



July 8, 2022

SENATOR VINCENT HUGHES
Democratic Chairman

Tax Code

House Bill 1342, Printer's Number 3370, makes several changes to the Tax Reform Code as part of the negotiated budget package, including a Corporate Net Income Tax (CNI) reduction and adjustments to tax credit programs. For further details and information on other policy changes, please see the summary below.

Article II – Sales and Use Tax (SUT)

Requires peer-to-peer car-sharing marketplace facilitators to collect and remit the sales and use tax.

- *This provision will increase General Fund revenues by \$0.2 million in FY 2022-23, and \$0.5 million in FY 2023-24.*

Adds a new definition for “flight simulator” meaning a device used for the training or instruction of an individual on a helicopter and makes an associated repeal.

- *This provision will have no fiscal impact on the General Fund.*

Article III – Personal Income Tax (PIT)

Provides for expense deductions for tangible personal property up to \$1.080 million as provided for under Section 179 of the Internal Revenue Code (IRC). Current law permits these deductions up to \$25,000. The \$1.080 million cap is currently available to Pennsylvania C-corporations.

- *This provision will decrease General Fund revenues by \$3.0 million in FY 2022-23, and \$18.7 million in FY 2023-24.*

Permits like-kind exchanges of real estate property for tax deferral purposes as provided for under Section 1031 of the IRC.

- *This provision will decrease General Fund revenues by \$12.6 million in FY 2022-23, and \$15.1 million in FY 2023-24.*

Provides that forgiven Paycheck Protection Program loans and Economic Impact payments are not subject to the personal income tax.

- *This provision will have no fiscal impact on the General Fund.*

Repeals the provision providing the Department of Community and Economic Development (DCED) the authority to align local earned income tax filing deadlines with state tax filing deadlines. The alignment is currently provided for under the Local Tax Enabling Act.

- *This provision will have no fiscal impact on the General Fund.*

Article IV – Corporate Net Income Tax (CNI)

Provides for the adoption of market-based sourcing of intangibles and the codification of economic nexus (Corporation Bulletin 2019-04).

Reduces the corporate net income tax rate from 9.99% to 8.99% for tax year 2023, with half-point reductions each tax year through tax year 2031. The tax rate will be reduced to 4.99%.

- *These provisions will decrease General Fund revenues by \$126.6 million in FY 2022-23, and \$305.3 million in FY 2023-24.*

Article IX – Insurance Premiums Tax (IPT)

Provides that all collections from the insurance premiums tax will be deposited into the General Fund and provides for the following annual transfers from the tax: (1) the higher of 8.5% or \$85.0 million to the Fire Insurance Tax Fund, and (2) the higher of 38.0% or \$345.0 million to the Municipal Pension Aid Fund.

- *These provisions will decrease General Fund revenues by \$4.1 million in FY 2022-23, and \$4.7 million in FY 2023-24.*

Article XVI-A – Vehicle Rental Tax

Exempts peer-to-peer car-sharing activities from the vehicle rental tax.

- *This provision will have no fiscal impact on the General Fund.*

Article XVII-B – Research and Development Tax Credit

Increases the amount of available tax credits from \$55.0 million to \$60.0 million and increases the small business allocation under the program from \$11.0 million to \$12.0 million.

- *This provision will decrease General Fund revenues by \$5.0 million in FY 2022-23, and \$5.0 million in FY 2023-24.*

Article XVII-D – Entertainment Production Tax Credit

Subarticle B – Film Production Tax Credit

Increases the amount of available tax credits from \$70.0 million to \$100.0 million and provides for a \$5.0 million allocation to Pennsylvania film producers.

- *This provision will decrease General Fund revenues by \$30.0 million in FY 2022-23, and \$30.0 million in FY 2023-24.*

Subarticle E – Entertainment Economic Enhancement Program (also known as the Rock Litz tax credit)

Increases the amount of available tax credits from \$8.0 million to \$24.0 million.

- *This provision will decrease General Fund revenues by \$16.0 million in FY 2022-23, and \$16.0 million in FY 2023-24.*

Article XVII-K – Waterfront Development Tax Credit

Increases the amount of available tax credits from \$1.5 million to \$5.0 million.

- *This provision will decrease General Fund revenues by \$3.5 million in FY 2022-23, and \$3.5 million in FY 2023-24.*

Article XVIII-C – City Revitalization and Improvement Zones (CRIZ)

Requires the Department of Revenue to notify an authority overseeing a CRIZ when it imposes a penalty on a business in the CRIZ.

Allows for a business in a CRIZ to be eligible for grants (currently only loans are permitted) from funds raised from bond issuances, and that grant and loan payments from the fund are not confidential information.

- *This provision will have no fiscal impact on the General Fund.*

Article XVIII-F – Innovate in PA Tax Credit

Makes a repeal necessary to effectuate the changes made in the IPT.

- *This provision will have no fiscal impact on the General Fund.*

Article XIX-B – Neighborhood Improvement Zones (NIZ)

Provides that the authority overseeing a NIZ has access to reports and certifications for determining the allocations made under the program for debt service and development and construction activity in a zone.

Provides a definition for affiliate and for how affiliates are to be treated in a zone when an affiliate relocates, including the expiration of the benefits under the article if affiliates leave the zone.

- *This provision will have no fiscal impact on the General Fund.*

Article XIX-D – Keystone Opportunity Zones, Keystone Opportunity Expansion Zones and Keystone Opportunity Improvement Zones

Moves the date that an application can be received by DCED for a political subdivision to apply for a zone from October 1, 2022, to October 1, 2023.

- *This provision will have no fiscal impact on the General Fund.*

Creates a new Article XIX-H – Airport Land Development Zones (ALDZ)

Establishes a new Airport Land Development Zone program for airports to create ALDZ's.

Businesses located in an ALDZ will be eligible for a tax credit in the amount of \$2,100 for each full-time equivalent employee created in the ALDZ.

- *This provision will decrease General Fund revenues by \$1.8 million in FY 2022-23, and \$4.5 million in FY 2023-24.*

Creates a new Article XIX-I – Pennsylvania Dependent and Child Care Enhancement Program

Establishes a new Pennsylvania Dependent and Child Care Enhancement program to provide taxpayers with a credit for employment-related expenses including childcare and household services as necessary for an individual to be employed.

Dependents include (1) individuals under the age of 13, and (2) individuals or spouses that are physically or mentally incapable of caring for themselves.

The tax credit will be equal to 30% of the taxpayer's employment-related expenses, up to \$3,000 for one dependent or \$6,000 for two or more dependents, multiplied by 35%. The maximum amount of credit that a taxpayer can receive is \$315 for one dependent and \$630 for two or more dependents.

The tax credit is applied after Tax Forgiveness and is refundable.

- *This provision will decrease General Fund revenues by \$25.4 million in FY 2022-23, and \$36.7 million in FY 2023-24.*

Article XXI – Inheritance Tax

Exempts the transfer of personal property from a decedent military member from the inheritance tax.

- *This provision will have a nominal fiscal impact on the General Fund.*

Article XXIII – Public Transportation Assistance Fund

Changes the per hour fee that is imposed on vehicle rentals as follows:

- For less than two hours the fee will remain at \$0.25 per hour.
- For 2 to 3 hours the fee will remain at \$0.50 per hour.
- For 3 to 4 hours the fee is changed from 3 to 6 hours at \$1.25 per hour.
- For 4 or more hours the fee is changed to 6 or more hours at \$2.00 per hour.

Requires that the fee applies to peer-to-peer car-sharing activities.

- *These provisions will increase Public Transportation Assistance Fund revenues by \$0.5 million in FY 2022-23, and \$2.0 million in FY 2023-24.*

Article XXV – Table Games

Requires the revenue from table games taxes to be deposited into the General Fund, instead of the Property Tax Relief Fund, if the balance of the Budget Stabilization Reserve Fund (Rainy Day Fund) is greater than \$750.0 million.

- *This provision will increase General Fund revenues by \$145.0 million in FY 2022-23, and \$151.2 million in FY 2023-24.*

Article XXIX-D – Computer Data Center Equipment Incentive Program

Increases the qualification period for the sale and use tax exemption program from 15 to 25 years.

- *This provision will have no fiscal impact on the General Fund.*

Article XXX – General Provisions

Provides that the total amount of available tax credits for the R&D, Entertainment Production, and Waterfront Tax Credit programs as well as the Airport Land Development Tax Credit cannot be changed through July 1, 2025.

- *This provision will have no fiscal impact on the General Fund.*