

# FY 2009-10 Tax Package

(amounts in millions)

| Tax                                    | Issue   | Effective Date                       | FY 2009-10 Impact | FY 2010-11 Impact |
|--|---|--------------------------------------|-------------------|-------------------|
| <b>SALES AND USE TAX</b>               |   |                                      |                   |                   |
| 1                                      | SUT Exclusion<br>Provides a sales and use tax exemption for helicopters and similar rotorcraft sold, leased or used in Pennsylvania, including repair or replacement parts, installation of parts, and overhauling or rebuilding of helicopters or similar rotorcraft.  | Immediately                          | \$ (0.07)         | \$ (0.09)         |
| 2                                      | SUT Accelerated Tax Remittance<br>Requires large businesses (\$25,000 or more SUT remitted per quarter) to file and pay their sales tax twice per month instead of once per month. The revision will result in one additional SUT payment being received in FY 2010-11. This is a one-time revenue gain.  | Tax Returns Filed after May 31, 2011 | \$ -              | \$ 217.5          |
| <b>PERSONAL INCOME TAX</b>             |   |                                      |                   |                   |
| 3                                      | PIT Technical Correction<br>Amends section 303(a.6) of the TRC in order to clarify an incorrect reference to the federal Internal Revenue Code. The amendment will have no impact on the current administration of § 303(a.6).  | Immediately                          | \$ -              | \$ -              |
| 4                                      | PIT Check-offs<br>Extends the sunset of the check-off on the PIT form for contributions to Wild Resources Conservation, Organ and Tissue Donation Awareness and Military Family Relief Assistance to January 1, 2014 and clarifies that the check-offs for Breast and Cervical Cancer Research and Juvenile Diabetes Cure Research do not expire. | Immediately                          | \$ -              | \$ -              |
| 5                                      | PIT Accelerated Tax Withholding<br>Conforms large employers with the payroll tax withholding schedule presently used for federal tax filing. Currently, large employers must remit withheld PIT twice per month. The new schedule coincides with the federal requirement of remitting tax on a weekly basis. This is a one-time revenue gain.     | Tax Returns Due after May 31, 2010   | \$ 159.1          | \$ -              |
| <b>CORPORATE NET INCOME TAX</b>        |   |                                      |                   |                   |
| 6                                      | CNIT Sales Factor Weight<br>Increases the weighting of the sales factor from 70% to 83% for taxable years beginning after 12/31/2008. For taxable years beginning after 12/31/2009, the sales factor weight is increased to 90%.  | TYB 1/1/2009                         | \$ (73.2)         | \$ (87.7)         |
| 7                                      | CNIT Net Loss Deduction (NOL)<br>Expands NOL cap from \$3 million or 12.5% of taxable income to \$3 million or 15% for taxable years beginning after 12/31/2008. The NOL cap is increased for taxable years beginning after 12/31/2009 to \$3 million or 20% of taxable income.   | TYB 1/1/2009                         |                   |                   |
| <b>CAPITAL STOCK AND FRANCHISE TAX</b> |   |                                      |                   |                   |
| 8                                      | CSFT Valuation Deduction<br>Increases the fixed formula valuation deduction from \$150,000 to \$160,000 by amending the definition of "capital stock value".  | TYB 1/1/2010                         | \$ (0.5)          | \$ (1.7)          |
| 9                                      | CSFT Tax Rate and Phase-Out<br>Modifies the phase-out of the tax. Beginning January 1, 2009, the tax rate will be 2.89 mills instead of 1.89 mills, and the 2.89 mills rate will apply for 2010 and 2011 as well. The rate will drop to 1.89 mills in 2012, 0.89 mills in 2013, and be completely eliminated for 2014.                            | TYB 1/1/2009                         | \$ 373.9          | \$ 550.6          |

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| 10   | CSFT<br>Estimated Tax Payments                     | Provides that estimated CSFT payments due prior to January 1, 2010 will not be subject to an underpayment penalty if those payments were made assuming a CSFT rate of 1.89 mills instead of 2.89 mills.  | Immediately            | \$ -              | \$ -              |
| <b>GROSS RECEIPTS TAX</b>                  |  |  |                        |                   |                   |
| 11   | GRT<br>Managed Care Organizations                  | Imposes gross receipts tax at the rate of 59 mills (5.9%) on managed care organizations for gross receipts received from payments pursuant to a Medicaid managed care contract with DPW through its Medical Assistance program.  | Effective<br>10/1/2009 | \$ 528.5          | \$ 529.5          |
| <b>CIGARETTE AND LITTLE CIGARS TAX</b>     |  |  |                        |                   |                   |
| 12   | Cigarette Tax<br>Rate Increase                     | Increases the cigarette tax by 25 cents per pack from \$1.35 per pack to \$1.60 per pack (\$0.0675 per cigarette to \$0.08 per cigarette). The fiscal impact includes the effect of a small increase to the commissions rate for stamping agents (\$250,000).  | 11/1/2009              | \$ 97.0           | \$ 145.5          |
| 13   | Cigarette Tax<br>Add'l SUT from Cigarettes         | Additional sales and use tax received because of the price increase to cigarettes.   | 11/1/2009              | \$ 2.9            | \$ 4.9            |
| 14   | Little Cigars Tax<br>Establishment                 | Places "little cigars" into the definition of cigarettes for tax purposes and imposes an excise tax on little cigars at the same rate of tax that is imposed on cigarettes (\$1.60 per pack of 20 or \$0.08 per stick).  | 11/1/2009              | \$ 16.1           | \$ 25.3           |
| 15   | Little Cigars Tax<br>Add'l SUT from Little Cigars  | Additional sales and use tax received because of the price increase to little cigars.  | 11/1/2009              | \$ 0.3            | \$ 0.6            |
| 16   | Cigarette and Little Cigars Tax<br>Floor Tax       | Imposes an additional cigarette tax at the rate of \$0.0125 per cigarette for cigarettes on which the old rate of \$0.0675 has already been paid. The floor tax for little cigars previously not taxed will be 8 cents per stick.  | 11/1/2009              | Included above    | Included above    |
| 17   | Cigarette Tax<br>HCPRA Repeal                      | Eliminates the transfer of 18.52% of the cigarette tax from the General Fund to the Health Care Provider Retention Account.  | 7/1/2009               | \$ 170.9          | \$ 170.9          |
| <b>RESEARCH AND DEVELOPMENT TAX CREDIT</b> |  |  |                        |                   |                   |
| 18   | CSFT, CNIT, PIT<br>Technical Amendment             | Confirms the R&D tax credit with other credits by removing the provision which requires that the credit must be held for one year before it can be sold or assigned.   | Immediately            | \$ -              | \$ -              |
| <b>EDUCATIONAL IMPROVEMENT TAX CREDIT</b>  |  |  |                        |                   |                   |
| 19   | EITC<br>Adoption into the TRC                      | Establishes the EITC in the Tax Reform Code and removes it from the Public School Code. The adoption into the TRC is a continuation of the EITC program. All activities initiated under the Public School Code shall continue and remain in full force and effect and may be completed under new Article XVII-F of the TRC.  | Immediately            |                   |                   |
| 20   | EITC<br>Increased Income Limits and CPI Adjustment | After June 30, 2011, increases the allowable household income for students to \$60,000, subject to an income allowance of \$12,000 for each dependent. Presently, the allowable household income limit is \$50,000, subject to an allowance of \$10,000 for each additional dependent. On July 1, 2012 and thereafter, DCED shall annually adjust the income limits to reflect upward changes in the Consumer Price Index for the mid-Atlantic region. | Immediately            | \$ -              | \$ -              |

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| EITC<br>Eligible Student with a Disability  | Provides for a definition of "eligible student with a disability" as a student who either is enrolled in a special education school or has otherwise been identified, needs special education and related services, and is enrolled in a Pre-K program or in a school. The maximum allowable household income for students with a disability is calculated at 1.5 times the standard income limits for Support Level 1 and 2.993 times the standard income limits for Support Level 2. Support Level 1 refers to a student who is not enrolled in a special education school. Support Level 2 refers to a student who is enrolled in a special education school. These limits are also subject to annual adjustments for CPI. | Immediately    | \$ -              | \$ -              |
| 21  |   |                |                   |                   |
| EITC<br>Pass-through Entity   | Amends the definition of "pass-through entity" to include a single-member limited liability company treated as a disregarded entity for federal income tax purposes.  | Immediately    | \$ -              | \$ -              |
| EITC<br>Pass-through Entity   | Provides that a pass-through entity which does not intend to use the tax credit may transfer all or a portion of the credit to a shareholder, member or partner for their use in the taxable year in which the contribution is made or in the taxable year immediately following the year in which the contribution is made. Under current law, a transferred credit must be claimed by a shareholder, member or partner in the year in which the transfer is made.   | Immediately    |                   |                   |
| 23  |   |                |                   |                   |
| EITC<br>Summer Recess Pre-K Program   | Amends the definition of "pre-kindergarten program" to include a program of instruction that provides a minimum of two hours of instruction per day at least 20 days over the summer recess.  | Immediately    | \$ -              | \$ -              |
| 24  |   |                |                   |                   |
| EITC<br>Reduction in Tax Credits  | For Fiscal Years 2009-10 and 2010-11, reduces the amount of credits that may be awarded annually by 33%. The current cap of \$75 million per year will be reduced to \$50.25 million per year for the current and immediately preceding fiscal years.   | Immediately    |                   |                   |
| 25  |   |                |                   |                   |
| <b>REDUCTION OF TAX CREDITS</b>   |   |                |                   |                   |
| R&D, Film Production and Educational Improvement Tax Credits  | For Fiscal Years 2009-10 and 2010-11, reduces the amount of credits that may be awarded and postpones utilization in such a way that the impact on the Film and EITC credits is virtually equal over a two-year period. The R&D credit will be reduced by roughly half the amount of the Film credit and EITC.  | Immediately    | \$ 37.9           | \$ 74.9           |
| 26  |   |                |                   |                   |
| Call Center, EIP, REAP, Job Creation, Neighborhood Assistance, and First Class Cities Economic Development District Tax Credits | For Fiscal Years 2009-10 and 2010-11, reduces the amount of credits that may be awarded and postpones utilization in such a way that these smaller tax credits contribute to the overall savings needed from tax credit reduction.  | Immediately    |                   |                   |
| Alternative Energy Investment Credit  | Postpones the awarding of the \$5 million Alternative Energy Investment Credit, which was established under the Alternative Energy Investment Act. No credits have yet been awarded under this program.   | Immediately    |                   |                   |
| 28  |   |                |                   |                   |

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|    | <b>TAX AMNESTY</b>   |  |                                      |                   |                   |
| 29 | Any tax imposed for deposit in General Fund, Motor License Fund or Liquid Fuels Tax Fund | Implements a tax amnesty program that will apply to taxpayers who are delinquent on a payment of tax liability for an eligible tax as of June 30, 2009. Abates penalties and one-half the interest owed on delinquent taxes. In addition, a six-year look back period is put in place whereby a taxpayer's responsibility for filing back taxes is limited to a total of six years. The legislation repeals the previous tax amnesty statute that remains on the books from the 1990s. | April 26, 2010 through June 18, 2010 | 190.0 \$          | (57.1)            |
|    | <b>ADMINISTRATION AND ENFORCEMENT</b>  |  |                                      |                   |                   |
| 30 | General Provisions   | Re-establishes the administration and enforcement language that currently resides in the 1990s tax amnesty article into the miscellaneous section of the TRC (Article XXX) in order to maintain its existence and preserve its use because the prior tax amnesty law is being repealed.  | Immediately                          | -                 | -                 |
|    | <b>TOTAL:</b>  |  |                                      | <b>1,502.8 \$</b> | <b>1,573.1</b>    |