

PA Budget: No State Tax Increases For 2011-12

July 12, 2011 by *James L. Fritz*

On June 30th, Governor Corbett signed a state budget reducing Pennsylvania's state government spending by more than \$1 billion. These cuts, including substantial cuts to K-12 school funding and aid to higher education, however, virtually ensure tax increases by many local school districts and higher tuition for college students attending state-owned and state-related universities. Following are key highlights of interest to Pennsylvania businesses.

- **Capital Stock & Franchise Tax Phaseout:** remains in place. Rate will be reduced from 2.89 mills for 2011 to 1.89 mills for 2012. The tax will be eliminated in 2014.
- **Corporate Net Income Tax:** rate unchanged (9.99%).
- **Sales & Use Tax:** no change in state rate (6%) and no changes to tax base/exemptions. Semimonthly filings replaced by single filing with 50% estimate for current month and true-up for prior month.
- **Personal Income Tax:** rate unchanged (3.07%).
- **Misc. State Taxes:** no increases.
- **R&D Tax Credit:** annual allocation increased from \$40 million to \$55 million.
- **Job Creation Tax Credit:** allocation reduced from \$22.5 million to \$10.1 million.
- **Film Production Tax Credit:** allocation reduced from \$75 million to \$60 million annual cap; 1-year carryforward.
- **Education Improvement Tax Credit (EITC):** continues at \$67 million.

The budget reportedly uses only a small fraction of the 2010-11 General Fund surplus, which exceeded \$785 million. It also appears that 2011-12 revenue projections may not have been adjusted to account for better than expected revenue collections. Looking

ahead, this suggests that substantial surpluses may be available when legislators and the Governor reach the point of dealing with next year's budget.

The question of a tax or impact fee on natural gas drilling has been deferred until the Fall. It is possible that a Fall tax bill could include minor tax revisions in addition to dealing with natural gas issues.

While the tax news was good at the state level, it remains to be seen what impact state funding will have on local taxes. Among other cuts, Senate Democratic Leader Jay Costa pointed to more than \$900 million in cuts to support for K-12 education. While some school districts seem to have found ways to balance their 2011-12 budgets without tax increases, others have not. The impact of state cuts on school districts varies considerably in degree – for example, from \$104 per student to \$884 per student at districts in Dauphin County, from \$113 to \$731 per student in Lancaster County, from \$173 to \$506 per student in Centre County and from \$99 to \$1,156 per student in York County. Taken together with cuts impacting services at the county level, it would not be surprising to see substantial local tax increases in many areas around the Commonwealth – impacting both homeowners and business property owners.

As noted elsewhere in this newsletter, businesses would be well-advised to examine their real estate assessments to make sure the valuations are appropriate, so that no more than a fair share of local taxes will have to be paid.

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