Week of August 28, 2017

**HEADLINES**

**Wolf to GOP: State’s finances will soon be ‘much more dire’**

Democratic Gov. Tom Wolf warned House Republican leaders Tuesday that failing to fully fund the state budget will put Pennsylvania in “a much more dire financial situation” in the coming weeks. Wolf’s letter to Speaker Mike Turzai, Majority Leader Dave Reed and six other House GOP leaders urged them to act quickly to fill the budget’s $2.2 billion revenue gap. Wolf announced he authorized what he called “a very short-term” loan this week from the state’s Motor License Fund but expects that a lack of action will affect state programs and cause outside agencies to downgrade Pennsylvania’s credit rating, increasing borrowing costs. Wolf said the loan from the Motor License Fund will provide for a major payment to public schools that is due later this week. But he noted that the state treasurer has said he won’t allow further short-term borrowing without a balanced budget. Treasurer Joe Torsella said Tuesday the fund transfer was not a solution but just a way to buy time for lawmakers. Torsella said the transfer will keep the state’s general fund from going into the red until Sept. 15, when it will “fall as much as $900 million in the negative.”

**As revenue projections hold, IFO sees continued weakness in sales tax growth**

Appearing before the House State Government Committee Wednesday, the Independent Fiscal Office reported that while their current year revenue projections are holding firm, there is continued weakness in sales tax growth that is ultimately adding to undermined General Fund revenue collections. According to IFO director Matthew Knittel, the office’s original June forecast for FY 2017-2018 revenues of around $31.19 billion, $32.491 billion minus about $1.3 billion in tax refunds, is still holding steady in the first two months of the new fiscal year, and even seen around a $30 million improvement through increased collections in non-tax revenue and inheritance tax. However, he reported that slower-than-anticipated growth in the sales tax—around 4.5 percent—has led to lower-than-expected collections in that area of around $22 million. According to Knittel, that growth is largely a result of a national shift toward a service-based economic model that might lead to further issues based on current sales tax methodology. Another aspect to sales tax growth weakness that compounded across-the-board revenue weakness last year and will contribute to the nearly $750 million deficit facing FY 2017-2018 alone is that income growth is not necessarily correlating into consumer spending. One suggestion made Wednesday by Rep. Madeleine Dean was to ensure that there is a more concerted effort to collect sales tax from internet purchases, a continuation of a move made in last fiscal year’s revenue package to extend the state sales tax to digital downloads.

**Philly’s Sweetened Beverage Tax Still Not Meeting Projections**

Revenue from Philadelphia’s sweetened beverage tax continues to lag behind expectations. But city officials still say it’s not time to revise their projections. July saw $6.5 million in soda tax revenue. That’s about a million less than officials hoped the tax would be bringing in by now. The city is postponing spending most of the money because of a lawsuit challenging the tax, but it has created 2,000 pre-K seats and 11 community schools, which Dunn says it would have been unable to do without the tax. Mayor Jim Kenney says he still hopes to create 6,500 pre-K seats and 25 community schools in four years, and launch a seven-year effort to rebuild public facilities with the tax money.

**Potential Legislation Addressing online Home Sharing Taxes**

Representative Doyle Heffley circulated co-sponsorship memorandum Wednesday for legislation which would require online home sharing and short-term rental companies doing business in Pennsylvania to register with the state and share information with taxing authorities. In the memo, he cited the reason for this legislation lies in the advent of online rental sites such as Airbnb and HomeAway. The “hosts” are not collecting state and county hotel taxes. This legislation would require short-term online rental companies to register with the state and share necessary business with the Department of Revenue and the county treasurers.

**Dowling to Host Taxpayers’ Caucus Meeting Sept. 7**

In response to the Senate’s revenue plan, which includes new or increased taxes on Pennsylvanians’ utility bills and online purchases, the House Taxpayers’ Caucus will hold a hearing in Fayette County at Rep. Matthew Dowling’s request. The hearing will take place on Thursday, Sept. 7, at the Park Inn by Radisson, 700 W. Main St., Uniontown, at 1 p.m. The purpose of the hearing is to provide context for the legislators in attendance as to how this plan will affect families, businesses and industries throughout the Commonwealth.

## PIT Examination Process

Representative David Zimmerman circulated co-sponsorship memorandum for legislation to amend the Tax Reform Code regarding the PIT examination process. Specifically, this proposal will require the Department of Revenue to examine in person, at the physical location of the business, the requested papers and records of a taxpayer when the Department’s requests would total 25 pages or more of records. Rep. Zimmerman justified the introduction of this legislation due to the Department requesting taxpayers to print and mail copies of their PA-40 Schedule C and Schedule UE, along with all supporting documentation, for Department examination.

**IRS issues urgent warning regarding ransomware scam**

The Internal Revenue Service Monday warned people to avoid a new phishing scam that impersonates the IRS and the FBI, as part of a ransomware scam to take the computer data hostage. The IRS said the scam email uses the emblem of both the IRS and the FBI and tries to entice users to select a “here” link to download a fake FBI questionnaire. Instead, the link downloads a certain type of malware called ransomware that prevents users from accessing data stored on their device unless they pay money to the scammers. IRS Commissioner John Koskinen said that people with a tax issue won’t get their first contact from the IRS with a threatening email or phone call.

**Attorney General Shapiro: Two Central PA businesses charged with failing to pay $214,000 in state taxes**

Attorney General Josh Shapiro Friday said two central Pennsylvania business proprietors are facing criminal charges for failing to pay more than $214,000 in state sales and income taxes over the last three years. The charges against Lorraine Fritz, of Reel Time Automotive in Berks County, and Andrew Horton, of Parma Pizza & Grill in York County, include felony theft by failure to make required disposition of funds received, as well as the willful failure to pay sales tax and submit sales tax returns as required by law. Fritz is charged with failing to pay $119,779 in sales tax between August 2015 and May 2017. She is also charged with failing to pay $11,896 in employer withholding taxes, for a total unpaid tax liability of $131,675. In the second case, Horton is accused of failing to pay a total of $83,200 in sales tax between October 2014 and July 2017.

**House panel weighs UC system rebuilding effort**

A short-term funding infusion has enabled managers of Pennsylvania's troubled Unemployment Compensation program to start rebuilding a depleted staff and stabilize call wait times for individuals seeking services, a Wolf administration official told House lawmakers Tuesday. But a long-term UC funding solution is needed to tackle other problems like reducing the number of weeks that jobless Pennsylvanians typically wait until they get a determination on their eligibility for benefits, said Brenda Warburton, a deputy state budget secretary. Warburton provided an update on how $15 million in temporary funding available under Act 1 of 2017 (Senate Bill 250) is being spent and the implementation of a new state contract to modernize an outdated UC computer system during a House Labor and Industry Committee hearing. As of July 31, the Department of Labor and Industry has filled 186 of the 211 positions authorized under Act 1, said Warburton. Another 25 positions are currently being filled. Starting Aug. 1, the department entered into a $35 million contract with Geographic Solutions, Inc. to replace the 40-year-old mainframe computer system running the UC system. The implementation of this contact will be completed by 2019 with a one-year warranty period afterward.

**Auditor General DePasquale Finds No Misuse of State Funds at Northumberland County Prothonotary’s Office**

Auditor General Eugene DePasquale Wednesday said his latest audit of the Northumberland County Prothonotary/Clerk of the Court of Common Pleas and Adult Probation and Parole Department found administrative sloppiness and a lack of internal controls, but no misuse of state funds. Auditors found that the Adult Probation and Parole Department failed to assess court fees and surcharges resulting in the commonwealth not receiving approximately $3,735. Only one of the audit findings was attributed to the Prothonotary/Clerk of the Court of Common Pleas office. The other three findings are related to the adult probation and parole department.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**\*Session days for both the House and Senate for budget discussions are still TBA. The fall session schedule is below.\***

**2017 SENATE SESSION SCHEDULE**

September      18, 19, 20

October          16, 17, 18, 23, 24, 25

November      13, 14, 15

December       11, 12, 13, 18, 19, 20

**2017 HOUSE SESSION SCHEDULE**

September       11, 12, 13, 25, 26, 27

October           2, 3, 4, 16, 17, 18, 23, 24, 25

November       13, 14, 15, 20, 21, 22

December        4, 5, 6, 11, 12, 13, 18, 19, 20

**UPCOMING HEARINGS**

[**House Finance**](http://www.ctbpls.com/htbin/web_com.com?Comnam=018&Session=17R)**(PUBLIC HEARING)**
**THURSDAY - 9/28/17**
**10:00 a.m., Chestnut Hill Township Building, 271 PA-715, Brodheadsville**

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| --- | --- |
|   | Public hearing on property tax assessment |

**DEPARTMENT OF REVENUE UPDATE**

None

**IRRC UPDATES**

None