



2022-23 STATE BUDGET OVERVIEW

Total Spend

Total Spend: \$45.2 billion – 2.9 % increase over last year

- \$42.8 billion state funding
- \$2.4 billion additional federal funding
- \$3.6 billion left in the General Fund for future budgets
- \$2.1 billion in the Rainy-Day Fund – now at its statutory maximum of \$5 billion

Corporate Net Income (CNI) Tax Rate Reduction and Reform

Implements a 10% reduction from 9.99% to 8.99% for the taxable year 2023, with an annual .5% reduction until it reaches 4.99% in 2031. The rate will be reduced 50% in 9 years – which, according to the Tax Foundation and assessment of state tax statutes, takes Pennsylvania from the 2nd highest CNI flat tax rate in the country to the 8th lowest once fully implemented.

Market Sourcing

- Pennsylvania is joining 35 states and localities that have switched to market sourcing
- Replaces the former “cost of performance” sourcing rule with market sourcing for sales applying to intangible property and loans
- Makes Pennsylvania more competitive

Nexus

- Nearly every state has enacted Nexus laws since the 2018 Wayfair decision, and many continue to release clarifying guidance, revisions and additional legislation.
- Tied to sourcing, if a taxpayer has more than \$500K of receipts sourced to PA under the sourcing provisions, it is subject to CNI
- Effective date: January, 2023

Small Business Tax Reform

Like-Kind Exchanges

- Under federal tax law, a “like-kind” exchange under Internal Revenue Code Section 1031 allows for tax-deferral when property is exchanged for similar property
- Pennsylvania is the only state in the country that does not provide for a similar deferral on the state level
- This measure would align Pennsylvania law with federal law by allowing for similar treatment at the state level

Section 179 Expense Deductions

- Section 179 of the Federal tax code allows owners of pass-through businesses to take a tax deduction for the total purchase price of qualifying equipment
- Pennsylvania law limits the deductions for businesses subject to the state personal income tax
- This measure provides equity for small businesses, increasing the current deduction limit to be consistent with the federal limit.

Other PA Chamber Priorities

Unemployment Compensation

- \$42 million appropriated for UC Trust Fund
- First installment to avoid employer tax increases

Educational Improvement Tax Credit (EITC) program

- \$405 million appropriated for in the EITC program
- 45% increase over last year

Workforce Development

- New state-based childcare tax credit
- \$105 million for Career and Technical Education (CTE) – 6% increase over last year
- Streamlines certification of CTE instructors new to PA
- Allows charter school students to participate in dual enrollment programs