



# Pennsylvania Senate Appropriations Committee

**Senator Pat Browne**  
Chairman



January 2018

## Monthly Report

### Wolf Administration Releases 2017-18 Mid-Year Budget Update

Budget Secretary Randy Albright presented the 2017-18 Mid-Year Budget Update on December 14, 2017. The briefing contained no big developments or surprises, and the overall financial picture presented was essentially the same as what came out of the budget process during late October. Secretary Albright went so far as to say that the Administration does not foresee any need for net supplemental appropriations for the remainder of FY 2017-18.

Secretary Albright struck a positive tone as the Administration believes the Commonwealth is in the best financial shape since the Great Recession, but there is additional work to be done to improve its overall fiscal health. With continued constraint of spending increases, the Administration does not expect to need any new revenues to close next year's budget, with one notable exception that it will push for – a severance tax. The Administration is considering repeating several of its initiatives that did not make it into this year's budget, such as the early retirement incentive program.

Secretary Albright was adamant that the statutorily mandated transfer to the Rainy Day Fund be completed this year. The potential amount is in the \$10 million range based on current estimates, but where year-end revenues ultimately land depends largely on what happens with the proposed \$200 million transfer of funds from the Pennsylvania Professional Liability Joint Underwriting Association (JUA).

Ideally, the Senate Appropriations Committee believes that Pennsylvania should begin to transfer money to the Rainy Day Fund as it is one of the least prepared states to handle the next recession. Currently, the balance of the Rainy Day Fund is only \$475,000. The range of reserves that ratings agencies recommend is 5% to 15% of spending – which would be \$1.6 Billion to \$4.8 Billion for Pennsylvania. If Pennsylvania were at the median percentage reserve levels of all states, the Commonwealth would have about \$2 Billion in its Rainy Day Fund.

The 2017-18 Mid-Year Budget Briefing is available at the following website:  
<http://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2017-18%20Enacted%20Budget/2017-18%20Mid-Year%20Briefing.pdf>

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### Governor Wolf Set to Present FY 2018-19 Budget on February 6, 2018



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## Revenue Collections on Target through First Half of Fiscal Year

General Fund revenue collections for the month ended December 2017 totaled \$2.8 billion, which was \$30.1 million, or 1.1%, below estimate for the month. Fiscal year-to-date collections total \$14.23 billion, which is \$4.1 million below estimate for the year. Fiscal year-to-date 2017-18 total General Fund revenue collections are \$775.9 million, or 5.8%, ahead of last year. Because of differences in one-time revenue sources between fiscal years, it can be helpful to compare tax revenue growth instead of total revenue growth. General Fund tax revenue collections are 5.1% ahead of last year through December. The FY 2017-18 Official General Fund Revenue Estimate calls for annual tax revenue growth of 4.5%, so with one-half of the fiscal year behind us, tax revenue collections are beating expectations ahead of the upcoming and important Spring tax collection months.

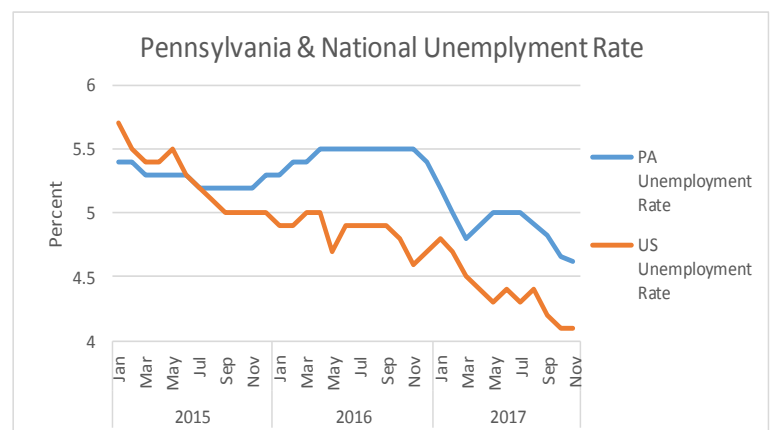
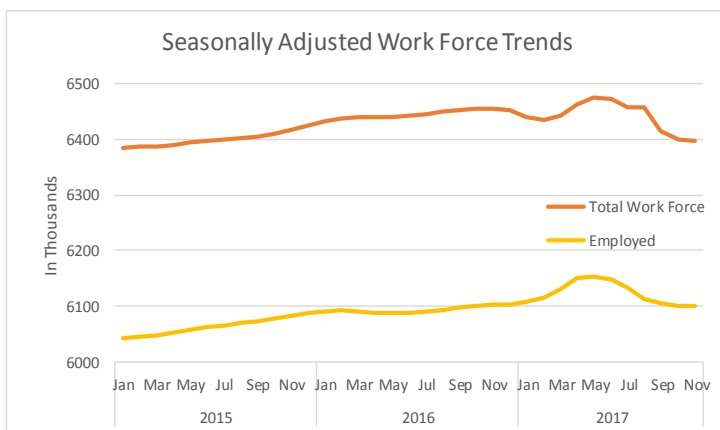
December's corporation tax collections missed the estimate by \$64.6 million, or 11.7%. The final corporate net income tax (CNIT) quarterly estimated payment for the 2017 tax year was due in December. The corporate net income tax was under estimate by \$81.3 million, or 15.3%, for the month. December's CNIT revenue estimate was optimistic, due to the recent changes to the net operating loss rules resulting from the *Nextel* decision. For the fiscal year-to-date, corporation taxes are running \$55.8 million, or 4.1%, short of estimate.

Sales and use tax (SUT) collections were above estimate for the month by \$15.8 million, or 1.8%. Non-motor SUT beat the estimate by \$15.9 million, or 2.1%, for the month, but SUT on motor vehicles was just below estimate by \$166,000, or 0.2%. General SUT collections (i.e. non-motor) were 6.7% above last year's collections, which could signal a strong holiday shopping season. Total sales and use tax collections for FY 2017-18 are 4.5% ahead of last year at this time, and the Official General Fund Revenue Estimate calls for 3.4% year-over-year growth.

Personal income tax (PIT) collections were above estimate by \$70 million, or 6.8%, for December. Estimated PIT payments were \$76.3 million, or 46.4%, above estimate for the month, but annual tax payments were \$10.8 million, or 37.8%, below estimate. The very strong PIT estimated payments were likely a response to the recently enacted Federal Tax Cuts Act. Taxpayers most likely erred on the side of overpayment of their 2017 state income taxes to qualify for a full deduction for state income taxes on their 2017 federal tax returns. Beginning in 2018, the federal tax changes limit the deduction for state and local taxes to \$10,000 per year. Total PIT collections are now \$321.5 million, or 5.9%, ahead of estimate through the first half of the current fiscal year.

Non-tax revenues were \$45.4 million short of estimate for the month, and they are now \$66.6 million below estimate for the fiscal year. The December monthly distribution of the revenue estimate had anticipated the receipt of the \$24.75 million table game license fee for the second Philadelphia casino. However, the license fee was not paid. The remainder was attributable to a net \$23.7 million monthly shortfall in Treasury escheats (i.e. unclaimed property).

Motor License Fund collections were \$17.7 million, or 8.3%, above estimate for the month of December. The Motor License Fund is now \$41.6 million, or 2.9%, above estimate for the year.



# Federal Tax Reform Impact on Pennsylvania's Personal Income Tax and Corporate Net Income Tax

The recently enacted Federal Tax Cuts and Jobs Act makes major changes to federal individual and corporate income taxes. With regard to individual income taxes, the federal changes will have a limited, if any, impact on Pennsylvania's personal income tax (PIT).

Unlike in some other states, Pennsylvania's PIT does not piggyback on the federal tax system. The PIT is levied against the taxable income of resident and nonresident individuals, estates and trusts, partnerships, S corporations, business trusts and limited liability companies that are not taxed as corporations for federal income tax purposes. Pennsylvania taxes the following eight classes of income at the rate of 3.07%:

1. Compensation;
2. Interest;
3. Dividends;
4. Net profits from the operation of a business, profession or farm;
5. Net gains or income from the disposition of property;
6. Net gains or income from rents, royalties, patents and copyrights;
7. Income derived through estates or trusts; and
8. Gambling and lottery winnings.

Unlike federal individual income taxes, the PIT does not provide for a standard deduction, itemized deductions, or personal exemptions. However, there are allowable deductions, credits and exclusions that are generally more limited in scope than those at the federal level. The Federal Tax Cuts and Jobs Act makes a number of changes to the individual income tax rate structure, as well as to deductions and credits. The federal tax rates for capital gains and dividends are left unchanged. The federal Act also provides owners of pass-through businesses, such as S corporations and partnerships, with the ability to deduct 20% of their qualified business income. Despite all of these changes, Pennsylvania's PIT is, at this time, believed to be mostly unaffected by the new federal law. Any significant impacts that become known will be highlighted in future editions of the *Monthly Report* as further analysis of the federal legislation becomes available.

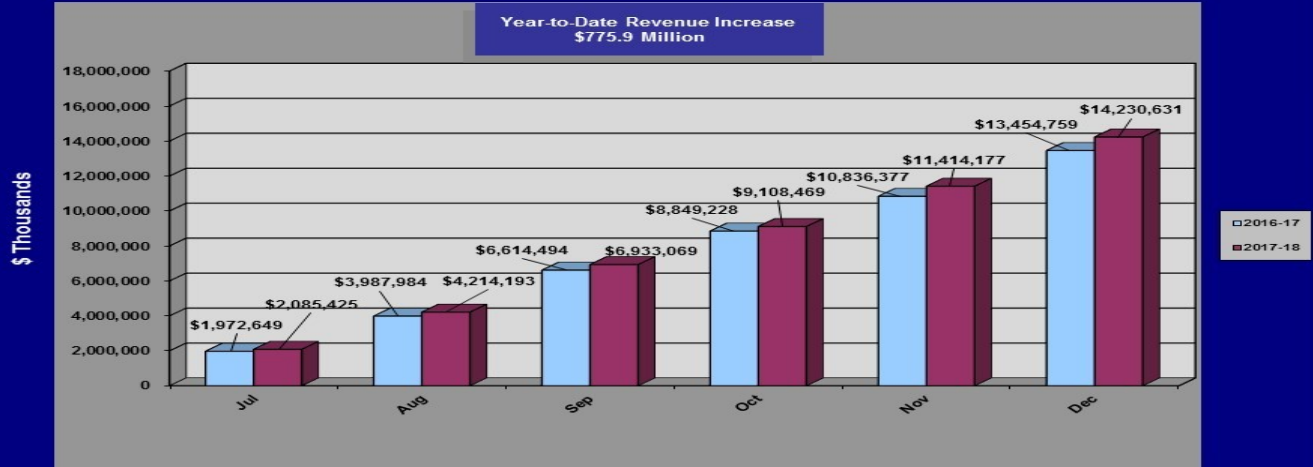
The Pennsylvania corporate net income tax (CNIT) is an annual excise tax measured by net income that is imposed on domestic and foreign corporations doing business in Pennsylvania. The CNIT tax base is federal taxable income as calculated under the Internal Revenue Code and reported on the corporation's federal tax return, before net operating loss and special deductions, and modified by certain additions and subtractions.

Pennsylvania S corporations are excluded from the tax. Instead, the shareholders of S corporations are subject to the personal income tax on their distributive share of income from the S corporation. In addition, the CNIT does not apply to banks, trust companies, title insurance companies, insurance companies, and mutual thrift institutions. These entities are subject to bank and trust company shares tax, title insurance company shares tax, insurance premiums tax, or mutual thrift institutions tax.

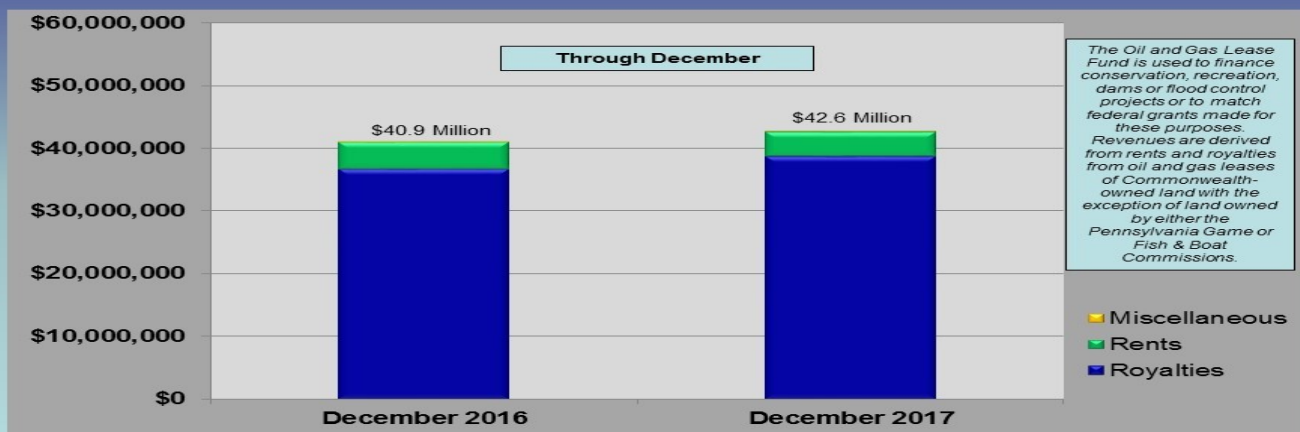
One of the most significant federal changes is the reduction in the corporate income tax rate from 35% to 21%. This change will not affect the Commonwealth's CNIT rate of 9.99%. The full list of other changes for the federal corporate income tax is extensive, but one of the most consequential changes is that corporations will be immediately able to deduct 100% of the cost of their new and used capital investments (i.e. plant and equipment) for the next five years. The "100% bonus depreciation" rule applies through 2022 and then will be phased down over the succeeding five years.

In response to the new federal bonus depreciation rules, the Pennsylvania Department of Revenue recently issued *Corporation Tax Bulletin 2017-02*. The bulletin interprets certain sections of Pennsylvania tax law as requiring the amount of a 100% deduction under federal rules to be added back to Pennsylvania taxable income and provides no additional mechanism for cost recovery with respect to the qualified property. This change essentially "decouples" Pennsylvania from the federal rules, thereby disallowing the 100% bonus depreciation for CNIT, and is effective for property placed in service after September 27, 2017. The Department of Revenue will continue to allow depreciation deductions under Corporation Tax Bulletin 2011-01 for property placed in service prior to this date.

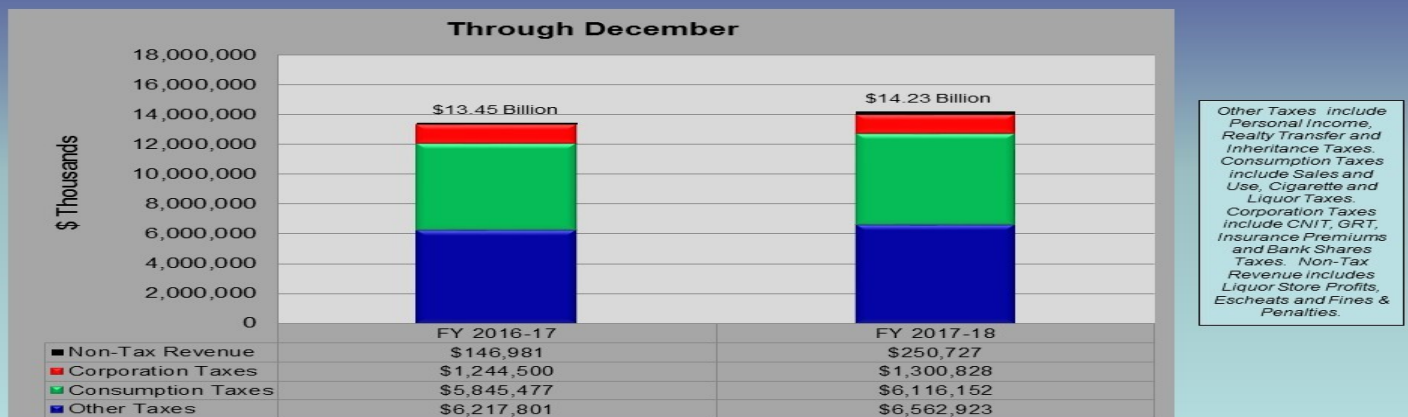
*General Fund Revenue Collections  
Fiscal Year 2017-18  
Revenue Comparison with Last Year*



**Oil and Gas Lease Fund  
Year-to-Date Revenue Compared with Prior Year**



**General Fund  
Year-to-Date Revenue Compared with Prior Year**



# Fiscal Year 2017-18

## Senate Appropriations Committee

### Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	YTD FY 2016-17	December 2017 Actual	December 2017 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
<b>TOTAL - GENERAL FUND</b>	<b>13,454,759</b>	<b>2,816,454</b>	<b>2,846,600</b>	<b>(30,146)</b>	<b>14,230,631</b>	<b>14,234,700</b>	<b>(4,069)</b>
<b>TOTAL - NON-TAX REVENUE</b>	<b>146,981</b>	<b>26,385</b>	<b>71,800</b>	<b>(45,415)</b>	<b>250,727</b>	<b>317,300</b>	<b>(66,573)</b>
<b>TOTAL - TAX REVENUE</b>	<b>13,307,778</b>	<b>2,790,069</b>	<b>2,774,800</b>	<b>15,269</b>	<b>13,979,904</b>	<b>13,917,400</b>	<b>62,504</b>
<b>TOTAL - Corporation Taxes</b>	<b>1,273,899</b>	<b>487,923</b>	<b>552,500</b>	<b>(64,577)</b>	<b>1,300,828</b>	<b>1,356,600</b>	<b>(55,772)</b>
Accelerated Deposits	1,478	271	0	271	451	0	451
Corp. Net Income	1,183,755	450,923	532,200	(81,277)	1,220,028	1,292,300	(72,272)
Cap. Stock & Franchise	29,399	0	0	0	0	0	0
Gross Receipts	32,495	25,431	9,800	15,631	37,330	24,500	12,830
PURTA	2,308	179	0	179	1,502	1,200	302
Insurance Premiums	4,310	6,104	1,200	4,904	17,002	12,200	4,802
Financial Institutions	20,155	5,015	9,300	(4,285)	24,516	26,400	(1,884)
<b>TOTAL - Consumption Taxes</b>	<b>5,845,477</b>	<b>\$1,073,516</b>	<b>\$1,060,300</b>	<b>\$13,216</b>	<b>\$6,116,152</b>	<b>\$6,087,600</b>	<b>\$28,552</b>
<b>Sales and Use</b>	<b>4,980,706</b>	<b>894,864</b>	<b>879,100</b>	<b>15,764</b>	<b>5,204,970</b>	<b>5,165,600</b>	<b>39,370</b>
General (net of transfers)	4,301,659	789,029	773,100	15,929	4,513,756	4,474,100	39,656
Motor Vehicle Sales	679,047	105,834	106,000	(166)	691,215	691,500	(285)
Cigarette Tax	653,315	119,545	120,400	(855)	641,479	646,700	(5,221)
Other Tobacco Products	5,353	10,204	10,100	104	59,799	59,800	(1)
Malt Beverage	12,788	1,915	1,700	215	12,719	12,600	119
Liquor	193,315	46,988	49,000	(2,012)	197,186	202,900	(5,714)
<b>TOTAL - Other Taxes</b>	<b>6,188,402</b>	<b>1,228,630</b>	<b>1,162,000</b>	<b>66,630</b>	<b>6,562,923</b>	<b>6,473,200</b>	<b>89,723</b>
<b>Personal Income</b>	<b>5,433,902</b>	<b>1,093,951</b>	<b>1,024,000</b>	<b>69,951</b>	<b>5,755,402</b>	<b>5,675,100</b>	<b>80,302</b>
Withholding	4,660,939	835,599	831,100	4,499	4,866,222	4,850,800	15,422
Non-Withholding	772,963	258,352	192,900	65,452	889,180	824,300	64,880
Realty Transfer	244,217	43,703	47,500	(3,797)	264,510	265,700	(1,190)
Inheritance & Estate	452,955	72,743	83,600	(10,857)	477,205	481,500	(4,295)
Minor & Repealed	(1,309)	7,261	(4,700)	11,961	5,422	(9,900)	15,322
Table Games (Gaming)	58,637	10,972	11,600	(628)	60,384	60,800	(416)
<b>TOTAL - MOTOR LICENSE FUND</b>	<b>1,280,160</b>	<b>230,120</b>	<b>212,470</b>	<b>17,650</b>	<b>1,489,964</b>	<b>1,448,330</b>	<b>41,634</b>
<b>TOTAL - Liquid Fuels Taxes</b>	<b>845,146</b>	<b>167,034</b>	<b>144,000</b>	<b>23,034</b>	<b>988,587</b>	<b>952,300</b>	<b>36,287</b>
Liquid Fuels	57	1	0	1	3	0	3
Fuels	0	0	0	0	0	0	0
Motor Carriers/IFTA	47,973	5,644	4,600	1,044	67,333	60,600	6,733
Alternative Fuels	5,068	1,182	1,000	182	7,036	6,600	436
Oil Company Franchise	792,047	160,207	138,400	21,807	914,214	885,100	29,114
<b>TOTAL - Licenses, Fees &amp; Other</b>	<b>435,014</b>	<b>63,087</b>	<b>68,470</b>	<b>(5,383)</b>	<b>501,378</b>	<b>496,030</b>	<b>5,348</b>
Licenses and Fees	424,805	64,085	67,500	(3,415)	461,668	451,700	9,968
Other Motor Receipts	10,209	(998)	970	(1,968)	39,710	44,330	(4,620)