



Accomplishments and Activities of the Senate Finance Committee 2013-14 Legislative Session

Act 52 of 2013 (House Bill 465) Summary of Provisions Included in the Tax Code:

Sales and Use Tax: Repeals underutilized credits, provides for new tax credits, and modifies appeals procedure.

Local Philadelphia Sales and Use Tax: Removes the sunset provision of the additional 1% local Philadelphia sales and use tax authorized under Act 44 of 2009.

Personal Income Tax: Aligns Pennsylvania with the federal government on start-up business deductions, provides language to permit taxpayers to recover intangible drilling costs, eliminates credit for taxes paid for foreign countries, provides check-off boxes on Personal Income Tax returns for the American Red Cross and the Children's Trust Fund and extends the expiration of current check-off boxes to 2018.

Corporate Net Income Tax: Addresses the "Delaware Loophole" by requiring the add-back of intangible expenses to income for interest, royalties, patents, trademarks, etc., between affiliated companies in certain instances, adopts market-based sourcing for the sales apportionment factor with regard to the sales of services, establishes an apportionment factor for providers of satellite television services, increases the Net Operating Loss (NOL) cap from \$3 million or 20% of taxable income to \$4 million or 25% of Pennsylvania's taxable income, creates a \$500, plus 1% for every dollar of tax greater than \$25,000, non-filing penalty for C-corporations.

Capital Stock and Franchise Tax: Adjusts the rate and extends the phase-out for two years as follows:

- Tax year 2014 rate is 0.67 mills versus zero mills under current law;
- Tax year 2015 rate is 0.45 mills; and
- Tax expires for year 2016 and thereafter.

Real Estate Transfer Tax: Closes the 89/11 loophole and provides a tax exemption for merging emergency medical services agency, volunteer fire company or volunteer rescue company, or a transfer of real estate between two or more volunteer agencies.

Non-licensed Corporation Pari-Mutuel Wagering Tax: Establishes a new 10% tax on advance deposit account wagering conducted on horse races in this Commonwealth.

Educational Opportunity Scholarship Tax Credit: Clarifies how long a scholarship recipient is eligible to receive a scholarship once their home school is removed from the least performing schools list.

Pennsylvania Inheritance Tax: Excludes small businesses and repeals section 2112, which provides an inheritance tax exemption on account of poverty for transfers between spouses (language is obsolete as inheritance tax does not apply to transfers between spouses).





Additional Tax Code Changes

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- Makes technical changes to the Film Tax Credit
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- Reform of the Bank Shares Tax
-
- Repeal of the Coal Waste and Ultraclean Fuels Tax Credit
-
- Clarification of the Job Creation Tax Credit
-
- Establishment of the City Revitalization and Improvement Tax Credit
-
- Establishment of the Mobile Telecommunications Broadband Investment Tax Credit
-
- Establishment of a new Innovate in PA Tax Credit program
-
- Codification of the existing Neighborhood Improvement Zone and Keystone Special Development Zone programs into the Tax Reform Code from the Fiscal Code
-
- Reorganization of the existing Board of Finance and Revenue
-
- Enhanced tax collection assistance for the the Department of Revenue



Other Legislation Enacted Into Law

- Bill:** Act 32 of 2013 (Senate Bill 797)
Sponsor: BROWNE
Subject: Makes changes to a number of Commonwealth statutes to bring the Pennsylvania State Employees Retirement System (PSERS) into compliance with federal law governing military leaves of absence and PSERS credit.
- Bill:** Act 33 of 2013 (Senate Bill 798)
Sponsor: BROWNE
Subject: Clarifies that public school employees who take a leave of absence for active military service are entitled to purchase retirement credit in the PSERS.
- Bill:** Act 39 of 2013 (House Bill 1172)
Sponsor: CHRISTIANA
Subject: Amends the Local Tax Enabling Act to revise provisions under Act 130 of 2008 regarding taxes levied by merging political subdivisions, including school districts.
- Bill:** Act 61 of 2013 (House Bill 1359)
Sponsor: TOEPEL
Subject: Amends Act 49 of 1929 to allow the Perkiomen Valley School District and the Methacton School District to annually charge the Commonwealth for a fixed payment for tax-exempt forest land that bisects the two districts.

Senate Bills Voted Out of Committee (Since January 2013)

- Bill:** Senate Bill 4 (Pamphlet Laws Resolution No. 2)
Sponsor: BRUBAKER
Subject: Amends the Constitution of Pennsylvania to stipulate that the General Assembly may, by law, establish uniform standards and qualifications which shall be the criteria to determine qualification as institutions of purely public charity.
- Bill:** Senate Bill 67
Sponsor: GORDNER
Subject: Provides that no assessment shall be made for a fraudulent return or where no return has been filed if it is more than ten years after the date on which such tax should have been paid.

Bill: **Senate Bill 68**
Sponsor: GORDNER
Subject: Provides that a local taxing authority may only have the right to send notice to a taxpayer if the tax was due at least three years and not more than ten years prior to the date of the notice.

Bill: **Senate Bill 141**
Sponsor: FONTANA
Subject: Provides for an Angel Investment Tax Credit to create a business environment intended to attract and encourage early stage financing.

Bill: **Senate Bill 160**
Sponsor: YUDICHAK
Subject: Enacts the Local Tax Filing Extension Act which applies to certain members and spouses of members of the armed forces of the United States.

Bill: **Senate Bill 266**
Sponsor: GREENLEAF
Subject: Permits an individual or spouse from filing jointly to offset gains with losses from the same or different classes of income.

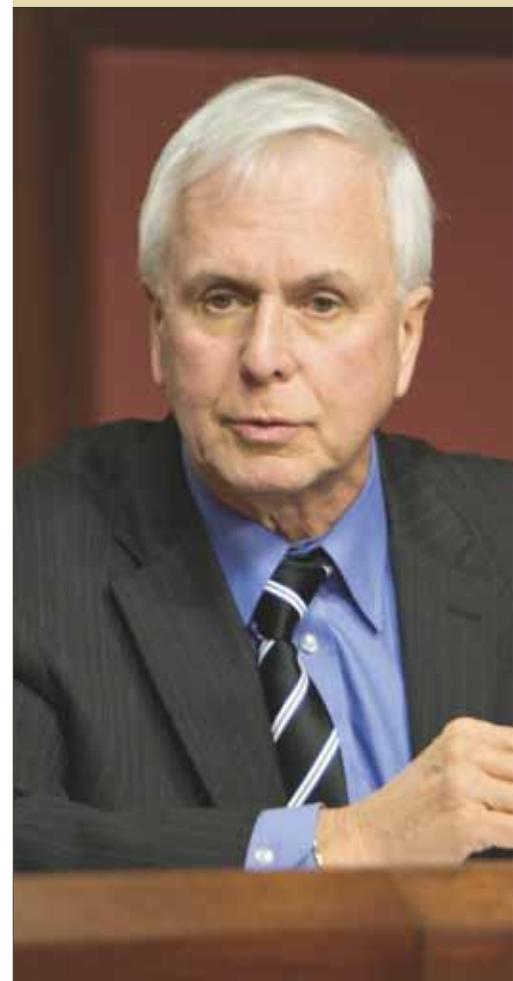
Bill: **Senate Bill 286**
Sponsor: ERICKSON
Subject: Excludes unrealized dividends and stock dividends from the calculation of income to determine eligibility under the property tax/rent rebate program.

Bill: **Senate Bill 303 (Incorporated into Tax Code)**
Sponsor: PILEGGI
Subject: Provides that the transfer of a small business is exempt from inheritance tax if the business is being transferred to one or more members of the same family and the family member maintains the operation of the small business for a minimum of seven years.

Bill: **Senate Bill 456 (Incorporated into Tax Code)**
Sponsor: BLAKE
Subject: Establishes the Innovate in PA program which provides a new and predictable source of funding for early-stage venture capital investment that will create family-sustaining jobs and develop innovative technologies.

Bill: **Senate Bill 492 (Act 42)**
Sponsor: VANCE
Subject: Changes the payment date for liquid fuel tax monies appropriated to municipalities and requires the Department of Transportation to pay the municipalities on the first day of March each year.

Bill: **Senate Bill 638**
Sponsor: VOGEL
Subject: Exempts from real estate assessment certain structures commonly used in agriculture and known as “high tunnels” or “hoop houses”.





- Bill:** **Senate Bill 797 (Act 32)**
Sponsor: BROWNE
Subject: Makes changes to a number of Commonwealth statutes to bring the PSERS into compliance with federal law governing military leaves of absence and PSERS credit.
- Bill:** **Senate Bill 798 (Act 33)**
Sponsor: BROWNE
Subject: Clarifies that public school employees who take a leave of absence for active military service are entitled to purchase retirement credit in the PSERS.
- Bill:** **Senate Bill 803**
Sponsor: BAKER
Subject: Excludes active duty military pay earned from the earned income tax.
- Bill:** **Senate Bill 922**
Sponsor: BRUBAKER
Subject: Creates a Defined Contribution (DC) pension system for new hires effective January 1, 2015 for the State Employees Retirement System (SERS) and July 1, 2015 for PSERS and elected officials upon re-election/retention.
- Bill:** **Senate Bill 944**
Sponsor: WILLIAMS
Subject: Authorizes school districts of the first class coterminous with cities of the first class to enact local cigarette taxes.
- Bill:** **Senate Bill 1043**
Sponsor: BROWNE
Subject: Amends the Fiscal Code.

House Bills Voted Out of Committee (Since January 2013)

- Bill:** **House Bill 46**
Sponsor: GODSHALL
Subject: Eliminates the sunset date for the organ and bone marrow donor tax credit which expired in 2010.
- Bill:** **House Bill 388**
Sponsor: PARKER
Subject: Provides for the enforcement of delinquent property tax claims through judgment liens.
- Bill:** **House Bill 390**
Sponsor: O'BRIEN
Subject: Enables the gentrification provision for long-term homeowner-occupants in Philadelphia.
- Bill:** **House Bill 391**
Sponsor: MCGEEHAN
Subject: Authorizes the governing body of the city of Philadelphia to collect real estate taxes through periodic installment payments and to determine who will be eligible for the program and how often the installments will be collected.
- Bill:** **House Bill 440 (Some Provisions included in Tax Code)**
Sponsor: REED
Subject: Amends the definition of "taxable income" for the purpose of the Corporate Net Income Tax to state that no deduction shall be allowed for an intangible expense or cost, or an interest expense or cost, paid accrued or incurred directly or indirectly in connection with one or more transactions with an affiliated entity.

Bill: House Bill 465 (Act 52)
Sponsor: MACKENZIE
Subject: Amends the Tax Reform Code.

Bill: House Bill 1172 (Act 39)
Sponsor: CHRISTIANA
Subject: Amends the Local Tax Enabling Act to revise provisions under Act 130 of 2008 regarding taxes levied by merging political subdivisions, including school districts.

Bill: House Bill 1359 (Act 61 of 2013)
Sponsor: TOEPEL
Subject: Amends Act 49 of 1929 to allow the Perkiomen Valley School District and the Methacton School District to annually charge the Commonwealth for a fixed payment for tax-exempt forest land that bisects the two districts.



Summary of Senate Bill 922 – Pension Reform

KEY COMPONENTS

Defined Contribution Plan:

- Effective 1/1/15 for SERS and 7/1/15 for PSERS, new hires will be automatically enrolled in a 401(a) retirement plan, a type of Defined Contribution (DC) plan for public sector employees and elected officials upon re-election/retention.
- Participation in the DC plan is mandatory unless an employee is in a position that currently allows optional membership into the current Defined Benefit (DB) plan.
- Participants may make voluntary contributions up to the limits permitted by IRC, which is presently capped at \$51,000 annually for 2013.
- Any current employee who is a member of the DB plan may elect to become a participant in the DC plan through written notice to their respective board (SERS or PSERS).
- Boards shall provide participants in the DC plan with a statement showing accumulated total defined contributions credited to the participant's individual investment account, the nature and type of investments, and the investment allocation of future contributions as of June 30 of the current year on or before December 31 of each year.

Vesting:

- During first and second year of service – 0%.
- At and after second year of service – 50%.
- At and after third year of service – 75%.
- At and after the fourth year of service – 100%.

Agreements with Financial Institutions:

- Boards may enter into written agreements with one or more financial institutions relating to the plan's administration and investment of funds.

Contribution Rates:

- Employer Contribution: 4% of an active participant's compensation (5.5% for hazardous duty).
- Employee Contribution Rates: SERS: 7.5% and SERS: 6.25%.

PSERS & SERS:

- The PSERS and SERS Boards will administer and manage the DC plan for their members.
- The School Employees' Defined Contribution Trust and the State Employees' Defined Contribution Trust will be created and shall be comprised of the individual investment accounts and all assets and moneys in those accounts. The members of the board shall be the trustees of the trust, which shall be administered exclusively for the benefit of those school and state employees who participate in the plan and their beneficiaries within the meaning of and in conformity with IRC § 401(a).



History of Legislation

Senate Bill 922 was amended twice in the Senate Finance Committee meeting on 6/19/13.

Amendment A02301 made the following changes:

- Removed all language pertaining to future benefits of current employees including:
 - *Reduction of the multiplier;*
 - *Pensionable income capped at Social Security Wage Base;*
 - *Final average salary calculated using final five years of service;*
 - *“New York Style Limit” on employee’s salary; and*
 - *Lump sum actuarial modification/neutral option 4.*
- Removed language relating to the adjustment of the collars.
- Provided language to give direction to the PSERS and SERS boards with regard to entering into agreements with financial institutions to manage and administer the DC plan.
 - *Also provided language which would set a minimum number of investment plans and providers of which individuals may choose to participate.*
- Added language that would make the participation in the DC plan applicable to the judiciary upon retention and the following current members upon re-election:
 - *General Assembly;*
 - *Governor;*
 - *Lieutenant Governor;*
 - *Attorney General;*
 - *Auditor General; and*
 - *Treasurer.*
- **Amendment A02335** removed State Police and Corrections Officers from participating in the DC plan. They will remain participants in the DB pension system.



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Summary of Public Hearings/Briefings

Date: January 14, 2013 (Harrisburg)
Topic: Privatization of the Pennsylvania Lottery

Date: May 29, 2013 (Harrisburg)
Topic: Comprehensive Pension Reform