Week of June 19, 2017

**HEADLINES**

**Republicans and Democrats show differences of opinion on tax policy**

As revenue generation has been a key component to ongoing budget talks, tax policy in some manner has been part of the discussion; and, with the legislative calendar turning ever closer to June 30, Democratic and Republican lawmakers have been showing their differences of opinion in terms of how taxes should play in terms of the overall revenue picture for the Commonwealth. Take legislative action on Tuesday, for instance. In the Senate Finance Committee, legislation was approved to establish a tax credit for equipment purchased by data centers and their tenants. Additionally, legislation was introduced by Sen. Randy Vulakovich (R-Allegheny) to create a sales tax “holiday” for the purchase of emergency equipment like fire extinguishers and generators. Meanwhile, in his proposed budget, Gov. Tom Wolf has gone the other way on what he labeled “tax loopholes.” Senate Minority Leader Jay Costa (D-Allegheny) said, while not likely in the coming fiscal year, broad-based tax increases are the most efficient way for the government to balance its books although they were taken off the table by Governor Wolf in February. Currently, many discussions about tax policy changes remain on the back burner as forefront discussions surround gaming expansion and the leveraging of state assets as the means to bridge the budget divide for the current and coming fiscal years.

**Wheatley resolution calling for examination of tax system unanimously adopted by House**

The House unanimouslyadoptedH.R. 327, a resolution by state Rep. Jake Wheatley calling for creation of a select subcommittee to thoroughly examine Pennsylvania’s tax collection system and suggest improvements. Wheatley, D-Allegheny, previously gained approval for the measure from the House Finance Committee, where he serves as Democratic chairman. As envisioned by Wheatley, the Select Subcommittee on Tax Modernization and Reform would be tasked with making a thorough review of the process, rates and methods by which the commonwealth collects revenue – and the collective impact on taxpayers.

**SODA TAX HEARING FRIDAY**

On Friday, the Senate Local Government Committee is holding a hearing in Philadelphia to receive testimony on the recently enacted soda tax. The hearing is being held at the request of Senator Anthony Williams (D-Philadelphia/Delaware).

**Senators introduce plan to eliminate school property taxes in PA**

A bipartisan group of 20 lawmakers have joined together to introduce a plan to eliminate school property taxes for the state’s 500 public school districts, according to Senator David G. Argall (R-Schuylkill/Berks). Senate Bill 76, the Property Tax Independence Act, would replace the revenue generated by the property tax for public schools with an increase to the Personal Income Tax rate from 3.07 percent to 4.95 percent and an increase in the Sales and Use Tax from 6 to 7 percent. Senate Bill 76 was referred to the Senate Finance Committee. The issue was last voted on November 23, 2015, when it was defeated on a 24-24 tie vote. The Lieutenant Governor then broke the tie, voting no, making the final tally 24 votes for, with 25 votes against.

**ADVOCATES OUTLINE BUSINESS TAX REFORM PROPOSAL**

Rep. Greg Rothman (R-Cumberland) and Jimmy Kemp, President of the Jack Kemp Foundation, held a press conference Monday in the Media Center to outline the business tax reform proposal HB 1584. The proposal, based on the 1981 federal Economic Recovery Tax Act, would lower Pennsylvania’s Corporate Net Income (CNI) Tax rate from the current 9.99 percent to 5.99 percent beginning in 2018. Rep. Rothman opined the revenue crisis calls for action to stimulate the economy and drew on past efforts to reduce CNI tax rates. Rep. Rothman drew on comments from Jack Kemp that zero and 100 percent are the only tax rates that will not generate revenue and stated Regan-era tax cuts are proof of the positive results that can occur.

**While legislators consider cutting tax credits, House panel moves to consolidate some existing credits**

Members of the House Commerce Committee convened Wednesday to consider legislation that would consolidate existing individual tax credits for film production, concerts and video game production into one umbrella Multimedia Tax Credit Fund. The bill, House Bill 1519, comes at an interesting time, as legislators are considering tax credit cuts of up to $100 million – as proposed by Gov. Tom Wolf - with the June 30 budget deadline approaching. According to the legislation's language, 80 percent of the credit would be dedicated to film production, 10 percent for concert rehearsals and tours and 10 percent to video game production.

**Severance Tax on Natural Gas Extraction**

Representative Madeleine Dean circulated co-sponsorship Wednesday for legislation which would enact a severance tax on the extraction of natural gas. The bill would place a 6.5% severance tax on gas drilled in Pennsylvania, with revenues dedicated to education funding. The current impact fee would remain in place under this legislation.

**Costa outlines realistic revenue expectations**

With a June 30 state budget deadline looming, the Senate’s top Democrat on Monday offered a realistic assessment of available budget revenue options. With large Republican majorities in the House and Senate, Costa said the solution to Pennsylvania's fiscal woes that he favors – find recurring revenue by hiking broad-based state taxes – is unlikely to be adopted. He said there isn't enough legislative support to generate revenue by eliminating several sales tax exemptions proposed by Democrat Gov. Tom Wolf or to levy a severance tax on Marcellus Shale gas production, also a Wolf budget proposal. And Costa predicted the final budget will include some level of borrowing to address a $1.1 billion revenue shortfall in the current FY2016-17 budget. But he voiced concern about an idea being discussed by Republican lawmakers to borrow money from Pennsylvania's Tobacco Settlement Fund. Pennsylvania earmarks annual payments made by tobacco companies under a 1998 multi-state legal settlement to support a variety of health programs. Also to be determined is whether the Wolf administration will accept tobacco fund borrowing as a legitimate revenue stream, Costa said.

**HOUSE FINANCE COMMITTEE MOVEMENT**

The House Finance Committee met Tuesday to consider HB 1385 sponsored by Rep. Brett Miller. This legislation amends the Tax Reform Code of 1971 to limit personal income tax deductibility for contributions made to a federally qualified tuition program to only Pennsylvania’s PA 529 College Savings Program. The bill was amended by Rep. Michael Corr to retain the deduction for contributions made to advisor-sold 529 plans, until such time that the Treasury establishes a Pennsylvania 529 advisor-sold plan. Chairman Bernie O'Neill noted that the administration and the Treasurer support the amendment.

**NEXT WEEK’S COMMITTEE MEETINGS**

The House Local Government Committee will be meeting to move HB 1098 from committee. This legislation, sponsored by Rep. Peifer, would build upon the reforms of Act 32 of 2008 relating to the consolidated collection of local income taxes and address some technical concerns. The bill is expected to be referred to the House Finance Committee. The House Finance Committee will meet to consider HB 1477 sponsored by Rep. Wheeland. This legislation would eliminate the 40 percent wholesale tax placed on vape products last session and replace it with a 5-cents per milliliter retail tax on e-liquid.

**House GOP lawmaker proposes redirecting casino local share assessment to General Fund**

House Republican lawmakers are looking at a new proposal to earmark the money currently devoted to the casino local share assessment for the deficit-ridden state General Fund. With legislative agreement on gambling expansion continuing to be elusive, Rep. Brian Ellis, R-Butler, is circulating a bill cosponsor memo to redirect the $140 million in annual local share money that goes to municipalities hosting casinos to the General Fund, as well as levy new annual fees on casinos. The goal is to generate $270 million in recurring annual revenue for the General Fund. New revenue sources from casinos should be considered as an alternative if other House-passed revenue options, like legalizing video gaming terminals, is being ruled out, said Ellis Wednesday.

**Auditor General DePasquale Says Early Termination of Superintendent Contract Broke Law, Cost Manheim Township Schools $358,000**

Auditor General Eugene DePasquale said that the Manheim Township School District, Lancaster County, broke state law when it failed to publicly vote on the separation agreement with its former superintendent.  Termination of the contract cost the district at least $358,000.  Auditors determined the Manheim Township School Board made two major procedural errors in terminating the former superintendent’s contract. First, even though the board knew about the former superintendent’s resignation and actually signed the separation agreement, the item was deliberately omitted from the agenda for its Jan. 21, 2016, meeting. Second, auditors found, the board never publicly approved the separation agreement, which is a violation of the Public School Code (PSC).

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2017 SENATE SESSION SCHEDULE**

**June**26, 27, 28, 29, 30

**2017 HOUSE SESSION SCHEDULE**

**June**26, 27, 28, 29, 30

**DEPARTMENT OF REVENUE UPDATE**

**Governor Wolf’s Statement on the Confirmation of C. Daniel Hassell**

**​**Governor Tom Wolf Wednesday released the following statement congratulating C. Daniel Hassell on his confirmation as Secretary of the Pennsylvania Department of Revenue. “Dan is a tax policy expert with more than three decades of experience with the commonwealth. As a former Secretary of Revenue and most recently the department’s Deputy Secretary for Tax Policy, he has an excellent reputation for evaluating tax legislation, regulations and procedures. His understanding of the department’s mission to fairly, efficiently, and accurately administer the tax laws and operate the PA Lottery and the Property Tax/Rent Rebate program will benefit all Pennsylvanians. Our commonwealth needs dedicated public servants like Dan and I look forward to working with him.”

**IRRC UPDATES**

None