3.9%	-1.8%	-2.7%	-2.2%	-2.0%
Motor Carriers / IFTA	150.5	143	142.4	141.7	141.3	140.8	-5.0%	-0.4%	-0.5%	-0.3%	-0.4%
Alternative Fuels	18.4	18.3	18.9	19.5	20.2	20.9	-0.5%	3.3%	3.2%	3.6%	3.5%
Oil Company Franchise	996.6	958.8	940.7	913.8	892	872.1	-3.8%	-1.9%	-2.9%	-2.4%	-2.2%
Contra OCFT	-35	-35	-35	-35	-35	-35	0.0%	0.0%	0.0%	0.0%	0.0%
Act 89-2013 OCF - Fuels	146	138.9	138.6	138	137.6	137	-4.9%	-0.2%	-0.4%	-0.3%	-0.4%
Act 89-2013 OCF - Liquid Fuels	507.4	489.8	478.2	461.1	447.1	434.6	-3.5%	-2.4%	-3.6%	-3.0%	-2.8%
Minor and Repealed	0	0	0	0	0	0					
Total - Licenses & Fees	1,270.7	1,247.0	1,295.8	1,332.3	1,390.1	1,422.6	-1.9%	3.9%	2.8%	4.3%	2.3%
Special Hauling Permits	37.8	38.1	40.4	40.8	43.1	43.1	0.8%	6.0%	1.0%	5.6%	0.0%
International Registration Plan (IRP)	201.1	194.3	209.1	214.3	230.1	230.1	-3.4%	7.6%	2.5%	7.4%	0.0%
Operators' Licenses	86.8	89	95.8	98.2	105.5	105.5	2.5%	7.6%	2.5%	7.4%	0.0%
Real ID	8.8	8.8	8.8	8.8	8.8	8.8	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Registration & Titling	933.7	914.3	939.1	967.6	1000	1032.5	-2.1%	2.7%	3.0%	3.3%	3.3%
Miscellaneous Collections	2.5	2.5	2.6	2.6	2.6	2.6	0.0%	4.0%	0.0%	0.0%	0.0%
Total - Other Motor Receipts	98.4	58.6	19.0	14.3	12.3	9.7	-40.4%	-67.6%	-24.7%	-14.0%	-21.1%
Fines, Pen., & Int.	0	0	0	0	0	0					
Misc.-Treasury	96.3	56.5	16.9	12.2	10.2	7.6	-41.3%	-70.1%	-27.8%	-16.4%	-25.5%
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 OVERVIEW

FY 2024-25 SHARE OF TOTAL



GENERAL FUND ESTIMATE METHODOLOGIES

BANK AND TRUST COMPANY SHARES TAX AND TITLE INSURANCE COMPANY SHARES TAX

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
2017-18	339.5	12.4%
2018-19	352.2	3.7%
2019-20	369.8	5.0%
2020-21	399.9	8.2%
2021-22	415.7	4.0%
2022-23	331.4	-20.3%
2023-24	331.1	-0.1%
2024-25	387.5	17.0%
2025-26	417.7	7.8%
2026-27	424.9	1.7%
2027-28	421.0	-0.9%
2028-29	432.1	2.6%

MODEL STRUCTURAL

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

CIGARETTE TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	1,198.3	-5.0%	$\ln CIGADJ_t = 4.7349 + 0.2015 \text{ PANDEMIC} - 0.0044 T + v_t$ $v_t = 0.292 v_{t-1} - 0.2049 v_{t-4} + 0.4531 v_{t-12}$			
2018-19	1,118.8	-6.6%				
2019-20	924.3	-17.4%	VARIABLES CIGADJ Monthly CIG receipts adjusted for transfers PANDEMIC Variable to account for pandemic effects T Linear time variable (2016 M8 = 1)			
2020-21	964.2	4.3%				
2021-22	874.1	-9.3%				
2022-23	772.9	-11.6%				
2023-24	706.9	-8.5%				
2024-25	668.4	-5.4%	STATISTICS R ² 0.787 F 60.5 DW 1.94 DF 82 N 88	COEFFICIENT T STATS β ₀ 177.91 β ₁ 6.39 β ₂ -8.77 β ₃ -3.44 β ₄ 2.41 β ₅ -4.99		
2025-26	640.1	-4.2%				
2026-27	611.5	-4.5%				
2027-28	583.1	-4.6%				
2028-29	555.3	-4.8%				

Monthly Cigarette Tax collections are converted to base levels by adding back all transfers. These base collections are then forecasted using time and an adjustment variable that captures the effect from the pandemic; the model is also corrected for serial auto correlation.

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 and autoregressive components.

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

Effective for FY 2024-25 and continuing through the forecast horizon, an annual transfer for debt service related to the Tobacco Settlement Bonds is proposed.

GENERAL FUND ESTIMATE METHODOLOGIES

CORPORATE NET INCOME TAX

HISTORY & FORECAST (\$M)			MODEL ECONOMETRIC AND STRUCTURAL			
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	2,879.0	4.6%	$\ln CNIT_t = 3.2887 + 0.6421 \ln PROFIT_t + v_t$ $v_t = 0.9390 v_{t-1}$			
2018-19	3,397.5	18.0%				
2019-20	2,826.9	-16.8%	VARIABLES CNIT Corporate Net Income Tax payments by tax year PROFIT US domestic corporate profits, adjusted for PA law and timing			
2020-21	4,423.8	56.5%				
2021-22	5,323.1	20.3%				
2022-23	6,142.9	15.4%				
2023-24	5,815.1	-5.3%	STATISTICS R ² 0.908 F 74.4 DW 1.41 DF 15 N 18	COEFFICIENT T STATS		β ₀ 2.39
2024-25	5,657.1	-2.7%		β ₁ 3.77		
2025-26	5,500.7	-2.8%		β ₂ -6.66		
2026-27	5,277.7	-4.1%				
2027-28	5,072.0	-3.9%				
2028-29	4,909.0	-3.2%				

An autoregressive equation forecasts Corporate Net Income Tax payments by tax year, based on total US corporate profits. Corporate profits estimates from S&P Global are adjusted for changes in Pennsylvania law and differences from federal law. Predicted values are then distributed on a quarterly basis, according to historical patterns. Quarterly estimates are summed to create fiscal year estimates.

GENERAL FUND ESTIMATE METHODOLOGIES

FINES, PENALTIES, AND INTEREST

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
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	66.9	4.3%
2022-23	66.0	-1.3%
2023-24	65.0	-1.6%
2024-25	65.8	1.2%
2025-26	65.8	0.0%
2026-27	65.8	0.0%
2027-28	65.8	0.0%
2028-29	65.8	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)		
2017-18	123.1	2.0%		$GT = TGT + TGT4 + IGT + FCT + SWT$			
2018-19	131.7	7.0%			$lnGTGR_t = 5.1082 - 3.0294 P_t + 0.2825 P2_t + 0.0107 T_t - 0.0696 lnC_t + v_t$		
2019-20	143.0	8.6%			$v_t = 0.4778 v_{t-1}$		
2020-21	241.8	69.1%	VARIABLES	GT	Total gaming taxes		
2021-22	307.9	27.3%		TGT	Table Game Taxes - Category 1-3 casinos		
2022-23	365.1	18.6%		TGT4	Category 4 Table Game Taxes		
2023-24	371.0	1.6%		IGT	Interactive Gaming Tax		
2024-25	384.6	3.7%		FCT	Fantasy Contest Tax		
2025-26	396.3	3.0%		SWT	Sports Wagering Tax		
2026-27	408.8	3.2%		GTGR	Quarterly gross table game revenue for category 1-3 casinos		
2027-28	421.6	3.1%		P	Pandemic impact		
2028-29	435.3	3.2%		P2	Subsequent pandemic impact		
				T	Time (2011 Q3=1)		
			C	Time from category 4 opening			
			STATISTICS	EQUATION B	COEFFICIENT T STATS	EQUATION B	
				R ²		β ₀	298.32
				F	2191.2	β ₁	-107.81
				DW	2.11	β ₂	10.91
				DF	44	β ₃	13.84
				N	50	β ₄	-5.39
						β ₅	-3.52

TABLE GAME TAXES

An 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 GTGR, pandemic impacts, and time series to estimate quarterly gross table game revenues, and is corrected for serial autocorrelation bias.

CATEGORY 4 TABLE GAME, INTERACTIVE GAMING, FANTASY CONTEST & SPORTS WAGERING TAXES

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

The Category 4 Table Game, Interactive Gaming, Fantasy Contest, and Sports Wagering Taxes were all created by Act 42-2017.

GENERAL FUND ESTIMATE METHODOLOGIES

GROSS RECEIPTS TAX

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
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	1,022.4	3.3%
2022-23	1,181.0	15.5%
2023-24	1,307.5	10.7%
2024-25	1,322.9	1.2%
2025-26	1,356.3	2.5%
2026-27	1,373.2	1.2%
2027-28	1,368.6	-0.3%
2028-29	1,361.1	-0.5%

MODEL STRUCTURAL

Estimates are derived from a database of Gross Receipts Tax history and liability forecasts as well as economic data, including figures from the U.S. Energy Information Administration (EIA). 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					
2017-18	1,019.3	4.2%	$InIT_t = 0.4406 + 0.0932MR + 0.5206 InSP_{t-3} + 0.1747 D_{t-3} - 0.3191 InSP_{t-6} + 0.1712 D_{t-12} + 0.1216 InIT_{t-10} + 0.1371 InIT_{t-11} + 0.2986 InIT_{t-12}$					
2018-19	1,053.6	3.4%						
2019-20	1,082.0	2.7%	VARIABLES IT Monthly Inheritance Tax collections MR Monthly adjustment for large deposit days SP Monthly Standard and Poor's Index of Common Stocks D Monthly COVID-19 deaths, indexed (Dec. 2020=1)					
2020-21	1,345.5	24.3%						
2021-22	1,550.4	15.2%						
2022-23	1,524.4	-1.7%						
2023-24	1,570.8	3.0%	STATISTICS R ² 0.884 F 247.6 DW 1.74 DF 260 N 269	COEFFICIENT T STATS			β ₀	3.43
2024-25	1,587.1	1.0%			β ₁	7.58		
2025-26	1,619.9	2.1%			β ₂	6.38		
2026-27	1,649.5	1.8%			β ₃	3.02		
2027-28	1,689.5	2.4%			β ₄	-3.61		
2028-29	1,721.5	1.9%			β ₅	2.91		
				β ₆	2.52			
				β ₇	2.95			
				β ₈	6.37			

An econometric model using vector autoregression is used to predict monthly Inheritance Tax (IT) payments to capture relationships between IT payments, large deposit days (MR), the Standard and Poor's Index (SP), and Pennsylvania COVID-19 deaths (D) across time. PA COVID-19 deaths are indexed, where December, 2020 equals 1, which is the month with the highest number of COVID-related deaths. Monthly 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		
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	450.9	4.0%	$IPT_t = 2.6605 + 0.6866 CSINS_t + v_t$ $v_t = 0.5076 v_{t-1}$			
2018-19	444.3	-1.5%				
2019-20	473.6	6.6%	VARIABLES IPT Insurance Premiums Tax payments by fiscal year CSINS US consumer spending on insurance			
2020-21	451.8	-4.6%				
2021-22	482.3	6.8%				
2022-23	521.8	8.2%				
2023-24	548.0	5.0%	STATISTICS R ² 0.919 F 107.6 DW 1.74 DF 19 N 22	COEFFICIENT T STATS β ₀ 5.77		
2024-25	576.7	5.2%		β ₁ 8.60		
2025-26	586.8	1.8%		β ₂ -2.53		
2026-27	603.2	2.8%				
2027-28	612.7	1.6%				
2028-29	620.1	1.2%				

The regression equation forecasts gross Insurance Premiums Tax (IPT) payments by tax year based on consumer spending on insurance, with an adjustment for serial correlation bias. Transfers are subsequently layered on to determine cash collections.

Collections for fiscal years 2022-23 and forward are impacted by Act 53-2022, which changed the way that IPT revenues are distributed to the Municipal Pension Aid Fund and the Fire Insurance Tax Fund. Previously, revenues from certain IPT payers were deposited into these special funds. Under Act 53-2022, all IPT revenue is initially deposited to the General Fund. Each year, the Municipal Pension Aid Fund receives the greater of 38% of IPT revenues or \$345 million, and the Fire Insurance Tax Fund receives the greater of 8.5% of IPT revenues or \$85 million. Revenue less these transfers remains in the General Fund.

GENERAL FUND ESTIMATE METHODOLOGIES

LICENSES, FEES, AND MISCELLANEOUS

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
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	4,393.6	356.2%
2022-23	889.6	-79.8%
2023-24	1,083.1	21.7%
2024-25	1,040.2	-4.0%
2025-26	1,136.1	9.2%
2026-27	1,174.4	3.4%
2027-28	1,130.6	-3.7%
2028-29	1,029.5	-8.9%

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.

Growth in interest on General Fund deposits, which is forecasted by the Pennsylvania Treasury, has been particularly strong in FY 2023-24, but levels are expected to slowly decline over the forecast horizon as COVID-related federal funds are depleted, the principal balance in the General Fund declines, and the Federal Funds Rate moderates.

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):

The legalization of adult use cannabis with a 20% wholesale tax is proposed. Retail sales are expected to begin January 1, 2025, with transfers to the General Fund beginning in FY 2024-25.

The legalization and taxation of Skill Games is proposed, with transfers to the General Fund starting in FY 2024-25.

GENERAL FUND ESTIMATE METHODOLOGIES

LIQUOR STORE PROFITS

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
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%
2027-28	185.1	0.0%
2028-29	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			
2017-18	371.5	2.7%	$\ln LIQ_t = 3.145 + 0.0032 T_t - 0.9744 P_t + v_t$ $v_t = 0.9485 v_{t-12}$			
2018-19	381.9	2.8%				
2019-20	365.7	-4.2%	VARIABLES			
2020-21	415.8	13.7%	LIQ	Monthly Liquor Tax revenues		
2021-22	431.3	3.7%	T	Linear time variable (2011 M1 = 1)		
2022-23	450.8	4.5%	P	Variable to account for pandemic-related effects		
2023-24	465.5	3.3%	STATISTICS		COEFFICIENT T STATS	
2024-25	471.8	1.4%	R ²	0.951	β_0	71.42
2025-26	491.5	4.2%	F	983.2	β_1	10.89
2026-27	512.0	4.2%	DW	1.93	β_2	-30.04
2027-28	533.3	4.2%	DF	151	β_3	-47.81
2028-29	555.4	4.1%	N	155		

Base Liquor Tax receipts are forecasted using an econometric model adjusted for serial auto correlation, using time as an explanatory variable, as well as a variable to adjust for pandemic-related collection changes.

GENERAL FUND ESTIMATE METHODOLOGIES

MINOR AND REPEALED TAXES

HISTORY & FORECAST (\$M)

<u>FISCAL YEAR</u>	<u>RECEIPTS</u>	<u>GROWTH</u>
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	-50.9	-34.2%
2022-23	-65.5	-28.7%

2023-24	-75.1	-14.7%
2024-25	-77.9	-3.7%
2025-26	-86.3	-10.8%
2026-27	-103.6	-20.0%
2027-28	-129.0	-24.5%
2028-29	-149.3	-15.7%

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, with all monies being transferred annually to various special funds related to public safety beginning in the current fiscal year
- 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

MALT BEVERAGE TAX

HISTORY & FORECAST (\$M)			MODEL ECONOMETRIC					
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA					
2017-18	24.1	-1.1%	$\ln MBT_t = -0.0108 + v_t$ $v_t = -0.9042 v_{t-1} - 0.9682 v_{t-2} - 0.8600 v_{t-3}$					
2018-19	23.5	-2.4%						
2019-20	23.2	-1.6%	VARIABLES	MBT	Quarterly Malt Beverage Tax revenues			
2020-21	23.3	0.4%						
2021-22	22.5	-3.4%						
2022-23	22.4	-0.2%	STATISTICS	R ²	0.895	COEFFICIENT T STATS	β ₀	-1.28
2023-24	22.3	-0.6%		F	262.5		β ₁	17.12
2024-25	22.0	-1.3%		DW	1.98		β ₂	27.63
2025-26	21.8	-0.9%		DF	92		β ₃	16.46
2026-27	21.5	-1.4%		N	96			
2027-28	21.5	0.0%						
2028-29	21.6	0.5%						

Malt Beverage Tax (MBT) receipts are forecasted using an econometric model, which corrects for autocorrelation.

GENERAL FUND ESTIMATE METHODOLOGIES

MUTUAL THRIFT INSTITUTIONS TAX

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
2017-18	31.8	56.2%
2018-19	28.0	-12.0%
2019-20	23.1	-17.4%
2020-21	23.0	-0.3%
2021-22	33.1	43.5%
2022-23	34.4	4.0%
2023-24	32.6	-5.2%
2024-25	32.3	-0.9%
2025-26	33.0	2.2%
2026-27	33.8	2.4%
2027-28	34.5	2.1%
2028-29	35.2	2.0%

MODEL STRUCTURAL

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.

GENERAL FUND ESTIMATE METHODOLOGIES

OTHER TOBACCO PRODUCTS TAX

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	119.1	42.0%	$\ln OTP_t = 2.2703 - 0.0797 P_t + 0.0037 T_t + v_t$ $v_t = 0.3002 v_{t-2} - 0.2357 v_{t-4} + 0.5404 v_{t-12}$			
2018-19	129.9	9.1%				
2019-20	127.3	-2.0%	VARIABLES OTP Monthly Other Tobacco Tax receipts P Variable to account for pandemic effects T Linear time variable beginning (2017 M2 = 1)			
2020-21	134.9	6.0%				
2021-22	149.4	10.8%				
2022-23	152.6	2.1%				
2023-24	154.9	1.5%	STATISTICS R ² 0.821 F 70.0 DW 1.89 DF 76 N 82	COEFFICIENT T STATS β ₀ 114.21 β ₁ -5.95 β ₂ 9.18 β ₃ -3.56 β ₄ 2.54 β ₅ -6.14		
2024-25	161.0	3.9%				
2025-26	171.0	6.2%				
2026-27	181.2	6.0%				
2027-28	191.7	5.8%				
2028-29	203.7	6.3%				

A regression model is used to forecast monthly Other Tobacco Products (OTP) Tax receipts. The natural log of OTP tax collections is forecasted using a linear time trend, controlled for pandemic effects, and corrected for second, fourth, and twelfth order serial auto correlation.

GENERAL FUND ESTIMATE METHODOLOGIES

PERSONAL INCOME TAX - ESTIMATED AND ANNUAL PAYMENTS

HISTORY & FORECAST (\$M)			MODEL ECONOMETRIC AND STRUCTURAL				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	(A)	(B)		
2017-18	3,362.4	10.2%		$PITQA = EST + ANN$			
2018-19	3,651.6	8.6%			$lnEST_t = 1.8973 + 0.3047 DIV_t + 0.4774 lnANN_{t-1}$		
2019-20	2,292.2	-37.2%			$lnANN_t = 1.8186 + 0.5175 INT_t + 0.5763 CG_t$		
2020-21	5,445.4	137.6%	VARIABLES	PITQA	Personal Income Tax quarterly and annual payments		
2021-22	6,099.4	12.0%		EST	Yearly estimated Personal Income Tax payments rate adjusted to 3.07%		
2022-23	4,984.3	-18.3%		ANN	Yearly annual Personal Income Tax payments rate adjusted to 3.07%		
2023-24	4,756.5	-4.6%		DIV	US dividends		
2024-25	4,974.3	4.6%		INT	US interest		
2025-26	5,226.3	5.1%		CG	Pennsylvania capital gains		
2026-27	5,486.8	5.0%					
2027-28	5,829.9	6.3%					
2028-29	6,244.1	7.1%					
			STATISTICS	EQUATION B		EQUATION C	
				R ²	0.961	R ²	0.972
				F	245.1	F	351.6
				DW	2.24	DW	2.23
				DF	20	DF	20
				N	23	N	23
			COEFFICIENT T STATS	EQUATION B		EQUATION C	
				β ₀	5.87	β ₀	2.06
				β ₁	3.10	β ₁	3.82
				β ₂	3.95	β ₂	13.18

An econometric model using vector autoregression is used to predict Personal Income Tax estimated payments (EST) and annual payments (ANN) by tax year to capture relationships between annual and estimated payments and other independent variables (US dividends, US interest, and PA capital gains) across time.

The Governor's Executive Budget proposes the following change impacting the Personal Income Tax (this impact is included above):

Effective January 1, 2025, the minimum wage in Pennsylvania would be raised to \$15 per hour for non-tipped workers and \$9 per hour for tipped workers, which causes a net increase in PIT revenues beginning in 2024-25.

GENERAL FUND ESTIMATE METHODOLOGIES

PERSONAL INCOME TAX - EMPLOYER WITHHOLDING

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC				
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA	$lnPITW_t = -0.5087 + 0.7935 lnWAGES_t + 0.1402 WEDS - 0.0313 P + v_t$ $v_t = 0.9241 v_{t-12}$				
2017-18	10,036.5	4.4%	VARIABLES	PITW	Cash monthly Personal Income Tax receipts from employer withholding payments			
2018-19	10,443.9	4.1%		WAGES	US wages and salaries			
2019-20	10,542.8	0.9%		WEDS	Variable indicating five Wednesdays in a month			
2020-21	10,838.0	2.8%		P	Pandemic adjustment variable			
2021-22	12,026.2	11.0%		STATISTICS	R ²	0.982	COEFFICIENT T STATS β ₀	-1.76
2022-23	12,643.8	5.1%			F	1942.0	β ₁	24.95
2023-24	13,221.7	4.6%			DW	2.09	β ₂	40.57
2024-25	13,812.2	4.5%			DF	144	β ₃	-5.83
2025-26	14,403.5	4.3%			N	149	β ₄	-30.89
2026-27	15,150.2	5.2%						
2027-28	15,535.5	2.5%						
2028-29	16,065.7	3.4%						

An autoregressive equation is used to forecast Personal Income Tax monthly employer withholding payments (PITW), using US wage and salary income as an explanatory variable. The variable WEDS accounts for months that have five Wednesdays; larger employer withholding payments are typically made on Wednesdays. There is an additional adjustment variable to account for the effect of the COVID-19 pandemic.

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

Recurring transfers from the Personal Income Tax to the Environmental Stewardship Fund for Growing Greener debt service payments are proposed, beginning with a transfer of \$9.9 million in 2024-25.

Effective January 1, 2025, the minimum wage in Pennsylvania would be raised to \$15 per hour for non-tipped workers and \$9 per hour for tipped workers, which causes a net increase in PIT revenues beginning in 2024-25.

GENERAL FUND ESTIMATE METHODOLOGIES

PUBLIC UTILITY REALTY TAX

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
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	39.5	-1.8%
2022-23	46.0	16.4%
2023-24	48.8	6.1%
2024-25	49.7	1.8%
2025-26	50.6	1.8%
2026-27	51.5	1.8%
2027-28	52.4	1.7%
2028-29	53.4	1.9%

MODEL STRUCTURAL

The Public Utility Realty Tax (PURTA) revenue estimates are derived from historical patterns.

GENERAL FUND ESTIMATE METHODOLOGIES

SALES AND USE TAX - MOTOR VEHICLE

HISTORY & FORECAST (\$M)			MODEL	ECONOMETRIC		
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	1,392.7	1.9%	$\ln MVCASH_t = 0.7106 + 0.6503 \ln CDMV_t + 1.9302 P_t + v_t$ $v_t = 0.7595 v_{t-12}$			
2018-19	1,483.6	6.5%				
2019-20	1,365.0	-8.0%	VARIABLES MVCASH Monthly gross motor vehicle sales and use tax collections CDMV US consumer spending on motor vehicles and parts P Variable to account for pandemic effects			
2020-21	1,847.7	35.4%				
2021-22	1,837.9	-0.5%				
2022-23	1,384.0	-24.7%				
2023-24	1,339.2	-3.2%	STATISTICS R ² 0.925 COEFFICIENT T STATS F 524.4 β ₀ 1.84 DW 1.96 β ₁ 10.67 DF 127 β ₂ 30.99 N 131 β ₃ -13.67			
2024-25	1,305.4	-2.5%				
2025-26	1,355.9	3.9%				
2026-27	1,395.1	2.9%				
2027-28	1,452.0	4.1%				
2028-29	1,524.8	5.0%				

The equation for MV is an econometric model, adjusted for a serial correlation bias, which forecasts monthly motor vehicle sales tax collections using US consumer spending on motor vehicles and parts, and a variable that adjusts for collections during the pandemic.

The Governor's Executive Budget proposes the following changes to Motor Vehicle Sales and Use Tax (this impact is included above):

Effective for FY 2024-25, a new transfer of 1.75% of Sales and Use Tax remittances to the Public Transportation Assistance Fund is proposed.

The legalization of adult use cannabis with a 20% wholesale tax is proposed. Retail sales are presumed to begin January 1, 2025, with Sales and Use Tax being imposed. Motor Vehicle Sales Tax is adversely affected because the Act 83-2013 transfer to PTF, which is transferred out of Motor Vehicle Sales Tax only but is calculated on total SUT, will increase slightly.

GENERAL FUND ESTIMATE METHODOLOGIES

SALES AND USE TAX - NON-MOTOR VEHICLE

HISTORY & FORECAST (\$M)			MODEL		ECONOMETRIC	
FISCAL YEAR	RECEIPTS	GROWTH	FORMULA			
2017-18	8,988.7	4.1%	$\ln NMV_t = -2.0162 + 0.5094 \ln APPLIANCE_t + 0.6044 \ln INCOME_t + v_t$ $v_t = 0.9534 v_{t-12}$			
2018-19	9,616.0	7.0%				
2019-20	9,452.8	-1.7%	VARIABLES NMV Monthly non-motor vehicle sales and use tax liabilities APPLIANCE US appliance sales INCOME US personal income less personal current transfer receipts			
2020-21	10,987.2	16.2%				
2021-22	12,076.3	9.9%				
2022-23	12,640.4	4.7%				
2023-24	12,805.6	1.3%	STATISTICS R ² 0.964 COEFFICIENT T STATS F 844.71 β ₀ -2.89 DW 2.01 β ₁ 9.16 DF 96 β ₂ 6.47 N 100 β ₃ -43.02			
2024-25	13,023.8	1.7%				
2025-26	13,428.3	3.1%				
2026-27	13,789.9	2.7%				
2027-28	14,094.3	2.2%				
2028-29	14,477.3	2.7%				

An econometric model is used to predict NMV. The model utilizes US personal income less personal current transfer receipts, US personal consumption of furnishings and appliances, and is adjusted for serial correlation bias.

The Governor's Executive Budget proposes the following changes to Non-Motor Vehicle Sales and Use Tax (this impact is included above):

The legalization of adult use cannabis with a 20% wholesale tax is proposed. Retail sales are presumed to begin January 1, 2025, with Sales and Use Tax being imposed.

Effective January 1, 2025, the minimum wage in Pennsylvania would be raised to \$15 per hour. As workers receive higher wages, they will likely increase their purchases of taxable good and services, which increases SUT collections.

Effective for FY 2024-25, a new transfer of 1.75% of Sales and Use Tax remittances to the Public Transportation Assistance Fund is proposed.

MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

ALTERNATIVE FUELS

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
2017-18	14.2	28.3%
2018-19	15.6	9.6%
2019-20	13.0	-16.8%
2020-21	12.2	-6.2%
2021-22	15.4	26.9%
2022-23	18.1	17.1%
2023-24	18.4	1.9%
2024-25	18.3	-0.5%
2025-26	18.9	3.3%
2026-27	19.5	3.2%
2027-28	20.2	3.6%
2028-29	20.9	3.5%

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)

FISCAL YEAR	RECEIPTS	GROWTH
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	1,126.6	-2.2%
2022-23	1,117.8	-0.8%
2023-24	1,270.7	13.7%
2024-25	1,247.0	-1.9%
2025-26	1,295.8	3.9%
2026-27	1,332.3	2.8%
2027-28	1,390.1	4.3%
2028-29	1,422.6	2.3%

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)

FISCAL YEAR	RECEIPTS	GROWTH
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	0.0	116.1%
2022-23	0.0	426.3%

2023-24	0.0	-100.0%
2024-25	0.0	NA
2025-26	0.0	NA
2026-27	0.0	NA
2027-28	0.0	NA
2028-29	0.0	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)

FISCAL YEAR	RECEIPTS	GROWTH
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	136.1	10.5%
2022-23	159.0	16.8%
2023-24	150.5	-5.4%
2024-25	143.0	-5.0%
2025-26	142.4	-0.4%
2026-27	141.7	-0.5%
2027-28	141.3	-0.3%
2028-29	140.8	-0.4%

MODEL STRUCTURAL

Motor Carriers Road/IFTA Tax estimates are calculated by applying the diesel fuel tax growth from the Oil Company Franchise Tax (OCFT) model, which is documented on the OCFT page.

Under the International Fuel Tax Agreement (IFTA), 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	(A)	$NROCFT = OCFT + ACT89LF + ACT89F$		
2017-18	1,697.5	4.7%		(B)	$lnGAS_t = 0.3411 + 1.1829 lnGALLONS_t - 1.2355 lnGALLONS_{t-4} + 0.1408 DRATE_{t-4} + 1.1451 lnGAS_{t-4} - 0.2076 lnDIESEL_{t-4}$		
2018-19	1,687.6	-0.6%		(C)	$lnDIESEL_t = 3.8021 + 0.3287 lnGALLONS_t + 0.1894 DRATE_t - 0.7614 lnGALLONS_{t-4} - 0.2126 lnGAS_{t-1} + 0.2418 lnDIESEL_{t-1} + 0.5925 lnGAS_{t-4}$		
2019-20	1,566.5	-7.2%					
2020-21	1,521.1	-2.9%					
2021-22	1,595.4	4.9%					
2022-23	1,597.7	0.1%	VARIABLES	NROCFT	Oil Company Franchise Tax deposited in non-restricted Motor License Fund Accounts		
2023-24	1,615.0	1.1%		OCFT	The 57 mills portion of the Oil Company Franchise Tax on gasoline and diesel fuel		
2024-25	1,552.5	-3.9%		ACT89LF	The 39 mills portion of the Oil Company Franchise Tax on gasoline		
2025-26	1,522.5	-1.9%		ACT89F	The 39 mills portion of the Oil Company Franchise Tax on diesel fuel		
2026-27	1,477.9	-2.9%		GAS	Monthly gasoline consumption in gallons		
2027-28	1,441.7	-2.4%		DIESEL	Monthly diesel fuel consumption in gallons		
2028-29	1,408.7	-2.3%		GALLONS	U.S. highway consumption of gasoline & special fuels		
				DRATE	PA tax rate on diesel		
			STATISTICS	EQUATION B	EQUATION C		
				R ²	0.983	R ²	0.872
				F	315.1	F	28.6
				DW	2.01	DW	1.88
				DF	33	DF	32
				N	39	N	39
			COEFFICIENT T STATS	EQUATION B	EQUATION C		
				β ₀	0.72	β ₀	6.60
				β ₁	31.03	β ₁	6.28
				β ₂	-16.21	β ₂	3.16
				β ₃	4.59	β ₃	-9.58
				β ₄	17.03	β ₄	-3.73
				β ₅	-2.48	β ₅	2.50
						β ₆	12.43

The amounts in the preceding table include non-restricted Oil Company Franchise Tax (NROCFT) 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. The amounts provided are net of that transfer.

MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

OIL COMPANY FRANCHISE TAX (continued)

An econometric model using vector autoregression is used to forecast monthly gasoline consumption (GAS) and monthly diesel consumption (DIESEL) using U.S. highway consumption of gasoline & special fuels (GALLONS) and the Pennsylvania tax rate on diesel (DRATE).

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

OCFT rates are calculated as the product of the average wholesale price (AWP) and a millage rate. There is an AWP floor in place as well. In calendar year 2023, the OCFT rate increased from 57.6 cents per gallon (cpg) to 61.1 cpg for gasoline and from 74.1 cpg to 78.5 cpg for diesel. In 2024, the OCFT rate returned to 57.6 cpg for gasoline and 74.1 cpg for diesel.

MOTOR LICENSE FUND ESTIMATE METHODOLOGIES

OTHER MOTOR RECEIPTS

HISTORY & FORECAST (\$M)

FISCAL YEAR	RECEIPTS	GROWTH
2017-18	56.5	122.9%
2018-19	19.7	-65.2%
2019-20	1.0	-94.9%
2020-21	17.9	1690.9%
2021-22	9.8	-44.9%
2022-23	65.7	567.9%
2023-24	98.4	49.7%
2024-25	58.6	-40.4%
2025-26	19.0	-67.6%
2026-27	14.3	-24.7%
2027-28	12.3	-14.0%
2028-29	9.7	-21.1%

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.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2023-24

TAX REFORM CODE

Recent changes in tax law are ordered by fiscal year, and the section of the law they affect; the Tax Reform Code, Fiscal Code, School Code, or other sections.

ACT #64 of December 14, 2023 made the following changes:

To the Personal Income Tax:

- Provides that personal income received by a resident trust, and the classes of income received by a nonresident trust from sources within this Commonwealth, shall be taxable to the grantor of the trust or another person to the extent the grantor or other person is treated as the owner of the trust under specified sections of the Internal Revenue Code of 1986, as amended, whether or not such income is distributed or distributable to the beneficiaries of the trust or accumulated.
- Changes would apply to tax years beginning 2025 and after.

To the Corporate Net Income Tax:

- The Qualified Manufacturing Innovation and Reinvestment Deduction is restructured:
 - Lowers the minimum private capital investment from \$60 million to \$50 million.
 - The maximum allowable deduction is now 25% for taxpayers investing greater than \$50 million and less than or equal to \$100 million.
 - Establishes required timelines for project completion and the completion of administrative requirements, depending on the level of private capital investment.
 - Changes would apply to tax years beginning 2024 and after.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2023-24

FISCAL CODE

ACT #34 of December 13, 2023 made the following changes:

To the Personal Income Tax:

- Excludes amounts paid or incurred by an employer of an employee for dependent care assistance provided to the employee that are excludable under 26 U.S.C. §129 (relating to dependent care assistance programs) from Personal Income Tax.
- Increases the Child and Dependent Care Enhancement Tax Credit from 30% of the federal credit to 100% of the federal credit, against Personal Income Tax, effective for tax year 2023.

To the Fiscal Code:

- Increases the 911 Emergency Communication Services surcharge from \$1.65 to \$1.95 beginning March 1, 2024, and ending January 31, 2026.
- Provides that an institution shall be considered to benefit a substantial and indefinite class of persons who are legitimate subjects of charity if the institution meets the outlined criteria.
- Provides for additional Keystone Opportunity Expansion Zones.
- Repeals the provisions for the Enhanced Revenue Collection Account.
- Provides for the extension of the transfer of revenues from General Fund Cigarette Tax collections to the Tobacco Settlement Fund for fiscal year 2023-24.
- Provides for the transfer of \$10,538,000 to the Environmental Stewardship Fund from Personal Income Tax revenue for fiscal year 2023-24.
- Provides for the transfer of \$4,000,000 to the Surface Mining Conservation and Reclamation Fund from Personal Income Tax revenue for fiscal year 2023-24.
- Provides for the transfer of \$31,900,000 to the General Fund from the Medical Marijuana Program Fund for fiscal year 2023-24.
- Makes permanent the annual transfer to the Sports Marketing and Tourism Account an amount equal to 5% of Sports Wagering Tax revenue, or \$2,500,000, whichever is greater, but not to exceed \$5,000,000.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2023-24

SCHOOL CODE

ACT #33 of December 13, 2023 made the following changes:

To the Public School Code:

- Increases the Educational Improvement Tax Credit cap from \$340 million to \$470 million, effective fiscal year 2023-24.
- Increases the Educational Opportunity Scholarship Tax Credit from \$65 million to \$85 million, effective fiscal year 2023-24.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2023-24

OTHER CHANGES

ACT #7 of August 4, 2023 made the following changes:

To the Property Tax Rent Rebate Program:

- Increases the maximum eligibility income to \$45,000 for both homeowners and renters. This is increased from \$35,000 for homeowners and \$15,000 for renters.
- Increases maximum rebates at all eligibility income levels for both renters and owners according to the schedule below for claim year 2023:

HOUSEHOLD ELIGIBILITY INCOME	MAXIMUM REBATE
\$0 - \$8,000	\$1,000
\$8,001 - \$15,000	\$770
\$15,001 - \$18,000	\$460
\$18,001 - \$45,000	\$380

- Provides that eligibility income and supplement parameters will increase annually according to the Consumer Price Index (CPI) for All Urban Consumers statistics published by the United States Bureau of Labor Statistics, rounded to the nearest \$10. In the case of a decline in CPI, eligibility income limits will remain the same.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

TAX REFORM CODE

ACT #108 of November 3, 2022 made the following changes:

To the Personal Income Tax:

- Changes the thresholds at which taxpayers are required to make estimated payments according to the schedule below:

TAX YEAR	THRESHOLD
2023 and Prior	\$8,000
2024	\$9,500
2025	\$11,000
2026	\$14,000
2027	\$17,000
2028	\$20,000
2029 and Forward	Prior Year + \$500

To the Realty Transfer Tax:

- Increases the transfer to the Housing Affordability and Rehabilitation Enhancement Fund from \$40 million to \$60 million, effective for fiscal years beginning July 1, 2023, and after.

To the Pennsylvania Economic Development for a Growing Economy (PA EDGE) Tax Credit Program:

- Incorporates the existing Local Resource Manufacturing Tax Credit into the PA EDGE program, and increases the amount of credits available in a fiscal year to \$56.7 million, effective for taxable years beginning after December 31, 2022.
- Creates a credit for qualified Pennsylvania milk processing facilities meeting facility and employment requirements of up to \$15 million per fiscal year, effective for taxable years beginning after December 31, 2022.
- Creates a credit for qualified regional clean hydrogen hubs meeting facility and employment requirements of up to \$50 million per fiscal year, effective for taxable years beginning after December 31, 2022.
- Creates a credit for qualified facilities engaged in semiconductor manufacturing and biomedical manufacturing and research, meeting facility and employment requirements. Up to \$10 million in credits are available each fiscal year for semiconductor manufacturing, and up to \$10 million in credits are available for biomedical manufacturing and research, effective for taxable years beginning after December 31, 2022.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

TAX REFORM CODE (CONTINUED)

ACT #53 of July 8, 2022 made the following changes:

To the Corporate Net Income Tax:

- Decreases the corporate net income tax rate according to the schedule below:

<u>TAX YEAR</u>	<u>RATE</u>
2023	8.99%
2024	8.49%
2025	7.99%
2026	7.49%
2027	6.99%
2028	6.49%
2029	5.99%
2030	5.49%
2031	4.99%

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

To the Insurance Premiums Tax:

- Deposits all insurance premiums tax revenues in the General Fund and provides from transfers to the Municipal Pension Aid Fund (MPAF) and the Fire Insurance Tax Fund (FITF).
- The FITF will receive the greater of 8.5% of fiscal year insurance premiums tax revenues or \$85 million. The MPAF will receive the greater of 38% of fiscal year insurance premiums tax revenues or \$345 million.

To the Personal Income Tax:

- Permits Section 179 property placed into service after December 31, 2022, to be treated as a deductible expense only to the extent allowable under Section 179 of the Internal Revenue Code, which currently is set at \$1 million. Pennsylvania will follow all future federal changes to Section 179 automatically.
- Allows the deferral of tax due on gains from like-kind exchanges of property, effective January 1, 2023.

To the Sales and Use Tax:

- Applies the sales and use tax to sales at retail or use of peer-to-peer car-sharing programs, beginning January 1, 2023.
- Expands the window of benefits received by certified data centers under the sales and use tax exemption program from 15 to 25 years.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

TAX REFORM CODE (CONTINUED)

To the Table Games Tax:

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

To the Dependent and Child Care Enhancement Program:

- Establishes the Pennsylvania Dependent and Child Care Enhancement Tax Credit, which creates a refundable personal income tax credit calculated at 30% of the federal child and dependent care tax credit for those who qualified for the federal program.

To Airport Land Development Zones:

- Established Airport Land Development Zones and their corresponding tax credits. The program will be administered by the Department of Community and Economic Development.
- The tax credit shall be equal to \$2,100 for each full-time equivalent employee in excess of the number of full-time equivalent employees prior to January 1, 2021. Credits may be applied against personal income (excluding employer withholding), corporate net income, bank and trust company shares, title insurance companies shares, and mutual thrift institutions taxes. The amount of credit per job may not be changed by the legislature before June 30, 2025.

To City Revitalization and Improvement Zones:

- Requires DOR to notify each contracting authority of all CRIZ report non-filers and strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.
- Permits a CRIZ authority to provide financial assistance in the form of a grant.

To the Neighborhood Improvement Zone:

- Strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.

To the Keystone Opportunity Expansion Program:

- Extends the application deadline for the additional zones from October 1, 2022, to October 1, 2023, and extends the approval deadline from December 31, 2022, to December 31, 2023.

To the Keystone Opportunity Zone Program:

- Permits qualified businesses that receive an additional 10 years of KOZ benefits to extend the benefits to affiliates located within the same zone.
- Provides that any affiliate of a qualified business located within a zone that relocates to the same zone will also qualify for the program.
- Provides that extensions will remain in effect if the original business that made the investment and jobs moves out of the zone if an affiliate remains.

To the Waterfront Development Tax Credit:

- Increases the fiscal year program cap to \$5 million from \$1.5 million, effective for fiscal year 2022-23, and provides that the program cap may not be changed by the legislature before June 30, 2025.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

TAX REFORM CODE (CONTINUED)

To the Research and Development Tax Credit:

- Increases the fiscal year program cap to \$60 million from \$55 million, effective for fiscal year 2022-23, and maintaining the same 80/20 split for small businesses. The act further provides that the program cap may not be changed by the legislature before June 30, 2025.

To the Entertainment Economic Enhancement Program:

- Increases the fiscal year program cap to \$24 million from \$8 million, effective for fiscal year 2022-23. The act further provides that the program cap may not be changed by the legislature before June 30, 2025.

To the Film Production Tax Credit:

- Amends the definition of "multifilm production" and allows productions meeting this definition to submit alternative films to maintain contracts under the program.
- Increases the fiscal year program cap to \$100 million from \$70 million, effective for fiscal year 2022-23. The act further provides that the program cap may not be changed by the legislature before June 30, 2025.
- Sets aside \$5 million of the program cap for productions by Pennsylvania film producers. If the full allocation for PA film producers is not used, the credits may be made available to any approved applicant.

To the Inheritance Tax:

- Provides that transfers of property at death by a member of the military on active duty shall be exempt from inheritance tax, effective September 6, 2022.

To the Public Transportation Assistance Fund:

- Subjects peer-to-peer car sharing programs to the car sharing daily fee.
- Modifies the rate schedule for rentals of less than a day. The \$1.25 fee now applies to rentals of more than three but less than six hours; the \$2.00 fee applies to rentals of 6 hours or more.

ACT #54 of July 11, 2022 made the following changes:

To the Fiscal Code:

- Approves a one-time supplemental rebate from property tax/rent rebate program claimants who received a rebate in claim year 2021. The one-time supplemental rebate is in addition to the original approved rebate and shall be equal to 70% of the claimant's previously approved claim amount for the 2021 PTRR claim year.
- Makes changes to the terms and qualifications for board members of a Military Installation Remediation Project authority and strengthens confidentiality provisions on usage of taxpayer data supplied to the authority from the department.
- Provides for the extension of the transfer of revenues from the Cigarette Tax to the Tobacco Settlement Fund for fiscal year 2022-23.
- Provides for the transfer of \$12,317,000 to the Environmental Stewardship Fund from Personal Income Tax revenue for fiscal year 2022-23.
- Provides for the annual transfer of \$45,000,000 to the Election Integrity Restricted Account from Personal Income Tax revenue. The first transfer must occur by August 1, 2022, and future transfers must occur annually by August 1.
- Provides for the transfer to the Sports Tourism and Marketing Account an amount equal to 5% of Sports Wagering Tax revenue, or \$2,500,000, whichever is greater, but not to exceed \$5,000,000, for fiscal year 2022-23.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

SCHOOL CODE

ACT #55 of July 8, 2022 made the following changes:

To the Public School Code:

- Increases the fiscal year program cap for the Education Improvement Tax Credit to \$340 million from \$225 million, effective for fiscal year 2022-23.
- Increases the fiscal year program cap for the Education Opportunity Scholarship Tax Credit to \$65 million from \$55 million, effective for fiscal year 2022-23.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2022-23

OTHER CHANGES

ACT #137 of November 3, 2022 made the following changes:

To the State Lottery Law:

- Extends the sunset date for the 20% profit margin rate from June 30, 2024 to June 30, 2029. The rate will return to 25% on July 1, 2029.

ACT #74 of July 11, 2022 made the following changes:

To the Fireworks Law:

- Removes the Fireworks Tax provisions from the Tax Reform Code and moves them to Title 3.
- Changes the calculation of the fireworks tax, which is now calculated on the purchase price only, rather than after sales and use tax has been applied.
- Provides that fireworks tax revenues no longer remain in the General Fund and will instead be transferred to the following programs:
 - \$1.5 million to the EMS Grant Program
 - \$250,000 to the Online Training Educator and Training Reimbursement Account
 - \$1 million to PHEAA for Loan Forgiveness and Tuition Assistance to active volunteer firefighters and volunteer EMS providers
 - \$1 million to Department of Health for EMS Training
 - \$500,000 to Office of the State Fire Commissioner for Emergency Services Training Center Capital Grants
 - \$500,000 to Office of the State Fire Commissioner for Career Fire Dept. Capital Grants
 - \$250,000 to Office of the State Fire Commissioner for Public Safety Campaign
 - \$500,000 to Office of the State Fire Commissioner for FBI-Accredited PA Bomb Squad Reimbursement
 - Any remaining money shall be equally divided and transferred to the EMS Grant Program and the Fire Company Grant Program
- Provides that fireworks tax revenue will remain in the General Fund for 2022-23 and be subject to the new transfers in fiscal year 2023-24.

ACT #49 of July 7, 2022 made the following changes:

To Small Games of Chance:

- Extends the ability of club licensees to utilize proceeds from small games of chance for operating expenses without following the 60/40 split until December 31, 2022.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2021-22

TAX REFORM CODE

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 rotorcraft 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.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2021-22

TAX REFORM CODE (CONTINUED)

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,
- 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.

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.

RECENT CHANGES IN TAX LAW - FISCAL YEAR 2021-22

FISCAL CODE

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 fiscal year 2021-22.

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.

OTHER CHANGES

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.