

Review of Pennsylvania Fiscal Year 2009-10 State Budget

Overview:

- \$27.8 billion in overall spending (includes \$700 million in discretionary funds pending approval by House)
- Maintains current state tax rate on Personal Income Tax

Revenue Generators – Act 48 of 2009 (House Bill 1531)

- **Tax Code Act:**
 - Will raise \$1.73 billion in new revenues
 - Sales tax exemption for the sale at retail of repair or replacement parts, including the installation of those parts, exclusively for use in helicopters and similar rotorcraft or in overhauling or rebuilding of helicopters and similar rotorcraft or helicopter and similar rotorcraft components exclusively used in helicopters.
 - Bi-Monthly remittance of PIT and Sales Tax
 - Sales Tax remittance:
 - Monthly reporting continues for those that file an amount that equals or exceeds \$600 or is less than \$25,000.
 - Bi-monthly remittance is required for those that file an amount that equal or exceeds \$25,000.
 - Personal Income Tax remittance:
 - Quarterly filing: Aggregate amount required to be deducted and withheld by an employer for a calendar year can be expected to be less than \$1,200.
 - Monthly filing: Aggregate amount required to be deducted and withheld by an employer for a calendar year can be expected to be \$1,200 or more but not less than \$4,000.
 - Bi-monthly filing: Aggregate amount required to be deducted and withheld by an employer for a calendar year can be expected to be \$20,000 or more
 - Extends the expiration of the following tax check-offs: Wild Resource Conservation, Organ Donation Awareness, Military Families, and Juvenile Diabetes.
 - Increase in CNI Sale Factor Weight to 83% in fiscal year 2009-10 and 90% in fiscal year 2010-11
 - Increase in NOL cap to \$3 million or 15% in fiscal year 2009-10 and 3 million or 20% in 2010-11.
 - Increases the CSFT to 2.89 mills for three years - 2009, 2010, 2011. In 2012 the phase-out will continue and reduce the rate to 1.89 mills. In 2013 the rate will be .89 mills and in 2014 the rate will be 0 mills.
 - Change to CSFT valuation deduction to \$160,000
 - Managed Care Organization (that are a party to a Medicaid managed care contract) Tax at 59 mills
 - The Bill does not include the initial Administration budget ask of a broad based 2% tax on all managed care organizations (MCOs), which would have been paid by the purchasers of health insurance. Instead, the budget will extend the gross receipts tax (GRT) to Medicaid MCOs thereby adhering to federal guidelines for the purposes of

drawing down federal funds. However, the bill includes a mechanism that would result in the termination of the GRT if the GRT is found to be an impermissible taxing scheme for the purposes of receiving federal funds.

- Tax Credit Reductions (next two fiscal years) – \$38.3 million reduction in FY 2009-2010 and a \$74.8 million reduction in FY 2010-2011. These reduction are as follows:

Tax Credit Reduction Summary						
Credit Program	Statutory Cap	FY 2009-10 Cap	FY 2009-10 Reduction	FY 2010-11 Cap	FY 2010-11 Reduction	Total Two-Year Reduction
Educational Improvement Tax Credit *1	\$75.0	\$60.0	\$12.0	\$50.0	\$23.0	\$35.0
Film Production Tax Credit	\$75.0	\$42.0	\$11.2	\$60.0	\$25.6	\$36.8
Research and Development Tax Credit *2	\$40.0	\$20.0	\$6.5	\$18.0	\$12.2	\$18.7
Call Center Tax Credit	\$30.0	45% of Statutory Cap	\$9.0	\$12.5	50% of Statutory Cap	\$3.5
Employment Incentive Payments *3	\$25.0	50% of Statutory Cap	\$3.5	45% of Statutory Cap	\$9.0	\$12.5
Job Creation Tax Credit	\$22.5					
Neighborhood Assistance Programs	\$18.0					
Resource Enhancement and Protection Tax Credit	\$10.0					
First Class Cities Economic Development District	N/A					
Alternative Energy Production Tax Credit *4	\$5.0	\$0.0	\$5.0	\$0.0	\$5.0	\$10.0
Total:			\$38.3		\$74.8	\$113.1
Notes:						
*1 EITC reductions will be taken among all three credit categories, and the caps will be as follows:						
Category	Current Law Cap	FY 2009-10 Cap	FY 2010-11 Cap			
Scholarship Organizations	\$44,666,667	\$37,967,000	\$33,502,000			
Educational Imp. Organizations	\$22,333,333	\$15,633,000	\$11,168,000			
Pre-K Programs	\$8,000,000	\$6,400,000	\$5,330,000			
*2 R&D credits will be reduced proportionally between the standard credit and small business set-aside.						
*3 Under current law, Employment Incentive Payment credits are not available for employees hired after December 31, 2009.						
*4 Alternative Energy Production Tax Credits have not yet been awarded.						

- Increase in the Cigarette Tax by 25 cents per pack, to \$1.60
- Expand the cigarette tax to include little cigars (eight cents per little cigar):
 - Little cigar: any roll for smoking that weighs not more than four pounds per thousand, where the wrapper or cover is made of natural lead tobacco or of any substance containing tobacco.
- Education Improvement Tax Credit Changes: Adds students with disabilities and special education schools to those benefitting from the program; increase the maximum annual household income limit for student eligibility in FY 2011-2012 to \$60,000; increases the income allowance in FY 2011-2012 to \$12,000 and adds an annual CPI adjustment for both beginning in July, 2012; includes a multiplier to be applied to the annual household income for families with students with disabilities; expands the eligible pre-K program to allow programs that operate over the summer recess to qualify for the EITC program.
- Tax Amnesty Program:
 - Provides for a tax amnesty period to run for 90 consecutive days during the fiscal year, as established by the Governor.
 - The program shall apply to a taxpayer who is delinquent on payment of a liability for an eligible tax as of June 1, 2009, including a liability for returns not filed. An "eligible tax" is defined as any tax imposed by the Commonwealth for deposit in the General Fund, the Motor License Fund, or the Liquid Fuels Tax Fund. The term includes interest or penalty on an eligible tax.
 - Provides that the program shall not apply to taxpayers who participated in the tax amnesty program established in Article XXIX-A from 1995, and section 2902-D(d) provides that a taxpayer who participates in this amnesty program shall not be eligible to participate in a future tax amnesty program.
 - Under the program, taxpayers would be required to file a tax amnesty return and make payment of all delinquent taxes and 50% of all interest due to the Commonwealth. The taxpayer is further required to file complete tax returns for all years for which the taxpayer previously has not filed a tax return and file completed amended returns for all years for which the taxpayer underreported eligible tax liability.
 - Prohibits the Department of Revenue from collecting 50% of all interest due or the penalties owed by a taxpayer who participates in the program. In addition, the department shall not pursue any administrative or judicial proceeding against a taxpayer with respect to any eligible tax that is disclosed on a tax amnesty return. However, if within two years after the end of the program the taxpayer becomes delinquent for three consecutive periods in payment of taxes due or filing of returns required on a semimonthly, monthly or quarterly basis, or the taxpayer is eight or more months late in payment of taxes due or filing of returns on an annual basis, the department may assess and collect all penalties and interest waived through the tax amnesty program.
 - Participation in the program is conditioned upon the taxpayer's agreement that the right to protest or pursue an administrative or judicial proceeding with regard to tax amnesty returns filed under the program or to claim any refund of money under the program is barred.
 - The department is required to develop regulations to implement the provisions of this article. Also, the department must publicize the program to maximize public

awareness of and participation in the program, and it must notify each known tax delinquent at the taxpayer's last known address of the program's existence.

- Within 180 days after the end of the amnesty period, the department must issue a report to the General Assembly detailing the implementation and results of the program. The costs associated with the department's implementation of the program shall be netted against the money collected under the program.
- Transfers and Redirection of Funds:
 - Redirects 2 percent of slot machine gaming revenues into the state's general fund for four years
 - Transfers revenue generated by an existing 25 cent portion of the state cigarette tax from a special fund MCARE fund to the general fund

General Appropriations Act – Act 10A of 2009 (House Bill 1416)

The general appropriations Act, will fund \$27.799 billion in state spending for the 2009-10 fiscal year. A few items of interest to businesses include:

- Office of Inspector General – \$2.681 million (\$770,000 decrease)
- Incentive Grants Programs – \$1 million (no change)
- Weed and Seed Program – \$1.153 million (\$1.974 million decrease)
- Home Improvement Consumer Protection – \$0
- Escheats Administration – \$13 million (\$2.906 million decrease)
- Board of Finance and Revenue – \$2.086 million (\$286,000 decrease)
- World Trade PA – \$7.5 million (\$6.575 million decrease)
- Marketing to Attract Tourists – \$6.246 million (\$10.663 million decrease)
- Business Retention and Expansion - \$1 million (\$2.184 million decrease)
- Opportunity Grant Program – \$18.268 million (\$9.732 million decrease)
- Keystone Innovation Zones - \$0 (\$691,000 decrease)
- Infrastructure Development – \$15 million (\$7.5 million decrease)
- Community Action Team – \$309,000 (\$678,000 decrease)
- Industrial Development Assistance – \$1.556 million (\$2.540 million decrease)
- Local Development Districts – \$3.3 million (\$2.734 million decrease)
- Small Business Development Centers - \$4 million (\$3.302 million decrease)
- Community and Business Assistance – \$0 (\$2.5 million decrease)
- Market Development - \$0 (\$100,000 decrease)
- Community Service Block Grants – \$29.5 million (\$1.5 million decrease)
- Federal Funding for Community Service Block Grants – \$42.2 million increase
- Industrial Resource Centers - \$7.650 million (\$7.499 million decrease)
- Manufacturing and Business Assistance - \$0 (\$1 million decrease)
- Dept. of Revenue Technology Modernization - \$18.2 million (\$3 million less than requested)
- Health Care Cost Containment Council - \$2.844 million (\$2.509 million decrease)
- Ben Franklin Technology Development Authority Fund - \$78.077 million (\$4.5 million decrease)
- Transfers and Redirection of Funds:
 - Transfers \$755 million from the rainy day contingency fund

- Transfers \$808 million from the medical malpractice insurance coverage funds

To download a line by line analysis of House Bill 1416 click [here](#).

Independent Fiscal Code – Act 50 of 2009 (House Bill 1614)

- *Creation of an Independent Fiscal Office:* House Bill 1614 creates a nonpartisan Independent Fiscal Office as an independent agency. The office shall:
 1. Prepare revenue estimates to include Federal funds, State revenues and funds from other resources, including any projected revenue surplus or deficit for a given fiscal year, as provided under section 505-A.
 2. By January 1, provide a baseline budget that includes levels of spending necessary to retain the current program and statutory requirements.
 3. Provide an analysis of the executive budget, including budgetary projections, economic outlook, economic impact and an analysis of all related tax and revenue proposals. The budget analysis may include performance recommendations to secure greater efficiency and economy.
 4. Develop and use econometric models to annually forecast State revenues and update the models. The office shall make the equations of a model and any historic databases related to the model available to the Appropriations Committee of the Senate, the Appropriations Committee of the House of Representatives, the Majority Leader and Minority Leader of the Senate and the Majority Leader and Minority Leader of the House of Representatives.
 5. By November 15 of each year, provide an assessment of the State's current fiscal condition and a projection of what the fiscal condition will be during the next five years. The assessment shall take into account the state of the economy, demographics, revenues and expenditures.
 6. Monitor State taxes and other receipts.
 7. Develop performance measures for executive-level programs and departments and evaluate performance measures and results as promulgated and reported by executive-level departments. Performance measurements shall be outcomes-based and include activity cost analysis, measures of status improvement of recipient populations, economic outcomes and performance benchmarks against similar State programs.
 8. Establish an Internet website.
 9. The office shall prepare a revenue estimate of any change in State tax law proposed as part of the annual State budget. If the proposed change in State tax law will have a fiscal impact in excess of \$10,000,000 in any fiscal year, the estimate shall be prepared on the basis of assumptions that estimate the probable behavioral responses of taxpayers, businesses and other persons to the proposed changes and shall include a statement identifying those assumptions.
- *Creation of Neighborhood Improvement Zone Fund:* Allows cities of the third class to designate a zone in which bonds may be taken to make improvements or for a specific complex or facility. All local taxes generated within the zone are transferred to the fund for servicing of bond debt.
- *Oil and Gas Leasing:* Provides 60 million in revenue to the general fund from the leasing of state forest land for oil and gas drilling by the Department of Conservation and Natural resources.