Week of August 22, 2016

**HEADLINES**

**IFO revises revenue estimate to account for budget revenue package**

The Independent Fiscal Office released its quarterly revenue estimate Wednesday with adjustments that include increases in total General Fund revenues provided by the FY 2016-2017 budget revenue package from the mid-June estimate. According to their statutorily-required function under Act 120 of 2010, the IFO released its official revenue estimate for the coming fiscal year on June 15, 2016, but that estimate did not take into account the final revenue package for the budget that was not agreed to and passed until just under a month after the estimate was official. The June estimate pegged total General Fund revenues at $31.66 billion, but due to the revenue package, Wednesday’s quarterly revenue estimate increased projected revenues to $32.5 billion, a difference of roughly $900 million. The estimate notes that the bulk of the new money is expected in the second quarter of 2017, where $9.794 billion is expected to come into the Commonwealth’s coffers. The General Appropriations Act came in at around $31.6 billion. The legislature has yet to agree to legislation providing for expanded gaming, expected to bring in an estimated $100 million that was put into the balance sheet for the current fiscal year. The IFO notes that quarterly revenue estimates are used to track FY 2016-2017 revenue projections and are used to compare quarterly projections with actual collections.

**Treasury Wants to End Tax Deal for Some Family-Owned Businesses**

The [Treasury](http://topics.nytimes.com/top/reference/timestopics/organizations/t/treasury_department/index.html?inline=nyt-org) Department has moved a step closer to tightening the way family limited partnerships are valued for tax purposes. And the prospect that the tax code could be changed by the end of this year has tax planners pushing their clients to consider stepping up estate and business planning, or risk paying more taxes. Earlier this month, the Treasury Department issued “proposed final regulations” to eliminate a provision in the tax code that effectively allows wealthy people to greatly discount the value of shares in a family limited partnership given to family members. These partnerships are able to own assets like family business, real estate and securities. The discount, which has been allowed since the 1990s, is granted for what is considered a lack of marketability for minority shares in these partnerships. This provision, contained in section 2704 of the Internal Revenue Code, has been abused by aggressive tax planners and lawyers who used the discount, sometimes as high as 40 percent, and applied it to partnerships that contained marketable securities or other assets that could otherwise be easily valued and sold. On Dec. 1, the IRS will hold a hearing on the new regulations.

**School pensions drive property taxes**

Pennsylvania legislators about a decade ago passed a law to protect homeowners by limiting property tax hikes to the rate of inflation. Has the law, known as Act 1, worked? Not for some homeowners. Exceptions were built into the law so school districts could raise property taxes as much as they needed only to cover certain rising costs, like pensions. As a result, school districts have increased property taxes $465 million above the rate of inflation in the past decade and requested raising property taxes much higher. [What has been driving tax increases?](https://db.tt/qHYna9OD) Pensions. A 2010 pension reform law increased how much school districts and the state paid into the underfunded school pension system. That helped the pension fund, but increased the burden on schools. The state’s contribution to school pensions doubled from roughly $500 million to $1 billion from 2010 to 2012. It doubled again to $2 billion by 2014 and doubled again to $4 billion this year. Over the next two years, pension costs are expected to slow and only increase about 15 percent. In total, the Pennsylvania Department of Education approved $1.6 billion worth of these requests, known as Act 1 exceptions, over the past decade.

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**Proposal would examine potential changes to state and local tax collection practices**

A soon-to-be-introduced bill by Rep. Nick Kotik (D-Allegheny) would create a commission to examine possible changes to state and local tax collection practices. The proposal, currently in the form of a co-sponsorship memo first circulated early last week, would create the Tax Reform Commission—a commission made up of four members of the General Assembly and three gubernatorial appointees—which would conduct the study and then report its findings to the General Assembly. "The hope is to address ways to collect taxes in a more cost-effective manner, improve fairness, and avoid duplication throughout the commonwealth," Rep. Kotik said."I believe a change in tax structure is needed that ensures the necessary revenue for appropriate government functions while not impeding economic growth." Rep Kotik stated, "I understand that reconfiguring a tax system is a formidable task, but it is a task that most states have at least considered at one time or another over the past few years." While not formally in bill form yet, the legislation would need to pass both chambers prior to the November 30th end of legislative session in order for it to become law and Rep. Kotik announced earlier this session he will not be seeking reelection for another term.

**Congressman: New IRS scams circulating**

U.S. Rep. Lou Barletta, R-11, warned Tuesday that numerous Pennsylvania residents have contacted his office to report a telephone scam in which the caller impersonates a representative of the Internal Revenue Service. The caller identifies himself as an IRS agent and threatens legal action if the recipient of the call does not pay a specified amount in alleged taxes and penalties. Barletta strongly advised citizens to refuse to provide any personally identifying information over the phone and to report such calls to the U.S. Department of Treasury.

**Governor Wolf Announces Launch of New Open Data Program**

Monday August 22, Governor Wolf announced the launch of OpenDataPA in an effort to increase government transparency. OpenDataPA launches with 12 datasets, including information about job creation, school performance, bridges that are being repaired, and more, that relate to Governor Tom Wolf’s Schools That Teach, Jobs That Pay, and Government That Works priorities. In the coming weeks, they will release a performance dashboard that uses these 12 datasets to track Governor Wolf’s performance goals. A link to the OpenDataPA website can be found [**HERE**](https://data.pa.gov/).

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2016 SENATE SESSION SCHEDULE**

September       26, 27, 28

October17, 18, 19, 24, 25, 26

November16

**2016 HOUSE SESSION SCHEDULE**

September       19, 20, 21, 26, 27, 28

October           17, 18, 19, 24, 25, 26

November       14, 15

**DEPARTMENT OF REVENUE UPDATES**

NONE

**IRRC UPDATES**

**Department of Community and Economic Development (DCED)**

* Implements Chapter 5 of the Local Tax Enabling Act which was added by Act 32 of 2008: 12 Pa. Code Chapter 151 March 1, 2017, as Proposed. The regulations address the following areas: The filing of adjusted declarations of estimated net profits; The criteria under which the tax officer may waive the quarterly return and payment of income tax; The procedures for mandatory and voluntary mediation; The establishment of new county tax collection committees in situations in which political subdivisions have withdrawn from an established tax collection committee; The establishment of tax officer qualifications and requirements, including continuing education; and The creation of standardized forms, reports, notices, returns and schedules, in consultation with the Department of Revenue.
	+ [**IRRC No. 3156 - Local Earned Income Tax (4-97)**](http://www.irrc.state.pa.us/regulations/RegSrchRslts.cfm?ID=3167)
		- Public Comments on Proposed Regulation: 08-23-16 [PICPA](http://www.irrc.state.pa.us/docs/3156/COMMENTS_PUBLIC/3156%2008-23-16%20PICPA.pdf)