

Governor Corbett Proposes “No New Tax” Budget

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Keeping his election pledge, Governor Corbett has proposed a Pennsylvania budget for 2011-12 which would require no tax or fee increases. In fact, the Governor would actually provide some additional tax reductions for Pennsylvania’s business community. Whether these will hold up after debate by the General Assembly remains to be seen since closing a \$4 billion structural deficit required the Governor to propose many spending reductions, some very drastic.

Tax Highlights from the Governor’s Budget proposal:

- No severance tax on Natural Gas
- Maintain 100% Bonus Depreciation (see separate article)
- Maintain Capital Stock and Franchise Tax phase-out, reducing corporate taxes by \$70 million in 2011-12 (elimination of the tax still scheduled for 2014)
- R&D Tax Credit - allocation increased from \$18 million to \$55 million
- Education Improvement Tax Credit (EITC) – allocation increased from \$60 million to \$75 million
- Job Creation Tax Credit – maintain current \$10.1 million allocation
- Film Production Tax Credit – maintain \$60 million allocation
- Neighborhood Assistance Tax Credit – allocation increased from \$8.1 million to \$18 million
- Coal Waste Removal and Ultra Clean Fuels Tax Credit – \$18 million allocation
- Resource Enhancement and Protection Tax Credit - increased from \$4.5 to \$10 million

The Governor’s budget would reduce expenditures for general government operations by more than two percent and would eliminate 1,500 government positions. Many DCED programs, including economic development programs, would be consolidated and DCED’s budget would be reduced by \$114 million. The Department of Revenue, however, fared quite well under the Governor’s budget, with an overall increase. It appears that the budget would maintain funding for badly-needed upgrades to the Department of Revenue’s technology.

Although his cuts to many other programs would be relatively modest, Governor Corbett risks becoming known as the “Anti-Education Governor.” He has proposed reducing state support for basic education by \$1 billion and reducing support for state-owned and state-related colleges and universities by 50 percent. The state-owned colleges and universities would lose more than \$230 million and the state-related universities (Penn State, Pitt, Temple and Lincoln) would lose more than \$320 million. To partially offset K-12 cuts and prevent them from simply translating into local property tax increases, the Governor has proposed that local school districts negotiate one-year wage and salary freezes (would require re-opening existing contracts in many districts).

In reaching a balanced budget for 2011-12, the Governor does not have available \$2.65 billion of federal fiscal assistance, \$750 million of one-time revenues and \$665 million of one-time expenditure reductions used to balance the 2010-11 budget. To close the gap, the Governor proposes to cut spending by \$2.613 billion. In addition, the Governor's budget anticipates that a recovering economy will generate a revenue increase of more than \$1 billion as compared to 2010-11. The Governor's budget assumes a 1.5 percent increase in Pennsylvania employment during 2011 and growth of 1.8 percent in 2012. Increased personal incomes and increased consumer spending will be key inasmuch as the Personal Income Tax and the Sales and Use Tax produce approximately 70 percent of General Fund revenues.

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