

Week of January 23, 2017

HEADLINES

IFO: FISCAL-YEAR-TO-DATE GENERAL FUND REVENUES \$332.5 MILLION BELOW ESTIMATE

The Independent Fiscal Office released its quarterly revenue review for the fourth quarter of 2016, showing for the quarter General Fund revenues fell \$125.8 million below estimate and have reached \$332.5 million below estimate for the fiscal year to date. According to the IFO, the General Fund is not the only revenue-receiving fund to fall below estimate with the Motor Licensing Fund \$2.7 million below estimate for the quarter and \$18.4 million below estimate for the fiscal year to date. Additionally, the Lottery Fund is below estimate by \$93 million for the quarter and \$133.1 million for the fiscal year to date. Pertaining to the General Fund, the IFO report notes that the below-estimate revenue trend is motivated by all major sources of revenue coming in below estimate. With the governor set to deliver his budget address on February 7, he has already stated he will not call for any increases in broad-based taxes like the personal income tax and sales and use tax. However, he has said he will seek a severance tax on natural gas extracts, which this week was met with statements by Republican leaders in the legislature who said there is likely little support for such a tax in the General Assembly. As the Commonwealth faces a deficit currently projected at \$1.7 billion for the next fiscal year, the Wolf administration has already announced it will be closing two state prisons as a cost-savings measure and both the administration and Republicans are looking at ways to restructure government and how state services are delivered as an alternative to raising taxes or seeking additional revenue outside of state government.

LOCALS PROTEST VAPE TAX AMID STORE CLOSURES

Mike Curry, owner of LifeSmoke Vapors, which has five locations, including one in York County, said he must now plan to close one of his stores by April if the tax isn't reformed. The 40 percent wholesale tax on vape products went into effect in October, and an estimated 100 vape shops have closed since then, according to the Pennsylvania Vape Association. Business owners also were forced to pay tax on their existing inventory. Curry and other vape shop owners were joined Monday morning in the State Capitol building by legislators and advocates to voice support for legislation to reduce the tax to 5 cents per milliliter of e-liquid. The bill, sponsored by Sen. Camera Bartolotta, R-Greene and Washington counties, and Rep. Jeff Wheeland, R-Lycoming County, was proposed late last session but stalled and was never voted on in the House. Speakers at the rally emphasized that this tax, intended to help close a budget deficit by bringing in additional revenue, will end up reducing state revenue when all the stores close, leaving hundreds unemployed. Sen. Scott Wagner, R-Spring Garden Township, spoke during the event. He told the crowd that no industry, regardless of what it is, should be targeted to fill budget holes.

ORTITAY RE-INTRODUCES LEGISLATION TO CUT CORPORATE NET INCOME TAX

Rep. Jason Ortitay re-introduced legislation to gradually reduce Pennsylvania's Corporate Net Income Tax (CNIT) rate to make the state more business friendly. The Commonwealth currently has the second highest CNIT in the nation at 9.99 percent. House Bill 130 would reduce the CNIT over a five-year period to a much more competitive 4.99 percent. The reduction would take place at a rate of 1 percentage point per year. At the time of its introduction, the legislation had received bipartisan support in the House with 29 co-sponsors.

EDUCATIONAL IMPROVEMENT TAX CREDIT LEGISLATION

Rep. Jim Christiana introduced co-sponsorship memorandum for legislation which would increase the amount of available tax credits for the Educational Improvement Tax Credit (EITC) program by \$70 million, and the amount of available tax credits for the Opportunity Scholarship Tax Credit (OSTC) program by \$30 million. The amount of available tax credits for the EITC program is currently set at \$125 million, with \$75 million allocated to scholarship organizations, \$37.5 million allocated to educational improvement organizations and \$12.5 million allocated to pre-k scholarship organizations. The amount of available tax credits for the OSTC program is currently set at \$50 million.

REPUBLICANS COOL TO NATURAL GAS SEVERANCE TAX

Despite it being a locked inclusion for Gov. Tom Wolf's budget address, Republican leaders confirmed Monday that they remain cool to the idea of a severance tax on natural gas extracts as a means to balance Pennsylvania's budget. After his Monday appearance at the Pennsylvania Press Club, House Majority Leader Dave Reed (R-Indiana) stated his caucus, despite some of his own members coming out with severance tax proposals of their own, is unlikely to support such a levy in the upcoming budget cycle. In the Senate, Republicans are still extremely cautious of using a natural gas severance to balance the budget. However, Gov. Wolf is still determined to introduce a severance tax proposal as part of his budget address early next month.

PENNSYLVANIANS CAN NOW SEND STATE TAX REFUNDS DIRECTLY TO A PA 529 COLLEGE SAVINGS ACCOUNT

PA Treasurer Joe Torsella announced that, for the first time, Pennsylvanians can deposit their state income tax refund directly into an existing, tax-exempt Pennsylvania 529 College Savings Program account. With the new option, all or a portion of a refund can be sent to one or multiple accounts. The process is simple. When completing your PA-40, Personal Income Tax Return, enter code H and the amount in the donation section between lines 32-36. Additionally, submit a PA-Schedule P with your return when donating to one or more Pennsylvania 529 College Savings Program accounts. More information is available in the 2016 PA-40, Personal Income Tax Return Instructions.

PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:

2017 SENATE SESSION SCHEDULE

January	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

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

Property Tax/Rent Rebate Program Applications Now Available

Application forms for the Department of Revenue's Property Tax/Rent Rebate Program are now available for eligible residents to begin claiming rebates on property taxes or rent paid in 2016. The deadline to apply for a rebate on property taxes or rent paid in 2016 is June 30, 2017. Rebates will be distributed beginning on July 1, as specified by law. The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The income limit is \$35,000 a year for homeowners and \$15,000 annually for renters, and half of Social Security income is excluded. The maximum standard rebate is \$650, but supplemental rebates for certain qualifying homeowners can boost rebates to \$975.

Department of Revenue Opens Personal Income Tax Filing Season for Tax Year 2016

With filing season now open, Pennsylvania residents can explore a number of electronic filing options to file their personal income tax returns for tax year 2016, the Pennsylvania Department of Revenue announced Wednesday. All taxpayers who received more than \$33 in total gross taxable income in calendar year 2016 must file a Pennsylvania personal income tax return by midnight, Tuesday, April 18, 2017. The department expects to process more than 6.4 million returns this year. To detect identity theft and combat refund fraud the department launched a Fraud Investigation Unit last year by reassigning staff. The unit works with the Internal Revenue Service and other states to continuously strengthen automated fraud filters on tax processing systems and to help identity theft victims when bogus returns are filed in their name.

IRRC UPDATES

Department of Revenue

Realty Transfer Tax; Revised 2015 Common Level Ratio; Real Estate Valuation Factors

The following real estate valuation factors are based on sales data compiled by the State Tax Equalization Board in 2015. These factors are the mathematical reciprocal of the actual common level ratios. For Pennsylvania Realty Transfer Tax purposes, these factors are applicable for documents accepted from July 1, 2016, to June 30, 2017. The date of acceptance of a document is rebuttably presumed to be its date of execution, that is, the date specified in the body of the document as the date of the instrument (61 Pa. Code § 91.102 (relating to acceptance of documents)).

County Revised Common Level Ratio Factor

Blair	*1.00
Washington	*1.00
Forest	**3.17

* Adjusted by the Department of Revenue to reflect an assessment base change effective January 1, 2017.

** Adjusted by the Department of Revenue to reflect an assessment ratio change effective January 1, 2017.