

Week of December 5, 2016

**HEADLINES**

**November General Fund revenue lags behind estimates**

The Department of Revenue and Independent Fiscal Office released revenue figures for November General Fund collections, with the department noting that revenue sources from every major category came in underestimate for the penultimate month in calendar year 2016. November’s numbers signify the fourth out of five months in the current fiscal year where overall revenue collections have come in under estimate. In total for the month, the Commonwealth collected $2 billion in General Fund revenue, which was $79.5 million, or 3.8 percent, under estimate. For the Fiscal-Year-to-Date, the Commonwealth has collected $10.8 billion, which is $261.8 million, or 2.4 percent, below estimate. Revenue for the month of November was below estimate in areas of personal income tax, sales tax, corporate tax, realty transfer tax, inheritance tax, and other General Fund sources of revenue like tobacco and gaming. As a standout, the department noted non-tax revenue “totaled $46.5 million for the month, $49.5 million above estimate, bringing the year-to-date total to $109.7 million, which is $49.1 million, or 81.1 percent, above estimate.” For revenue categories reported, the Independent Fiscal Office noted similar income amounts, but compared the data to last year’s numbers noting that collections have increased compared to last year. In November, the IFO released its five-year economic and revenue outlook wherein it forecasted a budget deficit of more than $500 million for the current fiscal year and a $1.7 billion deficit for the coming fiscal year. Both forecasts will likely mean challenges the legislature will have to embrace when they return to session in January.

**Auditor General DePasquale Says Gas Drilling Impact Fee Law Must Be Amended to Clarify Spending Guidelines, Improve Oversight**

Auditor General Eugene DePasquale said a recent audit of the Public Utility Commission’s (PUC) oversight of a fund to help alleviate the negative local effects of natural gas drilling demonstrates the need to correct the authorizing law’s vague spending guidelines, poor reporting requirements, and lack of state oversight. The impact fees are intended to be used to alleviate negative effects of drilling on local communities such as gas and fracking fluids migrating into water wells, repairing roads and bridges damaged by trucks and heavy equipment, and loss of recreational space. Since enactment of Act 13 of 2012 through 2015, the PUC has collected approximately $856 million in the so-called impact fees, including $160.3 million distributed to counties and $267.6 million distributed to municipalities.  DePasquale found that these funds were being used inappropriately by counties and municipalities. He recommended giving authority for oversight of these funds to the Department of Community and Economic Development or the Commonwealth Finance Authority because they have experience overseeing grant distribution.

**Auditor General DePasquale Issues Statement on Requests for Audit of Labor & Industry Fund**

After receiving a number of requests from legislators to conduct a financial and performance audit of the unemployment compensation system in Pennsylvania, Auditor General Eugene DePasquale announced Wednesday that he will defer making a final decision as to whether to pursue an audit until January.

**INHERITANCE TAX LEGISLATION**

Senator Michele Brooks introduced co-sponsorship memorandum for legislation to phase-out inheritance tax for siblings as well as a more comprehensive bill to eliminate the 4.5 percent lineal inheritance tax rate over a ten year period. Senator Pat Stefano and Representative Carl Metzgar introduced co-sponsorship memoranda for legislation to eliminate the inheritance tax for children of the deceased age 21 and under.

**Workzone: Job-related expense deductions get a hard look in Pa**

Pennsylvania tax reviewers have been giving extra scrutiny to claimed unreimbursed employee expenses on state income tax filings as part of an initiative to root out intentional or accidental misreporting in recent years. Taxpayers taking deductions for expenses that their jobs require but that their employers don’t pay for — like union dues, travel costs, equipment purchases, continuing education or uniforms — are now more likely to get a letter from the state seeking documentation to prove the deductions are necessary. The department [published clearer guidance](http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Personal%20Income%20Tax/Unreimbursed%20Expenses/Unreimbursed-Expenses.aspx#.WEB-wHeZPVp) about [allowable expenses](http://www.revenue.pa.gov/FormsandPublications/FormsforIndividuals/Documents/Personal%20Income%20Tax/rev-637.pdf) and [supporting documentation](http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Personal%20Income%20Tax/Unreimbursed%20Expenses/Tips.aspx#.WECBI3eZNsM) after it faced criticism about the initiative’s sweep and implementation in 2014, its first year. It also shifted away from denying claims without first seeking documents to back them up. Early this year, the department gave notice that taxpayers claiming unreimbursed business expenses [should provide a verification letter](http://www.revenue.pa.gov/FormsandPublications/FormsforIndividuals/Documents/Personal%20Income%20Tax/rev-489.pdf) from employers, or submit a copy of the employer’s reimbursement policy or a signed affidavit. The Department of Revenue’s website [lists ways to document](http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/Pages/Personal%20Income%20Tax/Unreimbursed%20Expenses/Example-Documentation.aspx#.WECBzneZNsM) different kinds of unreimbursed expenses. Accountants still dislike the Department of Revenue’s initiative, saying it discourages people from claiming appropriate deductions and takes advantage of people’s disinclination to bother fighting for deductions if they aren’t that big.

**Governor Tom Wolf Rescinds 46 Executive Orders**

Governor Tom Wolf announced that he will rescind 46 outdated and unnecessary executive orders by previous administrations - some dating back 30 years - to continue his efforts to clean-up state government. Outdated orders include those from seven previous Governors starting with Gov. Milton Shapp. Many of the executive actions being rescinded include boards, task forces, programs and commissions that no longer exist. Many other orders created policies that have either been codified in statute, superseded by new legislation or are no longer necessary.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**2017 SENATE SESSION SCHEDULE**

**January**3, 23, 24, 25, 30, 31

**February**1, 6, 7, 8

**March**20, 21, 22, 27, 28, 29

**April**17, 18, 19, 24, 25, 26

**May**8, 9, 10, 22, 23, 24

**June**5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

**2017 HOUSE SESSION SCHEDULE**

**January**3, 23, 24, 25

**February**6, 7, 8

**March**13, 14, 15, 20, 21, 22

**April**3, 4, 5, 18, 19, 24, 25, 26

**May**8, 9, 10, 22, 23, 24

**June**5, 6, 7, 12, 13, 14, 19, 20, 21, 22, 26, 27, 28, 29, 30

**DEPARTMENT OF REVENUE UPDATE**

**Revenue Department Releases November 2016 Collections**

Pennsylvania collected $2 billion in General Fund revenue in November, which was $79.5 million, or 3.8 percent, less than anticipated, Secretary of Revenue Eileen McNulty reported. Fiscal year-to-date General Fund collections total $10.8 billion, which is $261.8 million, or 2.4 percent, below estimate. Sales tax receipts totaled $773.5 million for November, $51.9 million below estimate. Year-to-date sales tax collections total $4.1 billion, which is $122.2 million, or 2.9 percent, less than anticipated. Personal income tax (PIT) revenue in November was $865.9 million, $20.2 million below estimate. This brings year-to-date PIT collections to $4.5 billion, which is $81.1 million, or 1.8 percent, below estimate.  November corporation tax revenue of $31.9 million was $27 million below estimate. Year-to-date corporation tax collections total $807.2 million, which is $57 million, or 6.6 percent, below estimate. Inheritance tax revenue for the month was $68.5 million, $5 million below estimate, bringing the year-to-date total to $368.4 million, which is $14.5 million, or 3.8 percent, below estimate. Realty transfer tax revenue was $37.8 million for November, $1.8 million below estimate, bringing the fiscal-year total to $199.3 million, which is $28 million, or 12.3 percent, less than anticipated. Other General Fund tax revenue, including cigarette, other tobacco products, malt beverage, liquor and table games taxes, totaled $163 million for the month, $23.1 million below estimate and bringing the year-to-date total to $740.3 million, which is $8.1 million, or 1.1 percent, below estimate. Non-tax revenue totaled $46.5 million for the month, $49.5 million above estimate, bringing the year-to-date total to $109.7 million, which is $49.1 million, or 81.1 percent, above estimate. In addition to the General Fund collections, the Motor License Fund received $222.6 million for the month, $3.1 million below estimate. Fiscal year-to-date collections for the fund – which include the commonly known gas and diesel taxes, as well as other license, fine and fee revenues – total $1.1 billion, which is $7.9 million, or 0.7 percent, below estimate.

**IRRC UPDATES**

None