Week of August 14, 2017

**HEADLINES**

**Noting potential credit downgrade, Gov. Wolf urges House to finish balancing the state budget**

Gov. Tom Wolf Monday urged House Republicans to return to voting session as soon as possible to finish up balancing the state budget before the Commonwealth faces another credit downgrade. “They know they’ve got to get to work and we’ve got to get the job done. I think House Republicans are aware of that, I know they are aware of that,” he said. “Standard and Poor’s is threatening a downgrade and I’m trying to hold them off, but they’re looking at what goes on here and, basically, House Republicans need to get back here and get this over the finish line.” S&P, one of the country’s largest bond-rating agencies, put Pennsylvania’s bond rating on a negative credit watch in July, stating it would lower the rating should Pennsylvania not solve the political differences that have led to large budget deficits and also pass a budget that was balanced by significant recurring sources of sustainable revenue. According to the governor, if the state’s credit is downgraded it could have a devastating impact on the Commonwealth, local governments who borrow using the Commonwealth’s backing, and future budgeting. Meanwhile, speaking to reporters last week, House Majority Leader Dave Reed (R-Indiana) poured some cold water on that hot-button revenue plan, noting its main component—a nearly $400 million boost from consumer-paid gross receipts tax levies on natural gas, electricity, and telecommunications services—was a non-starter in his caucus and House Republicans will likely be devising a counter-proposal that takes into consideration their long-held priorities of gaming expansion revenue led by VGT legalization and further liquor privatization. While Rep. Reed said he hoped the House would come back before the end of August to begin the legislative process of considering the yet-to-be-revealed counter-proposal, no firm date was given and the prospect of holding off until the House’s first announced fall session day of September 11 was not foreclosed upon.

**Treasurer: Bailing out Pa. general fund with 2nd loan would be 'substantial risk'**

State Treasurer Joe Torsella warned legislators Wednesday that the state's primary bank account will likely run out of money twice this month — and he'll be reluctant to approve a second loan unless legislators quickly pass a responsible revenue package to balance the budget. The treasury on Tuesday released a $750 million loan to the state's general fund, which was expected to dip into negative numbers. The loan must be paid back, along with $141,000 in interest, by Aug. 23. Six days after that, on Aug. 29, the general fund will once again dip below zero, Mr. Torsella, a Democrat, said in a statement. Mr. Torsella said the law requires him to place treasury money only in "prudent" investments and that lending to the state without a balanced budget "would represent a substantial investment risk."

**Sales Tax Exemption Now Available to PA Loggers, Lawmakers Say**

Reps. Martin Causer (R-Turtlepoint) and Matt Gabler (R-Clearfield/Elk) are reminding area loggers of a sales tax exemption now available to them for business-related equipment, supplies and services. The law providing the exemption was adopted last year as part of the state budget process, and it took effect on July 1. According to the Department of Revenue, those eligible for the exemption would include purchasers engaged in timbering as a business enterprise. Timbering involves producing or harvesting trees for commercial production; it does not include harvesting trees for the purpose of clearing land for access roads. The exemption would apply to the purchase of machinery and equipment and their associated parts and foundations, as well as supplies or services which are necessary to perform operations prior to the transport of the harvested products, such as in-field processing of trees into logs or chips, loading forest products onto highway vehicles for transport to storage or processing facilities, or postharvest site reclamation.

**Taxpayer Caucus hears opposition to Senate-passed revenue plan**

The legislative taxpayer caucus, met in Allegheny County at a hearing hosted by caucus member Rep. Jason Ortitay (R-Washington) this week to discuss the state Senate’s most recent budget revenue proposal to balance Pennsylvania’s $31.99 billion budget for the FY 2017-18.  The caucus heard from a panel of utility officials, natural gas industry suppliers and workers, as wells as taxpayers who were mostly critical of the plan that would place an extraction tax on Marcellus Shale drillers and a gross receipts tax on natural gas customers, as well as a tax hike on electricity and phone bills. Members of the natural gas and electric community stated that the proposed gross receipts tax places a disproportionate burden on customers to pay for the cost of state government. Others on the panel pointed to the state’s lack of restraint on spending and believe reigning in the spending issue to be top priority.  The Taxpayer Caucus is set to hear from another panel on the topic of the proposed Senate revenue plan on August 22 in Brookville, PA.

**POTENTIAL LEGISLATION TO REDUCE THE CORPORATE NET INCOME TAX RATE**

Representative Greg Rothman circulated co-sponsorship memorandum for legislation which would reduce the Corporate Net Income Tax rate from 9.99% to 3.07%. As stated in the memo, this legislation would make the Commonwealth more competitive with neighboring states, such as West Virginia and New York, whose CNIT was 6.50% in 2016.

**Potential Delinquent Liquor Tax Collection for the School District of Philadelphia**

Senator Lawrence Farnese circulated co-sponsorship memorandum for legislation that would require liquor licensees in the City of Philadelphia to have made all payments of the city’s liquor by the drink tax, including any interest and penalties owed, in order to be approved for a license renewal or transfer. Currently, the Pennsylvania Liquor Control Board requires a licensee to be cleared for state tax purposes by the Departments of Revenue and Labor and Industry before a license renewal or transfer may be granted. This legislation would extend this tax clearance to include a local tax clearance for licensees in Philadelphia. The City of Philadelphia imposes a 10% tax on the sale price of an alcoholic beverage, and these collections are used to support the School District of Philadelphia. While collection rates had been notably low for several years, the City has since increased and strengthened its enforcement practices, which has led to higher collection rates. This legislation would not authorize any new taxes or raise the liquor by the drink tax. Rather, it would complement the City’s collection and enforcement efforts and ensure that delinquent liquor by the drink taxes are recouped by the City and passed onto the school district for the coming school year.

**PA and other states worry about life after gas tax**

As more people plug in their cars, transportation planners are starting to wonder how Pennsylvania and other states will plug budget holes if gas tax revenue begins to decline. That’s the issue at the heart of a federally-funded study underway by a group called the I-95 Coalition, a transportation policy organization covering the states crossed by the interstate. "The primary source for surface transportation revenues — the pay at the pump fuel tax, which is typically based on a fixed amount per gallon — is not keeping up with the increasing infrastructure and operational needs of the roadway networks, let alone future investment needs," said Patricia Hendren, I-95 Corridor Coalition executive director, in a statement. While electric and hybrid cars are just a tiny fraction of the 10.4 million vehicles on Pennsylvania’s roads, their numbers are growing. Since 2013, when the gas tax was increased, the number of electric vehicles registered in Pennsylvania has doubled – from 1,653 to 3,599. The coalition, which includes all the departments of transportation and the major toll and turnpike agencies in the region, is focusing its $1.16 million project in Delaware and Pennsylvania on public education and a 50-motorist three-month pilot program to examine how the user-fee concept might work. The user fee could either replace or augment the existing gas tax. Any broad move to implement a user-fee tied to mileage would need to be based on legislation passed by the General Assembly.

**Treasurer Torsella Announces financial results for PA 529 guaranteed savings program accounts**

Pennsylvania Treasurer Joe Torsella provided a financial performance report on PA 529 Guaranteed Savings Program’s (PA 529 GSP) investment report for fiscal year 2016-17, and outlined adjustments going forward. Among the report’s highlights was the news that PA 529 GSP investments earned over a 10% return this past fiscal year, the program is more than fully funded (116%) on an actuarial basis, and the long-term rate of assumption has been lowered from 6% to put the fund on even sounder financial footing going forward. Growth on a PA 529 GSP account is based on tuition inflation rather than financial markets. When used for qualified higher education expenses, growth is not subject to federal or Pennsylvania income taxes and Pennsylvania taxpayers can deduct contributions from the Pennsylvania taxable income up to $14,000 per year, per beneficiary, within limits.

**PENNSYLVANIA GENERAL ASSEMBLY SESSION SCHEDULE:**

**\*Session days for both the House and Senate for budget discussions are still TBA. The fall session schedule is below.\***

**2017 SENATE SESSION SCHEDULE**

September      18, 19, 20

October          16, 17, 18, 23, 24, 25

November      13, 14, 15

December       11, 12, 13, 18, 19, 20

**2017 HOUSE SESSION SCHEDULE**

September       11, 12, 13, 25, 26, 27

October           2, 3, 4, 16, 17, 18, 23, 24, 25

November       13, 14, 15, 20, 21, 22

December        4, 5, 6, 11, 12, 13, 18, 19, 20

**DEPARTMENT OF REVENUE UPDATE**

PSTAP Representatives met in Harrisburg on Wednesday, August 16th with representatives of the PA Department of Revenue to discuss the Schedule C reviews and to voice member issues and concerns regarding the reviews. Members were sent a copy of the topics of discussion for the meeting prior to the meeting. The Q&A is currently being reviewed and will be sent to the membership early next week. Thank you for your input regarding this important issue.

**IRRC UPDATES**

Reminder - The IRRC meeting to address the following items is scheduled for next Thursday, August 24th.

[**State Board of Accountancy**](http://www.irrc.state.pa.us/regulations/RegSrchRslts.cfm?AGY=320)

* [IRRC No. 3104 - Act 73 and Act 15 Amendments (16A-5513)](http://www.irrc.state.pa.us/regulations/RegSrchRslts.cfm?ID=3117)
	+ Final Regulation: [Regulation](http://www.irrc.state.pa.us/docs/3104/AGENCY/3104FF.pdf)

[**Bureau of Professional and Occupational Affairs**](http://www.irrc.state.pa.us/regulations/RegSrchRslts.cfm?AGY=563)

* [IRRC No. 3105 - Schedule of Civil Penalties - Accountants (16A-5514)](http://www.irrc.state.pa.us/regulations/RegSrchRslts.cfm?ID=3116)
	+ Final Regulation: [Regulation](http://www.irrc.state.pa.us/docs/3105/AGENCY/3105FF.pdf)