

Stimulus Transition Reserve Fund

— *What Is It and Why Do We Need It?*

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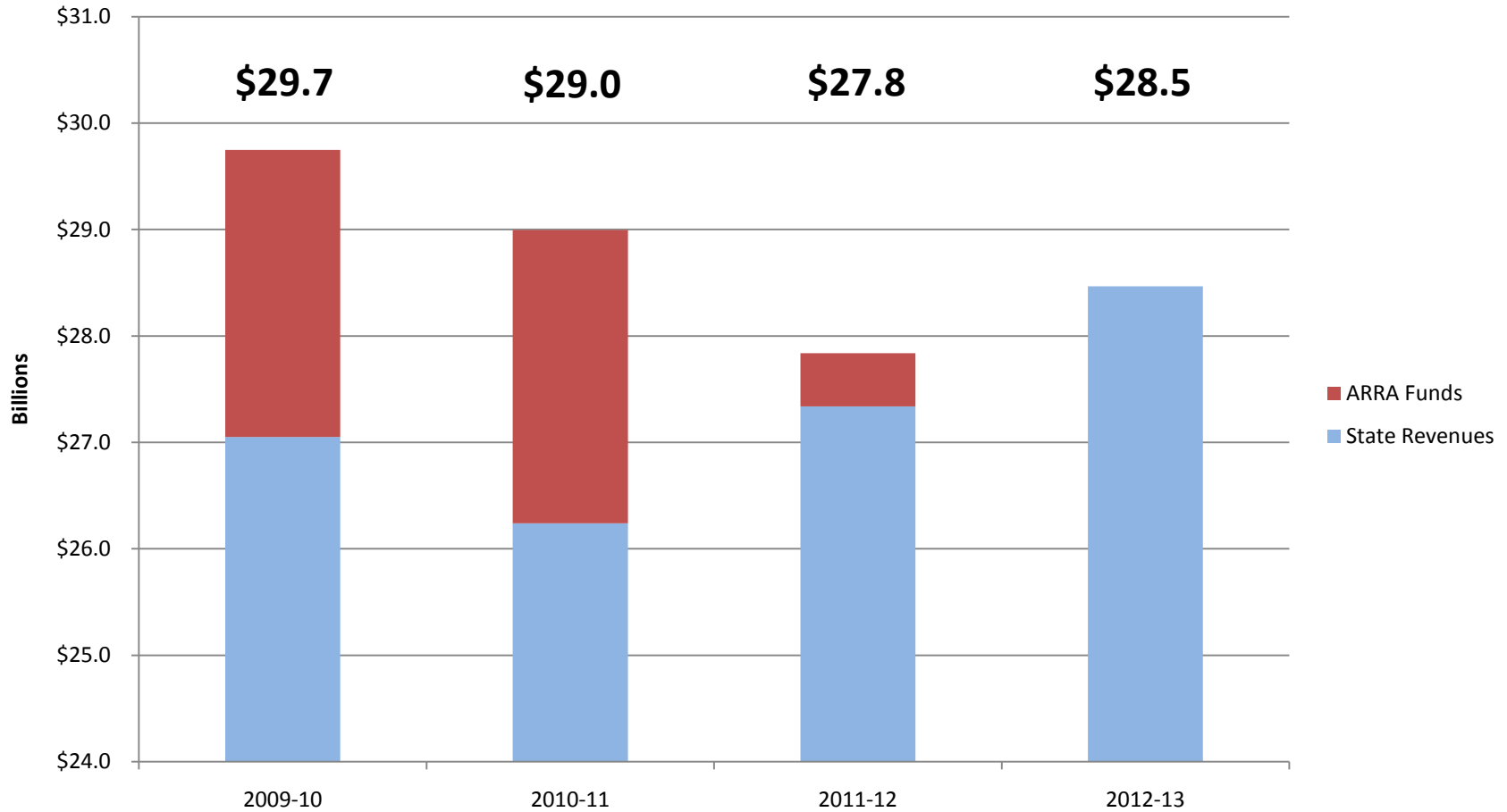
Pennsylvania Budget and Policy Center

What is the Stimulus Transition Reserve Fund?

- A “lock box” that will collect additional revenues generated from a series of tax changes.
- The Reserve Fund begins to collect money on July 1, 2010.
- By June 30, 2011, the Reserve Fund is projected to contain \$874 million.
- By 2014-15, the Reserve Fund would collect \$1.8 billion per year.
- Funds will be reserved until Fiscal Year 2011-12.

Why do we need it?

State revenues can't grow to offset losing ARRA funds

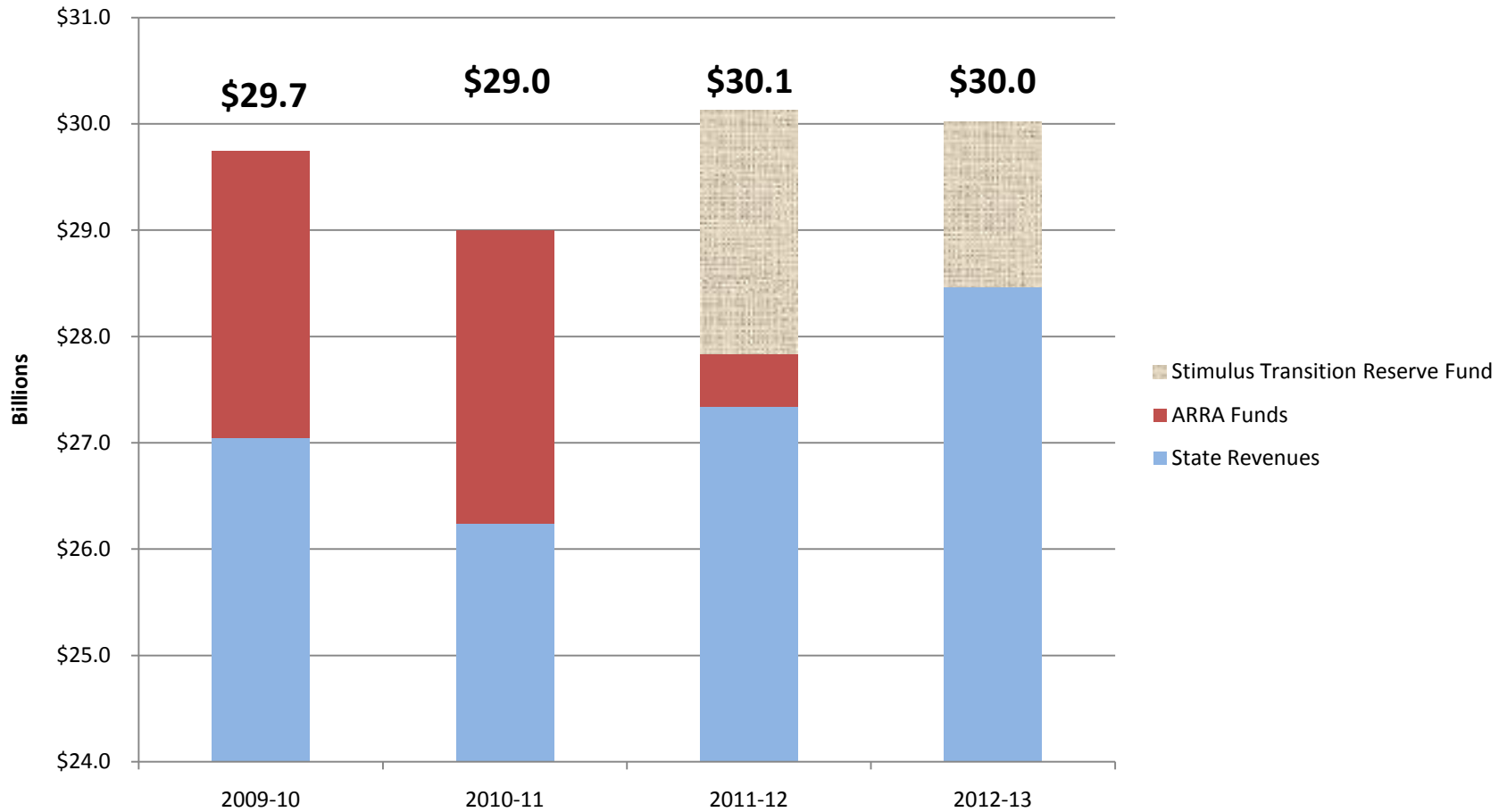


Other Funding Commitments

- Mandated health care programs (Medicaid)
- State's aging population
- Increasing prison population
- Meeting the adequacy goals from Costing Out Study
- State/local pension costs



Stimulus Transition Reserve Fund helps fill funding gap



Pennsylvania Cannot Afford to Wait to Solve its Revenue Issues

- The sooner the changes are made, the smaller the increases need to be.
- Pennsylvania can't cut its way out of this.
- The Governor's Proposal improves the tax system, modernizes the system, and increases fairness and competitiveness.



Five tax changes would:

- Modernize our tax system.
- Increase tax fairness.
- Provided critically needed funding in the coming fiscal years.

1. Modernizing the Sales Tax

- Broaden the sales tax base to better reflect today's economy by taxing more services
 - Consumption is rapidly shifting away from tangible goods to services
 - Even the playing field between goods and services
- Eliminates special interest exemptions
 - Candy and gum
 - Specific stair lift devices
- A total of 74 exemptions are eliminated

1. Modernizing the Sales Tax (continued)

- Cuts the state tax rate from 6% to 4%
 - Makes purchasing “big ticket” items like cars and appliances cheaper for Pennsylvanians
- Cuts county rates in Allegheny and Philadelphia Counties
 - Larger base helps Counties maintain revenue streams
- Overall impact: Increases sales tax collections by **\$531 million** in 2010-11.

2. Eliminate the Antiquated Sales Tax Vendor Discount

- Pennsylvania allows sales tax filers to keep 1% of the total sales they collect to offset administrative costs
- Sales and accounting systems are almost universally computerized, cutting administrative compliance costs
- No other taxpayers are allowed such a discount
- Provides big-box retailers with \$ millions
- **Costs the state \$74 million per year**

3. Close Corporate Loopholes by adopting Combined Reporting

- Current Corporate Net Income Tax system allows multi-state corporations to easily move Pennsylvania profits to low- or non-tax states, like Delaware. “Voluntary taxation” for many big companies.
- Eliminates the tax advantage multi-state corporations have over Pennsylvania-only firms
- Gives all companies a 10% rate cut
- **Raises \$67 million in 2010-11**

4. Levy an Excise Tax on Other Tobacco Products

- Pennsylvania is the ONLY state in the U.S. not to have an excise tax on smokeless tobacco.
- Only Pennsylvania and Florida do not have excise taxes on cigars.
- Tobacco excise taxes discourage use and make products harder for children to afford.
- **Raises \$42 million in 2010-11.**

5. Enact a Severance Tax on Natural Gas Extraction

- Pennsylvania on the cusp of an natural gas boom due to the Marcellus Shale.
- Energy states levy severance taxes to offset public costs of extraction - environmental and infrastructure damage, as well as social costs.
- Severance taxes also compensate Pennsylvanians for loss of non-renewable resource.
- Due to federal incentives, producers pay little to no state income taxes.
- Producers expect to pay the tax.
- **Projected to raise \$161 million in 2010-11.**