

Week of March 20, 2017

HEADLINES

STATE BUDGET VEHICLE CONTINUES ADVANCE

With little fanfare Monday afternoon the vehicle for the eventual state General Fund budget continued its advance through the legislative process, receiving second consideration in the House without amendment. The bill—House Bill 218—sets state spending at FY 2015-2016 spending levels with total state appropriations ringing in at just over \$33 billion. The \$29.45 billion General Fund spend number is far below the \$32.3 billion General Fund spend number proposed by Gov. Tom Wolf in his February 7 budget address. While several amendments were filed to the legislation, all were subsequently withdrawn. Meanwhile, clearing the second consideration hurdle in the House and with the bill sent back to the House Appropriations Committee, the bill advances through another step in the legislative process. While those involved in the process believe the bill in its current form will not reflect the budget that will eventually make up the commonwealth's spending plan for FY 2017-2018, all are committed to trying to advance the process in the hopes of meeting the June 30 budget deadline. In other state spending news Monday, the House Appropriations Committee approved along party-lines legislation limiting the amount of authorized debt the commonwealth may use for capital projects.

LEGISLATURE SITS ON \$118 MILLION SURPLUS

As of June 30, 2016, the Pennsylvania General Assembly sat on a funding reserve of \$118 million, a report from an independent auditor released Monday morning states. The audit, performed by accounting firm Boyer & Ritter of Camp Hill for the price of \$172,500 and accepted by the Legislative Audit Advisory Commission (LAAC) Monday shows that the legislative surplus—oft the aim of criticism over legislative transparency and money-hoarding—was down from the surplus of \$126 million reported as of June 30, 2015, and nearly \$90 million less than the surplus was just a decade ago. According to Boyer & Ritter's Lisa Myers, the surplus was down due to the cost of borrowing and spending down of reserve money during the FY 2015-2016 budget impasse.

CITY OFFICIALS PREPARE TO INCREASE ENFORCEMENT OF SWEETENED BEVERAGE TAX

Philadelphia City officials say they're stepping up enforcement of the sweetened beverage tax. City officials say distributors who haven't signed up to pay the tax could be hit with fines. Revenue officials say that, after months of outreach, preparing for the tax, more than 400 distributors have registered. But, they believe there are still some out there who haven't. So, Deputy Commissioner Marisa Waxman said, they are "entering a new phase." Waxman said that means a formal audit, maybe legal action, maybe fines up to one-thousand dollars, though that's not the goal.

PHILADELPHIA'S SODA TAX BRINGS IN \$6.4M IN FEBRUARY

Figures released Thursday by the city's Department of Revenue show the tax brought in \$6.4 million in February. The city had projected the tax would generate \$5.9 million for the month. The 1.5-cent-per-ounce tax on sweetened and diet beverages funds pre-K and community schools. It also will help pay to renovate recreation centers, libraries and parks. The tax generated \$5.9 million in January, more than double its prediction of \$2.3 million. Stung by falling sales at Philadelphia stores since the city started taxing soda and other soft drinks last fall, Pepsi and Coca-Cola are selling smaller containers that incur less tax. Pepsi will be replacing 2-liter bottles with 1-liter bottles. At Coke, sales are down in the city overall, but they are rising for smaller sized products.

HOUSE FINANCE COMMITTEE MOVEMENT

The House Finance Committee met Tuesday, March 21 to consider legislation. HB 46, which provides for a state income tax form check-off for a voluntary contribution of no less than five dollars to be utilized for pediatric cancer research, was reported from committee as amended. The amendment struck out the \$5 cap. HB 291, which reduces to inheritance tax to zero for the transfer of property to or for the use of a child twenty-one years of age or younger, was reported as committed. Members of the committee expressed concern over the loss of revenue which would result from this bill. HB 718, which excludes the purchase of gun safes and gun locks from the Sales and Use Tax, was reported as committed. Again, there was concern from some members on the loss of revenue in the tight budget year.

WARREN CALLS FOR TOLL TAX CREDITS FOR COMMUTERS, BUSINESSES

State Rep. Perry Warren introduced legislation today to establish a commuter and commerce toll tax credit program. House Bill 926, which is similar to a bill originally introduced in 2015-16 by former state Rep. Steve Santarsiero, would offer an annual state income tax credit of 50 percent of tolls paid, with a \$500 cap per filer. Eligible tolls would include those on the Pennsylvania Turnpike and bridges across the Delaware River. Individuals, corporations and small businesses with tax liability would be eligible. The tax credit would also be extended to Pennsylvania residents and Pennsylvania-based companies that shoulder additional costs when accessing the toll bridges operated under the Delaware River Joint Toll Bridge Commission, the Delaware River Port Authority of Pennsylvania and New Jersey, and the Burlington County Bridge Commission. In order to qualify, all tax credit filers would be required to submit valid EZ Pass documentation.

LAWMAKERS' PLAN OFFERS MIDDLE CLASS TAX CUT, ENSURES WEALTHIEST PAY 'FAIR SHARE'

State Sens. Art Haywood and Vincent Hughes, along with the Pennsylvania Budget and Policy Center, announced a plan to generate additional revenue to address the commonwealth's deficit. The "Fair Share Tax" plan would divide the state's Personal Income Tax into two parts: a tax on wages and interest, which would be reduced from 3.07 percent to 2.8 percent; and a tax on income from wealth, which would increase from 3.07 percent to 6.5 percent. Income from wealth would include dividends or net income from a business, profession, or farm; capital gains; net income from rents, royalties, patents and copyrights; gambling and lottery winnings and income from estates or trusts. Under the plan, 58 percent of taxpayers will see their taxes go down and another 26 percent will see no change in their taxes. It is expected to bring in \$2 billion in new revenue to balance the commonwealth's budget. Hughes and Haywood said they will sponsor the legislation that would implement the Fair Share Tax plan.

SENATE COMMITTEE REPORTS OUT SHORT-TERM UC CALL CENTER FUNDING BILL

The state Senate Labor and Industry Committee on Tuesday voted 8-4 to report out legislation that would provide a short-term infusion of funding to the state's currently beleaguered Unemployment Compensation call centers. The legislation, Senate Bill 250, would transfer \$15 million from the UC Fund to the Service and Infrastructure Improvement Fund (SIIF) for the current year.

ENHANCED REVENUE COLLECTIONS ACCOUNT LEGISLATION

Representative Duane Milne circulated co-sponsorship memorandum for legislation to ensure the continued operation of the Enhanced Revenue Collections Account. The account was created in 2010 as part of an effort for the Department of Revenue to expand tax return review and tax collection activities. The account has had to be subsequently re-authorized through legislative enactment three separate times. In the most recent re-authorization in 2014, the account was extended until the 2019-2020 fiscal year. However, the re-authorization has been enacted pursuant to articles that are only intended to last for one year. This legislation would not change the program or any substantive provisions relating to the account. The intent is to codify the authorizing language.

POTENTIAL LEGISLATION AMENDING THE TAX PAYER RELIEF ACT OF 2006

Representative Anthony Deluca circulated co-sponsorship memorandum for legislation which would amend the Tax Payer Relief Act of the Special Session in 2006, related to the exceptions under which school districts may request to increase property taxes above the index set forth through this statute. This legislation requires districts to tighten their budgeting practices by not allowing them to obtain an exception to the referendum requirement for school construction year and after without voter input.

PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:

2017 SENATE SESSION SCHEDULE

March 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

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

LEHIGH COUNTY BUSINESS OWNER SENTENCED IN TAX CASE

A Lehigh County business owner who pled guilty to 13 tax theft charges has been ordered to pay \$65,264 in restitution to the Commonwealth, Secretary of Revenue Eileen McNulty announced. "The vast majority of Pennsylvania businesses comply with the Commonwealth's tax laws. For those that don't, it is our job to enforce the law and ensure honest businesses are not placed at a competitive disadvantage by those who ignore the law and steal taxpayer dollars," said McNulty. "I commend our agents of the Department of Revenue and the Attorney General's Prosecution Section for their successful handling of the case." Michael T. Gerstenberg is a resident of Northampton County and the owner and operator of AE Logistics, Inc., a trucking/common carrier transportation business in Allentown, Lehigh County. Gerstenberg pled guilty on Dec. 7, 2016 to 13 counts for failing to turn over income tax withheld from employees between April 2011 and April 2014. In addition to the restitution, Lehigh County Common Pleas Judge Maria Dantos also sentenced Gerstenberg on Feb. 28, 2017 to two years of probation. The Department of Revenue's criminal tax unit investigated and developed the case against Gerstenberg and referred it to the Office of Attorney General. Deputy Attorney General Rebecca Elo prosecuted the case on behalf of the Commonwealth.

IRRC UPDATES

None