



Pennsylvania
Economic & Revenue Update

Senate Appropriations Committee

March 8, 2021

Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105

717-230-8293 | contact@ifo.state.pa.us | www.ifo.state.pa.us



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INDEPENDENT FISCAL OFFICE

March 8, 2021

Dear Chairmen and Members of the Senate Appropriations Committee:

Thank you for the opportunity to submit materials in advance of the budget hearing for the Independent Fiscal Office (IFO). The *2021-2022 Governor's Executive Budget* proposes an appropriation of \$2.34 million for the office, the same amount appropriated for the current year.

In addition to questions about the IFO's budget, past hearings have included discussions regarding Pennsylvania's economic outlook, labor market, revenue collections, demographics, long-term fiscal outlook and natural gas trends. This submission includes data, tables and graphs that have been requested in prior budget hearings. We trust they will be helpful as you consider the FY 2021-22 budget proposal.

Functions of the IFO include the preparation of monthly reports on the state economy and revenue collections, periodic revenue estimates, publication of performance-based budgeting and tax credit evaluation reports, coordinating analyses and issuing actuarial notes for legislation that proposes changes to public employee pension or retirement plans, cost analyses of approved collective bargaining agreements and special reports and research briefs on various budget and economic topics.

Questions regarding this packet can be submitted to contact@ifo.state.pa.us.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel".

Dr. Matthew J. Knittel
Director, Independent Fiscal Office

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Independent Fiscal Office Overview

The office was created by Act 120 of 2010 and enters its tenth year of operation. The office currently employs 13 staff: 1 director, 2 managers, 1 office manager and 9 analysts. The IFO director is appointed by the leadership of the General Assembly and is in the third year of a six-year appointment. The FY 2021-22 Executive Budget proposes an appropriation of \$2.34 million for the office. That amount includes \$200,000 of dedicated funding for work related to contracted actuarial analysis.

Mission Statement

The Independent Fiscal Office (IFO) provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, the IFO does not support or oppose any policy it analyzes, and will disclose the methodologies, data sources and assumptions used in published reports and estimates.

Role in the Budget Process

The statute that created the IFO outlines several points at which the office is required to provide budget-related information to policymakers. They are as follows:

- November 15** Prepare an assessment of the state's fiscal condition for the current fiscal year and subsequent five fiscal years by taking account of the state economy, demographics, revenues and expenditures.
- January 31** Convene a revenue conference with the chairs of the Appropriations Committees, the Secretary of the Budget and the Secretary of Revenue to discuss economic trends and revenue performance.
- May 20** Provide an initial revenue estimate for the upcoming fiscal year.
- June 20** Provide a final revenue estimate for the upcoming fiscal year.

Other Responsibilities

Office resources are also used for the following purposes: (1) coordinate and facilitate actuarial analysis of proposed changes to the pension systems, (2) provide a cost analysis of approved collective bargaining agreements, (3) provide an economic analysis of any revenue proposals included in the Executive Budget, (4) publish performance-based budgeting reports for executive agencies, (5) publish tax credit review reports and (6) at the request of members of the General Assembly, provide economic, revenue or fiscal analysis to the extent that staff resources are available for that purpose.

Independent Fiscal Office Expenditures

	Actual 2019-20	Projected 2020-21	Proposed 2021-22
<u>Personnel</u>			
Salaries	\$1,172,937	\$1,154,100	\$1,194,500
Benefits	555,359	603,500	645,700
Retirement	318,758	341,305	353,183
Employer Taxes	<u>100,465</u>	<u>99,076</u>	<u>102,530</u>
Subtotal	2,147,519	2,197,981	2,295,913
<u>Operating</u>			
Office Operations and Supplies	14,587	19,700	21,000
Computers, Networks and Software	21,864	24,300	25,000
Data Acquisition and Analysis	2,000	18,000	19,000
Publications and Research Materials	34,520	43,400	45,000
Parking	32,775	33,900	35,000
Other	<u>13,547</u>	<u>8,800</u>	<u>10,000</u>
Subtotal	119,293	148,100	155,000
Contracted Actuarial Analysis	<u>49,981</u>	<u>100,000</u>	<u>100,000</u>
Total Expenditures	2,316,793	2,446,081	2,550,913
Appropriated / Proposed	2,343,000	2,343,000	2,343,000
Operating Surplus/Deficit	26,207	-103,081	-207,913

2020 PA Payroll Employment: Change from Prior Year

	Number (000s)			Percent		
	Apr	Aug	Dec	Apr	Aug	Dec
Total	-1,062	-502	-472	-17.5%	-8.3%	-7.7%
Construction	-104	-16	-5	-40.1	-6.0	-2.1
Manufacturing	-77	-39	-35	-13.3	-6.7	-6.0
Retail and Wholesale Trade	-155	-72	-48	-18.9	-8.7	-5.7
Transport and Warehouse	-27	-22	4	-9.1	-7.5	1.3
Financial and Real Estate	-3	0	-1	-0.9	0.0	-0.2
Professional and Technical	-21	-18	-13	-5.8	-5.0	-3.6
Admin and Waste Management	-53	-34	-26	-16.8	-10.7	-8.0
Education (excludes local SD)	-42	-12	-50	-16.1	-5.9	-19.9
Healthcare-Social Assistance	-120	-50	-39	-11.4	-4.7	-3.6
Arts-Entertainment	-58	-32	-27	-60.9	-25.5	-29.9
Accommodation-Food Service	-280	-140	-140	-58.6	-28.6	-29.5
Other Services	-86	-36	-38	-32.8	-13.4	-14.5
All Government	-17	-7	-32	-2.3	-1.0	-4.4
Federal	2	10	1	2.5	9.9	1.2
State	1	-3	-9	0.6	-2.0	-5.8
Local (includes local SD)	-20	-14	-24	-4.4	-3.3	-5.2
All Other	-21	-23	-24	-8.2	-9.2	-9.3

Note: Data are not seasonally adjusted. December data are preliminary. Excludes self-employed.

Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment.

Subsector Detail: PA Employment Change from Prior Year

	December Level (000s)		Change 2019 to 2020	
	2019	2020	Number	Percent
Education				
Local School Districts	281.7	264.5	-17.2	-6.1%
Private Schools (elementary, secondary)	48.4	48.0	-0.4	-0.8
Colleges, Universities and Professional	169.8	130.0	-39.8	-23.4
State Education (state system, related)	60.3	51.9	-8.4	-13.9
Significant Contraction				
Full Service Restaurants	193.8	124.2	-69.6	-35.9
Limited Service Restaurants	162.3	135.7	-26.6	-16.4
Clothing and Accessory - Retail	45.8	24.1	-21.7	-47.4
Accommodation	58.4	35.1	-23.3	-39.9
Air Transportation	13.4	7.9	-5.5	-41.0
Personal Care - Dry Cleaning	70.9	49.6	-21.3	-30.0
Amusements-Gaming	61.5	48.0	-13.5	-22.0
Nursing and Residential Care	202.0	189.0	-13.0	-6.4
Expansion				
Couriers and Messengers (FedEx, UPS)	48.8	58.6	9.8	20.1
Building and Garden - Retail	43.2	48.5	5.3	12.3
Real Estate	45.3	48.3	3.0	6.6

Note: Data are not seasonally adjusted. December 2020 data are preliminary. Excludes self-employed.

Source: U.S. Bureau of Labor Statistics, State and Metro Area Employment.

COVID Job Losses Affect Younger PA Workers Most

	Age Group							Total
	14-18	19-24	25-34	35-44	45-54	55-64	65+	
YOY Employment Growth								
2019 Q4	3.7%	-0.3%	0.9%	1.8%	-1.6%	0.7%	6.2%	0.8%
2020 Q1	4.8%	-0.4%	0.8%	2.0%	-1.3%	0.7%	6.0%	0.9%
2020 Q2	-17.7%	-13.9%	-7.3%	-4.7%	-7.1%	-5.6%	-6.4%	-7.2%
Share of 2019 Q2 Jobs	2.4%	9.4%	21.5%	20.0%	20.8%	19.0%	6.9%	100.0%
Share of 2020 Q2 Job Loss	5.8%	18.1%	21.9%	13.1%	20.3%	14.8%	6.1%	100.0%

Important Notes for 2020 Q2 Data

- The preliminary data are incomplete because it only reflects jobs losses at the very beginning of 2020 Q2.
- Hence, the data only reflect job losses of -7.2%, whereas data for entire quarter show job losses of -14.0%.

Note: Excludes self-employed.

Source: U.S. Bureau of Labor Statistics and U.S. Census Bureau, Quarterly Workforce Indicators.

Recent Pennsylvania Economic Trends

	2019	2020	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Real GDP	2.4%	-4.3%	-5.8%	-34.0%	35.5%	5.0%
Personal Income	3.6%	--	2.5%	13.1%	9.6%	--
Wages and Salaries	4.3%	-1.2%	3.3%	-6.6%	-2.6%	0.6%
Personal Transfer Receipts	3.7%	--	3.3%	91.5%	56.1%	--
Small Business Income	4.0%	--	4.8%	-10.9%	-4.0%	--
Philadelphia CPI-U	2.0%	0.9%	2.6%	0.0%	0.4%	0.9%
Unemployment Rate (level)	4.4%	9.1%	5.4%	14.0%	10.4%	6.6%
Change Payroll Jobs (000s)	54	-446	28	-849	-504	-460
Change Labor Force (000s)	68	-75	92	-17	-134	-241
U.S. Labor Productivity	1.7%	2.6%	0.9%	2.9%	4.2%	2.5%

Notable

- Despite finishing CY 2020 with 460,000 fewer payroll jobs (-7.5%), wage growth is now positive.
- The very strong growth of Personal Income is due to federal UC programs and economic stimulus.
- In 2020 Q4, 206,000 residents left the labor force. The impact of early retirements is unknown.
- U.S. Labor Productivity surged in CY 2020. This is a normal outcome of recessions.

Note: Real GDP is quarterly annualized growth rate. Data for CY 2020 and 2020 Q4 are estimates by IFO. Change in Payroll Jobs and Labor Force is change from prior year. Labor market data are not seasonally adjusted. U.S. Labor Productivity is for All Nonfarm Businesses and is a year-over-year rate. Small Business Income is called Proprietor's Income in the National Income and Product Accounts. It includes sole proprietors, partnerships and self-employed, but excludes S corporations. Wages and Salaries for 2020 Q4 is an estimate by IFO based on adjusted withholding patterns.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics.

Actual and Projected Federal Relief for Pennsylvania

	2020	2021	Notes
Payments to Individuals			
State Unemployment Comp	\$5.2	\$1.6	CY projections for full year
Federal Pandemic UC (FPUC)	16.2	3.6	CY 20 \$600/week; CY 21 \$300/week
Pandemic Unemploy Assist (PUA)	7.0	1.2	
Other Federal Assistance	3.3	0.8	extended benefit programs, ends in Apr
SNAP Benefits	0.9	0.6	estimates through June
Economic Impact Payments	<u>11.0</u>	<u>6.3</u>	6.6 million PA recipients
Total	43.6	14.2	
Other Federal Programs			
Paycheck Protect Prog (PPP)	\$20.7	\$11.2	
Direct State Support	6.1	4.6	CY 2021 does not include general aid
Direct Local Support	2.5	0.8	CY 2021 does not include general aid
Other Support	4.7	0.8	includes payments to providers

Note: Figures in dollar billions. The state support amount does not include federal funds associated with the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration). Calendar year 2020 figures include funds authorized by the CARES Act but awarded in CY 2021.

COVID-19 Impact on Economic Growth Rates

	Real GDP ¹		Wages		Employment ²		Business Formation	
	2019	2020	2019	2020	2019	2020	Net Growth ³	Applications ⁴
PA	2.4%	-4.3%	4.3%	-1.2%	0.9%	-7.4%	0.4%	15.6%
MD	1.4	-3.0	3.6	0.4	0.6	-5.4	0.2	17.3
NY	1.6	-5.4	4.5	-1.5	1.0	-9.9	0.1	2.3
NJ	1.4	-4.1	3.5	-0.8	0.9	-8.1	0.0	10.7
OH	1.5	-4.1	3.6	-0.5	0.4	-6.9	-0.2	29.0
VA	2.2	-2.9	4.4	1.2	1.2	-4.4	0.3	10.3
U.S.	2.2	-3.5	4.7	0.2	1.3	-5.8	0.7	15.5

Notable Outcomes

- PA payroll employment fell 7.4% (446,000 jobs) between 2019 and 2020, while wages declined an estimated 1.2%.
- Applications for employer businesses increased 15.6% over 2019 in Pennsylvania, and 15.5% across the U.S. By comparison, the Pennsylvania rate was 4.2% for 2018 and 0.5% for 2019.
- PA GDP declined an estimated \$31 billion or 4.3% between 2019 and 2020, while U.S. GDP declined 3.5% (est.).

1 Real GDP and Wage growth for 2020 are based on U.S. Bureau of Economic Analysis data for first three quarters and an IFO estimate for Q4 2020.

2 Employment reflects payroll jobs and excludes self-employed.

3 Net Growth reflects 2018 net business creation after accounting for all establishment closings during the year.

4 Applications reflects 2020 year-over-year growth in high-propensity business applications. These are applications with a greater likelihood of turning into a business with payroll.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau.

Pennsylvania Demographic Snapshot

Age Cohort	Number of Residents (000s)				Avg. Annual Growth		
	2015	2020	2025	2030	2015-20	2020-25	2025-30
0-4	714	690	657	630	-0.7%	-1.0%	-0.8%
5-9	737	726	701	667	-0.3	-0.7	-1.0
10-14	760	745	732	707	-0.4	-0.4	-0.7
15-19	829	796	778	763	-0.8	-0.5	-0.4
20-24	862	792	759	743	-1.7	-0.9	-0.4
25-29	858	845	776	744	-0.3	-1.7	-0.9
30-34	796	864	854	785	1.7	-0.2	-1.7
35-39	738	798	865	856	1.6	1.6	-0.2
40-44	756	736	796	863	-0.5	1.6	1.6
45-49	839	746	728	787	-2.3	-0.5	1.6
50-54	930	816	729	712	-2.6	-2.2	-0.5
55-59	950	893	785	701	-1.2	-2.5	-2.3
60-64	839	898	845	743	1.4	-1.2	-2.5
65-69	696	775	831	781	2.2	1.4	-1.2
70-74	499	628	702	751	4.7	2.2	1.4
75-79	366	430	546	609	3.2	4.9	2.2
80-84	282	291	345	442	0.6	3.5	5.1
85-89	205	194	205	246	-1.0	1.0	3.7
90-94	98	100	94	99	0.3	-1.2	1.0
95-99	26	33	33	32	4.3	0.3	-0.7
100+	<u>4</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>6.4</u>	<u>4.8</u>	<u>2.7</u>
Total	12,785	12,802	12,768	12,668	0.0	-0.1	-0.2

Age Cohort Summary

0-19	3,040	2,956	2,867	2,768	-0.6%	-0.6%	-0.7%
20-64	7,568	7,389	7,137	6,933	-0.5	-0.7	-0.6
65-79	1,561	1,834	2,080	2,140	3.3	2.6	0.6
80+	<u>616</u>	<u>623</u>	<u>684</u>	<u>827</u>	<u>0.2</u>	<u>1.9</u>	<u>3.9</u>
Total	12,785	12,802	12,768	12,668	0.0	-0.1	-0.2

Note: Thousands of residents. Detail may not sum to total due to rounding. Table data are from the IFO's *Pennsylvania Demographic Outlook*, released in September 2020. These data do not incorporate the U.S. Census Bureau's December 2020 annual estimates of resident population for states. In that release, the statewide estimate for Pennsylvania for 2020 was 12,783,254 residents, roughly 19,000 less than the IFO's projection. The Bureau also adjusted the 2015 population estimate to 12,788,468, roughly 3,000 more residents than the 2019 release.

Source: The 2015 data are from the U.S. Census Bureau 2019 Population Projections with estimates by the IFO for age groups above 85 years old. The 2020, 2025 and 2030 data are projections by the IFO using data from the U.S. Census Bureau and Pennsylvania DOH.

Net Domestic Migration Trends

Top Outflow	Net Domestic Migrants, Avg Level (000s)			Share of Residents
	2011-13	2014-16	2017-19	
1 New York	-100.5	-168.4	-183.3	-0.9%
2 California	-48.9	-82.9	-165.4	-0.4
3 Illinois	-67.8	-105.3	-111.1	-0.9
4 New Jersey	-44.9	-63.7	-52.2	-0.6
5 Massachusetts	-5.4	-21.2	-27.5	-0.4
6 Louisiana	0.2	-8.3	-27.4	-0.6
7 Maryland	-5.6	-23.9	-24.0	-0.4
8 Connecticut	-15.5	-28.1	-23.3	-0.7
9 Pennsylvania	-18.9	-43.6	-22.6	-0.2
10 Michigan	-34.0	-30.6	-17.8	-0.2

Top Inflow	Net Domestic Migrants, Avg Level (000s)			Share of Residents
	2011-13	2014-16	2017-19	
1 Florida	94.6	187.2	144.6	0.7%
2 Texas	123.4	151.1	98.1	0.3
3 Arizona	21.7	49.3	79.3	1.1
4 North Carolina	33.6	50.0	68.0	0.7
5 South Carolina	23.7	46.4	50.9	1.0
6 Washington	17.1	44.5	49.6	0.7
7 Georgia	8.8	31.4	43.2	0.4
8 Nevada	7.1	29.2	42.9	1.4
9 Tennessee	19.1	26.5	40.0	0.6
10 Colorado	30.2	48.2	36.8	0.6

Note: Rank based on 2019 data. Share of residents is net outflow or inflow relative to average population from 2017-19.
Source: U.S. Census Bureau.

Pennsylvania Labor Force Participation Rates (LFPRs) by Age

Year	Total	16-19	20-64	65+
2000	64.3%	52.8%	79.3%	10.9%
2005	64.4	46.0	79.1	12.4
2010	63.2	40.7	77.7	16.5
2015	62.8	39.4	77.4	18.7
2016	63.3	42.9	78.1	20.1
2017	62.4	40.4	77.6	19.3
2018	62.6	42.5	78.3	19.7
2019	63.2	41.5	78.9	21.4
2020	62.1	41.4	78.3	19.5

Pennsylvania Monthly Total LFPRs and Labor Force

Month	Labor Force Participation Rates (%)			Total Labor Force (000s)		
	2019	2020	Change	2019	2020	Change
January	62.6%	63.4%	0.8%	6,427	6,518	91.4
February	62.7	63.8	1.1	6,442	6,559	116.4
March	62.6	63.2	0.6	6,431	6,501	69.5
April	62.3	62.2	-0.1	6,401	6,402	1.8
May	62.8	63.1	0.3	6,447	6,494	47.0
June	63.4	62.3	-1.1	6,515	6,414	-100.6
July	64.1	62.7	-1.4	6,582	6,459	-122.9
August	63.7	61.7	-2.0	6,542	6,348	-193.9
September	63.3	62.3	-1.0	6,506	6,420	-86.4
October	63.6	61.8	-1.8	6,546	6,362	-183.3
November	63.6	61.0	-2.6	6,536	6,280	-256.1
December	63.4	60.6	-2.8	6,524	6,240	-284.4
Annual Avg	63.2	62.1	-1.1	6,492	6,416	-75.1

Note: Monthly labor force participation rates and labor force data are not seasonally adjusted.

Source: U.S. Bureau of Labor Statistics.

Fiscal Year to Date Revenues (Adjusted for Delayed Due Dates)

	Feb 2021 FYTD	YOY Growth	Notes
Total General Fund	\$23,871	3.1%	
Total Tax Revenue	23,165	3.2	
Corporate Net Income	2,356	13.3	anticipate weak final payment
Other Corporate	121	-30.3	
<u>Sales and Use</u>	<u>8,367</u>	5.4	
Nonmotor	7,203	4.1	very strong online growth
Motor Vehicle	1,164	14.1	pent-up demand
Cigarette	705	0.9	sales strong nationally
Other Tobacco Products	89	1.9	
Malt Beverage	15	-1.5	
Liquor	277	2.9	
<u>Personal Income</u>	<u>9,840</u>	<u>-0.5</u>	
Withholding	6,958	-0.6	
Quarterly	1,661	0.7	final quarterly payment strong
Annuals	1,221	-2.0	includes \$100m from PPP
Realty Transfer	413	12.7	housing market very strong
Inheritance	807	-1.6	
Gaming	145	22.5	sports wagering and iGaming
Minor and Repealed	29	335.2	
Total Nontax Revenue	707	-4.4	

Note: Millions of dollars. Growth rates adjusted to reverse the shift of revenues to FY 2020-21, as well as the impact of one-time transfers.

General Fund Revenue Projections

	Dollar Amount (millions)				Growth Rate			
	20-21	21-22	22-23	23-24	20-21	21-22	22-23	23-24
Executive Budget								
Personal Income	\$15,572	\$18,383	\$20,286	\$20,936	1.7%	28.4%	10.4%	3.2%
Sales and Use	11,981	12,501	12,490	12,828	7.7	5.8	-0.1	2.7
Corporate Income	3,570	3,432	3,738	3,699	-0.2	7.4	8.9	-1.0
All Other	<u>6,367</u>	<u>5,770</u>	<u>5,754</u>	<u>5,722</u>	<u>-9.8</u>	<u>0.0</u>	<u>-0.3</u>	<u>-0.6</u>
Total General Fund	37,490	40,086	42,269	43,185	1.3	14.2	5.4	2.2
Less: Revenue Proposals (excludes refunds)								
Personal Income	0	3,438	4,894	5,058	n.a.	n.a.	n.a.	n.a.
Sales and Use	0	111	96	118	n.a.	n.a.	n.a.	n.a.
Corporate Income	0	208	336	149	n.a.	n.a.	n.a.	n.a.
All Other	<u>0</u>	<u>-46</u>	<u>0</u>	<u>0</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
Total General Fund	0	3,712	5,327	5,325	n.a.	n.a.	n.a.	n.a.
Executive Budget Baseline								
Personal Income	15,572	14,945	15,392	15,878	1.7	4.4	3.0	3.2
Sales and Use	11,981	12,390	12,394	12,710	7.7	4.8	0.0	2.5
Corporate Income	3,570	3,224	3,402	3,550	-0.2	0.9	5.5	4.3
All Other	<u>6,367</u>	<u>5,815</u>	<u>5,754</u>	<u>5,722</u>	<u>-9.8</u>	<u>0.8</u>	<u>-1.0</u>	<u>-0.6</u>
Total General Fund	37,490	36,374	36,942	37,860	1.3	3.6	1.6	2.5
IFO January 2021 Baseline								
Personal Income	15,807	15,034	15,758	16,438	3.3	3.3	4.8	4.3
Sales and Use	12,327	12,424	12,368	12,758	10.8	2.1	-0.5	3.2
Corporate Income	3,775	3,248	3,648	3,989	6.2	-4.5	12.3	9.3
All Other	<u>6,529</u>	<u>5,969</u>	<u>6,077</u>	<u>6,167</u>	<u>-7.3</u>	<u>0.6</u>	<u>1.8</u>	<u>1.5</u>
Total General Fund	38,437	36,675	37,851	39,352	4.0	1.7	3.2	4.0
Dollar Difference Baselines								
Personal Income	-235	-89	-366	-560	n.a.	n.a.	n.a.	n.a.
Sales and Use	-346	-34	26	-48	n.a.	n.a.	n.a.	n.a.
Corporate Income	-205	-25	-245	-438	n.a.	n.a.	n.a.	n.a.
All Other	<u>-162</u>	<u>-153</u>	<u>-322</u>	<u>-445</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>
Total General Fund	-947	-301	-908	-1,492	n.a.	n.a.	n.a.	n.a.

Note: Revenue proposals exclude higher refunds paid. Growth rates adjust for amounts shifted between years.

General Fund Financial Statement Comparison

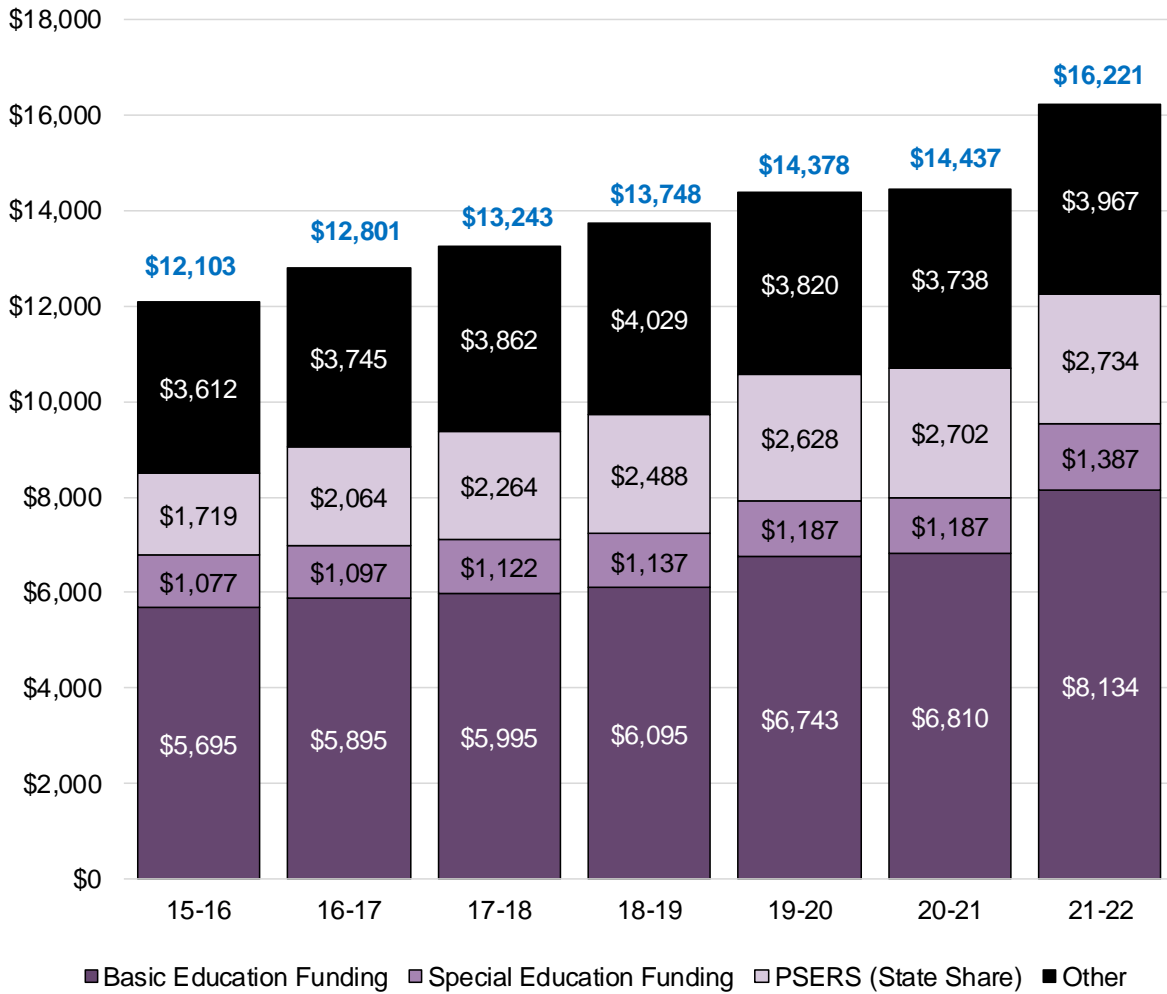
	Executive Budget		IFO		\$ Difference	
	20-21	21-22	20-21	21-22	20-21	21-22
Beginning Balance	-\$2,734	-\$233	-\$2,734	--	--	--
General Fund Revenues	37,490	40,086	38,437	\$36,675	-\$947	\$3,411
Less: Refunds	<u>-1,295</u>	<u>-1,724</u>	<u>-1,300</u>	<u>-1,326</u>	<u>5</u>	<u>-398</u>
Net Revenues	36,195	38,362	37,137	35,349	-942	3,013
Plus: Lapses	<u>220</u>	<u>100</u>	<u>220</u>	<u>125</u>	<u>0</u>	<u>-25</u>
Available Revenue	33,681	38,228	34,623	35,474	-942	2,754
General Fund Expenditures	36,248	40,207	36,544	37,975	-296	2,232
Plus: Supplementals	903	--	--	--	903	--
Less: Current Year Lapses	-135	--	--	--	-135	--
Less: Federal COVID Relief	<u>-3,102</u>	<u>-2,370</u>	<u>-3,403</u>	<u>--</u>	<u>301</u>	<u>-2,370</u>
Adjusted Spending	33,915	37,837	33,141	37,975	774	-138
Preliminary Balance	-233	391	1,482	-2,501	-1,716	2,892

Reconciling FY 2021-22 Structural Deficit IFO vs. Executive Budget

Tax and Revenue Proposals (Net of Refunds)	3,282
Federal COVID Relief	-2,370
Education Initiatives	1,598
New Municipal Fee for State Police Services	-168
All Other Initiatives	32
PlanCon Funding	191
Program Eliminations/Funding Reductions	-190
Retiree Healthcare Rate	-90
All Other	<u>607</u>
Total	2,892

Note: Millions of dollars. IFO estimate uses GF revenues, refunds and expenditures from the IFO *Five Year Economic and Budget Outlook* (January 2021).

State General Fund Education Spending (\$ millions)



Note: Includes Thaddeus Stevens College of Technology, Pennsylvania State System of Higher Education and the four state-related universities. FY 2020-21 and 2021-22 are based on the Executive Budget (including supplementals). From FY 2019-20 and thereafter, school district Social Security costs are included within Basic Education Funding. Prior to FY 2019-20, those costs were included in the "Other" category.

School District Property Tax Collections

	17-18	18-19	19-20	20-21
All School Property Tax ¹	\$14,579	\$15,014	\$15,400	\$15,131
Growth Rate	3.1%	3.0%	2.6%	-1.7%
Homeowner Only ²	\$8,680	\$8,932	\$9,157	\$9,001
Growth Rate	3.1%	2.9%	2.5%	-1.7%
Personal Income Tax ³				\$15,807
Revenue Value of 1.0 Percentage Point				\$4,450
Percentage Point Increase to Replace Homeowner Property Tax				2.10
Sales and Use Tax ³				\$12,327
Revenue Value of 1.0 Percentage Point				\$2,020
Percentage Point Increase to Replace Homeowner Property Tax				4.90

Note: Millions of dollars.

1 Includes current, interim, delinquent and Act 1 allocations.

2 Equal to 58 percent of current-year and delinquent collections, 100 percent of Act 1 allocations.

3 FY 2020-21 amounts from the IFO *Five-Year Budget and Economic Outlook* released in January. Includes replacement of all Act 1 allocations. Estimates assume sales and use tax special fund transfers are adjusted to a revenue neutral rate.

School District Revenues

	14-15		16-17		18-19		19-20	
	Amount	%	Amount	%	Amount	%	Amount	%
Property Tax	\$12,285	44.5%	\$13,052	42.4%	\$13,930	44.3%	\$14,301	45.2%
Earned Income Tax	1,476	5.4	1,563	5.1	1,657	5.3	1,599	5.1
Other Local Sources	2,126	7.7	2,224	7.2	2,569	8.2	2,400	7.6
Act 1 Allocations (slots)	530	1.9	532	1.7	533	1.7	534	1.7
State (excludes Act 1)	9,492	34.4	10,779	35.1	11,253	35.8	11,200	35.4
Federal	815	3.0	843	2.7	926	2.9	1,000	3.2
Other (debt related)	<u>855</u>	<u>3.1</u>	<u>1,759</u>	<u>5.7</u>	<u>546</u>	<u>1.7</u>	<u>600</u>	<u>1.9</u>
Total	27,579	100.0	30,752	100.0	31,414	100.0	31,634	100.0

Note: Millions of dollars. All FY 2019-20 amounts except for Act 1 Allocations are estimated by the IFO.

Source: Pennsylvania Department of Education.

Impact Fee and Natural Gas Trends

	2015	2016	2017	2018	2019	2020
Impact Fee Revenues ¹	\$187.7	\$173.3	\$209.6	\$251.8	\$200.4	\$144.9
Growth Rate	-16.0%	-7.7%	20.9%	20.1%	-20.4%	-27.7%
Computed Effective Tax Rate	6.2%	4.5%	2.8%	2.2%	2.1%	3.3%
Fees to Counties/Municipalities ²	\$101.8	\$93.1	\$114.8	\$140.1	\$109.2	\$75.9
Growth Rate	-17.4%	-8.5%	23.3%	22.0%	-22.1%	-30.5%
Wells Paying Impact Fee	7,874	8,121	8,518	10,164	10,112	10,438
Average Fee Per Well	\$23,838	\$21,340	\$24,607	\$24,774	\$19,818	\$13,882
PA Production (bcf) ³	4,601	5,096	5,364	6,123	6,815	7,090
Growth Rate	13.0%	10.8%	5.3%	14.1%	11.3%	3.9%
New Horizontal Wells Drilled	784	501	811	777	614	476
NYMEX Natural Gas Price ⁴	\$2.66	\$2.46	\$3.11	\$3.09	\$2.63	\$2.08
PA Natural Gas Price ⁵	\$1.37	\$1.47	\$2.10	\$2.59	\$2.10	\$1.38

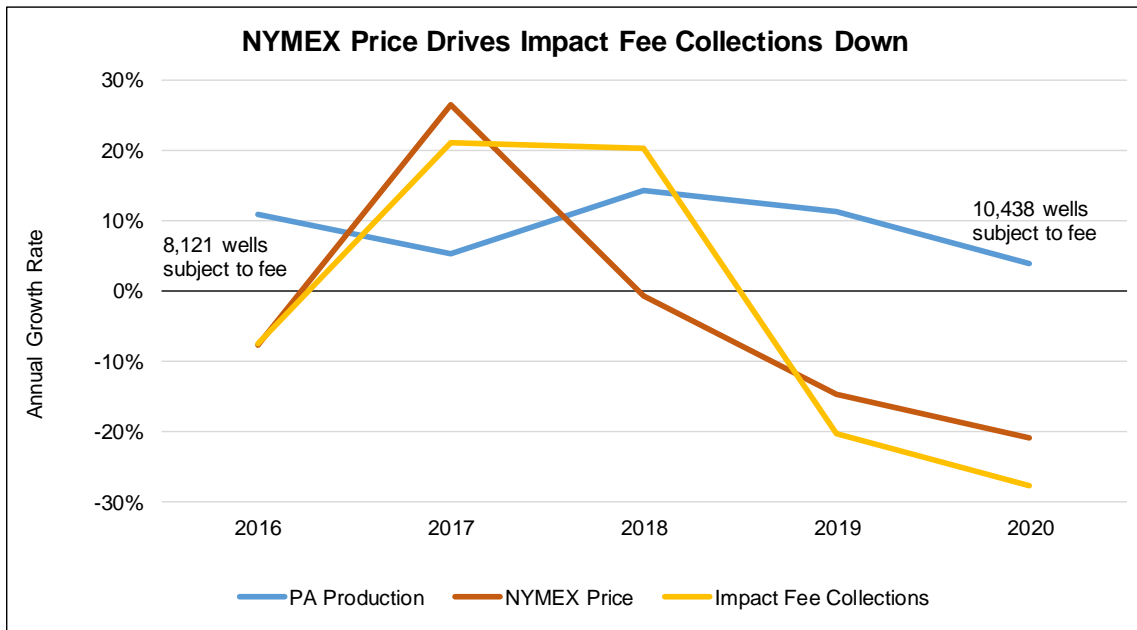
1 Impact fee revenues as reported by the PUC (millions). Revenues shown according to drilling year, not the year revenues were received. 2020 is estimated by the IFO.

2 Total disbursement of impact fee revenues to counties and municipalities with wells subject to the fee.

3 Actuals from PA DEP through November 2020. December 2020 estimated by IFO. Unconventional gas only.

4 Annual average price of natural gas near-month settlements on the New York Mercantile Exchange, upon which the impact fee schedule is based.

5 Weighted average spot price of major Pennsylvania hubs. Source: Bentek Energy.



State and Local Tax Burden: Average Tax Rate and Rank

Corporate Income			Personal Income			Sales and Use		
	Rank	ATR		Rank	ATR		Rank	ATR
DE	1	3.62%	NY	1	5.10%	OH	17	2.80%
NY	4	0.83	MD	3	4.17	NY	22	2.56
NJ	6	0.73	DE	7	3.40	NC	28	2.42
PA	12	0.47	VA	12	3.07	WV	30	2.33
MD	22	0.38	WV	14	2.88	MI	37	1.99
NC	27	0.35	NC	15	2.78	NJ	38	1.97
WV	33	0.27	OH	18	2.65	PA	39	1.94
MI	38	0.24	NJ	19	2.63	VA	42	1.57
VA	42	0.20	PA	20	2.62	MD	43	1.48
OH	46	0.10	MI	31	2.20	DE	48	0.11
USw		0.40	USw		2.48	USw		2.53
USuw		0.44	USuw		2.24	USuw		2.46

Property			Liquor, Tobacco, Game			Total Taxes		
	Rank	ATR		Rank	ATR		Rank	ATR
NJ	3	4.96%	WV	1	1.02%	NY	1	14.86%
NY	6	4.42	DE	4	0.72	NJ	7	11.65
MI	20	3.01	MD	5	0.66	DE	8	11.57
VA	21	2.98	PA	6	0.66	MD	10	11.20
PA	25	2.82	NC	10	0.51	WV	11	11.10
OH	26	2.79	MI	13	0.48	PA	21	10.24
MD	27	2.76	OH	15	0.45	OH	25	9.91
WV	36	2.35	NY	27	0.36	VA	29	9.50
NC	41	2.16	NJ	28	0.36	NC	31	9.48
DE	47	1.75	VA	38	0.26	MI	32	9.25
USw		3.05	USw		0.35	USw		10.20
USuw		2.98	USuw		0.40	USuw		9.95

Note: Average Tax Rate (ATR) is the ratio of the state-local tax revenue to modified state personal income. USw is weighted average. USuw is unweighted average (each state has same weight). Total Taxes excludes any severance tax or impact fee.

Source: *State and Local Tax Revenues: A 50 State Comparison*, IFO (November 2020).

SERS and PSERS Financial Data

FY Ending	SERS ¹			PSERS		
	\$ State Contrib	% System Return	Unfunded Liability	\$ State Contrib	% System Return	Unfunded Liability
2011	\$392	2.70%	\$14,663	\$288	20.40%	\$26,499
2012	566	12.00	17,753	600	3.40	29,533
2013	795	13.60	17,899	856	8.00	32,599
2014	1,084	6.40	18,166	949	14.91	35,121
2015	1,360	0.40	19,452	1,158	3.04	37,336
2016	1,622	6.50	19,923	1,719	1.29	42,724
2017	1,898	15.10	19,662	2,064	10.14	44,512
2018	2,049	-4.60	22,793	2,264	9.27	44,855
2019	2,115	18.80	23,039	2,488	6.66	44,135
2020	3,183	11.11	23,250	2,628	1.11	44,035
2021	2,345	7.00	18,435	2,702	7.25	44,130
2022	2,335	7.00	17,704	2,816*	7.25	43,874
2023	2,270	7.00	16,248	2,980*	7.25	43,414
2024	2,256	7.00	15,390	3,130*	7.25	43,051
2025	2,264	7.00	14,765	3,273*	7.25	42,203
2026	2,274	7.00	14,129	3,442*	7.25	40,720

Note: Millions of dollars. Data sourced from system projections, releases and financial reports, unless noted otherwise.

¹ SERS reported on calendar year basis unless noted otherwise. Includes all funds. SERS 2020 state employer contributions include \$1.1 billion prepayment in unfunded liability from Penn State University.

Source: Projections denoted with an * are from the IFO 2020 *Five Year Economic and Budget Outlook* (January 2021).

Tax Credit and Economic Development Incentives

	Actual (\$ millions)					Est.
	15-16	16-17	17-18	18-19	19-20	20-21
Tax Credit or Refund						
Educational Improvement	\$98.9	\$116.8	\$129.4	\$150.9	\$174.8	\$185.0
Keystone Opportunity Zone (KOZ)	98.4	78.0	92.1	95.1	84.3	85.8
Film Production	60.0	60.0	60.4	60.9	63.0	70.0
Neighborhood Improvement Zone (NIZ)	24.2	56.4	45.6	40.5	61.2	55.0
Research and Development	61.0	61.1	45.2	43.6	46.9	55.0
Educational Opportunity Scholarship	32.6	32.6	32.6	32.6	32.6	55.0
Neighborhood Assistance Programs	18.0	18.0	18.0	18.0	18.0	36.0
Coal Refuse Energy and Reclamation	0.0	5.4	8.8	9.8	17.1	20.0
<hr/>						
Pennsylvania Resource Manufacturing	--	0.0	0.0	0.0	0.0	17.1
Keystone Innovation Zone (KIZ)	25.0	21.1	16.0	15.3	15.1	15.0
Resource Enhancement and Protection	5.4	5.4	5.4	5.4	5.6	13.0
City Revitalization and Improve. Zone (CRIZ)	0.0	3.6	3.9	7.2	7.8	9.5
Entertainment and Economic Enhancement	0.0	0.0	0.0	5.6	4.0	8.0
Computer Data Center Equipment Incentive	0.0	0.0	0.0	5.0	2.9	7.0
Rural Jobs and Investment	0.0	0.0	0.0	1.0	0.0	6.0
Historic Preservation Incentive	3.0	3.0	3.0	3.0	5.0	5.0
Brewers' Tax Credit	0.0	0.0	0.0	5.0	2.6	5.0
<hr/>						
Manufacturing Tax Credit	0.0	0.0	0.0	4.0	0.0	4.0
Mixed-Use Development	0.0	0.0	2.0	2.0	3.0	3.0
Waterfront Development	0.0	0.0	0.0	0.0	0.2	1.5
Video Game Production	0.0	0.0	0.3	1.0	1.0	1.0
Innovate in PA	0.0	0.0	0.0	0.0	14.6	0.0
Tax Credit for New Jobs	10.1	10.1	10.1	10.1	3.0	--
Mobile Telecomm. Broadband Investment	0.2	0.2	4.2	4.6	3.0	--
<hr/>						
State Spending or Grants						
Redevel. Assistance Capital Program	193.4	221.3	234.4	172.8	139.6	275.0
PA Race Horse Development Fund	238.5	229.8	231.4	231.9	164.3	193.5
Gaming, Economic Devel. & Tourism Fund	103.1	68.0	74.5	95.5	25.5	78.3
Business in Our Sites (CFA)	0.0	60.7	89.3	50.0	10.0	16.5
BFTDA - Challenge Grants	14.5	14.5	14.5	14.5	14.5	14.5
BFTDA - Venture Investment	0.0	10.5	11.0	6.5	3.0	14.5
PA First	6.7	17.6	9.5	7.4	12.3	12.0
Infrastructure and Facilities Improvement	19.9	17.7	17.2	12.9	10.7	10.0

(continued on next page)

Tax Credit and Economic Development Incentives (continued)

	Actual (\$ millions)					Est.
	15-16	16-17	17-18	18-19	19-20	20-21
State Spending or Grants (continued)						
PIDA Industrial Parks	\$4.3	\$2.0	\$3.8	\$2.8	\$4.5	\$8.0
Marketing to Attract Tourists (advertising)	1.0	1.5	1.4	2.2	5.5	6.2
Office of International Business Development	6.0	5.6	5.8	6.0	5.6	5.8
Life Sciences Greenhouses	2.6	3.1	3.3	3.0	3.0	3.0
Marketing to Attract Business	1.6	2.1	2.0	2.2	4.9	2.0
Infrastructure and Technology Assistance	1.4	1.3	2.1	1.8	1.5	2.0
Building PA (CFA)	24.9	7.1	9.6	0.0	6.3	0.0
PA Dairy Investment Program (CFA)	0.0	0.0	0.0	4.5	5.5	0.0
State Loan Programs						
PIDA Loan Program	49.2	41.7	76.9	42.1	24.4	30.0
Machinery and Equipment Loans	5.1	4.8	3.3	7.6	4.7	21.8
Small Business First Loans	8.3	11.1	5.9	8.1	68.1	20.0
Minority Business	1.1	0.6	1.1	1.3	1.4	1.3
Jobs Training Programs						
Manufacturing PA	0.0	0.0	5.3	5.3	12.0	12.0
Labor and Industry	2.3	2.3	2.3	12.3	12.6	10.6
Partnerships for Regional Economic Perf.	10.7	12.4	9.1	8.0	13.0	9.9
WedNet	<u>8.0</u>	<u>8.8</u>	<u>6.7</u>	<u>7.9</u>	<u>6.5</u>	<u>8.0</u>
TOTAL	1,139.5	1,216.1	1,297.4	1,227.3	1,125.1	--

Note: Innovate in PA - In July 2015, \$100 million in insurance premiums tax credits were purchased by qualified insurance companies. The credits may be utilized to offset tax year liabilities for 2016 and thereafter, in an amount not to exceed \$20 million annually. The net amount transferred to DCED was \$85.4 million. For the purpose of the table, the differential between tax credits sold and monies received is shown in FY 2019-20 to reflect the full amount of the tax credit claim, although not all claims have yet been made against tax liability.

The Strategic Development Areas, Keystone Special Development Zone, Organ and Bone Marrow Donation, Community-Based Services, Qualified Manufacturing Innovation & Reinvestment Deduction and Beginning Farmers' tax credits are not included due to a small number of filers or zero filers. The Local Resource Manufacturing tax credit was enacted in 2020, but is not included because it does not take effect until Jan. 1, 2024.

The Computer Data Center Equipment Incentive provides a tax refund.

PA Race Horse Development Trust Fund disbursements exclude transfers to Farm Products Show Fund.

Source: PA Department of Revenue, PA Department of Community and Economic Development, Commonwealth Executive Budget FY 2021-22, Comprehensive Annual Financial Reports and state accounting system.

Minimum Wage Rates by State (as of January 1st)

State/Territory	2021 Rank	2021	2022	2023
Washington D.C.	1	\$15.00	\$15.30	\$15.60
California	2	14.00	15.00	15.30
Washington	3	13.96	14.24	14.52
Massachusetts	4	13.50	14.25	15.00
New York	5	12.50	12.75	13.01
Colorado	6	12.32	12.57	12.82
Arizona	7	12.15	12.40	12.65
Maine	7	12.15	12.40	12.65
Oregon	9	12.00	12.75	13.50
Connecticut	9	12.00	13.00	14.00
New Jersey	9	12.00	13.00	14.00
Maryland	12	11.75	12.50	13.25
Vermont	12	11.75	12.55	12.80
Rhode Island	14	11.50	11.50	11.50
Arkansas	15	11.00	11.00	11.00
Illinois	15	11.00	12.00	13.00
New Mexico	17	10.50	11.50	12.00
Alaska	18	10.34	10.55	10.76
Missouri	19	10.30	11.15	12.00
Hawaii	20	10.10	10.10	10.10
Minnesota	21	10.08	10.28	10.49
Michigan	22	9.87	10.10	10.33
South Dakota	23	9.45	9.65	9.85
Delaware	24	9.25	9.25	9.25
Nebraska	25	9.00	9.00	9.00
Nevada	25	9.00	9.75	10.50
Ohio	27	8.80	9.00	9.20
West Virginia	28	8.75	8.75	8.75
Montana	28	8.75	8.95	9.15
Florida	30	8.56	10.00	11.00
Virginia	31	7.25	9.50	11.00
Pennsylvania	31	7.25	7.25	7.25
Other	31	7.25	7.25	7.25

Note: Over 50 localities have adopted a minimum wage above their state's minimum wage. Projections use a 2.0% growth rate to estimate inflation adjustments for future years.

Source: The Economic Policy Institute. Minimum Wage Tracker (published January 7, 2021).

PA Worker Distribution by Hourly Wage Rates

	Number of Payroll Employees (000s)		
	CY 2019	CY 2022	Change
Non-Tipped Workers			
\$7.25 to \$7.99	78	nominal	-78
\$8.00 to \$9.99	428	310	-119
\$10.00 to \$10.99	260	250	-11
\$11.00 to \$11.99	278	205	-72
\$12.00 to \$14.99	764	696	-68
\$15.00 or more	<u>3,916</u>	<u>4,065</u>	<u>149</u>
TOTAL	5,725	5,526	-198
Directly Affected by \$12 Minimum Wage	1,044	765	-279
Directly Affected by \$15 Minimum Wage	1,808	1,461	-347
Total Tipped Workers	177	147	-30
Directly Affected by \$12 Minimum Wage	119	105	-14

Notes for CY 2022 Projection

- CY 2022 projections use 2019 OES data with adjustments for general wage growth and employment contraction targeted to specific sectors (e.g., retail trade, food service).
- Assumes that average payroll employment in CY 2022 will be 230,000 lower than CY 2019.
- Assumes that all workers with hourly wage under \$8.00 migrate to next highest wage group.
- OES for CY 2020 will be released late March.

Note: Excludes self-employed. Data will be updated in IFO's Analysis of Revenue Proposals in Spring 2021.

Source: Occupational Employment Statistics (OES), 2019.

PIT Revenue Proposal: Impact on Different Filers

Proposal Increase limits for 100% tax forgiveness from \$6,500 to \$15,000 (single) and \$13,000 to \$30,000 (married). Forgiveness declines by 1 percentage point every \$500 over limit. Raise tax rate from 3.07% to 4.49%.

Impact Executive Budget: \$4.0 to \$4.2 billion | IFO: \$3.7 to \$3.9 billion (per annum, includes higher refunds)
Reduces or does not change tax for 60% of filers. For 2018, roughly 72% of tax forgiven was withheld.

Taxable Income	Single - No Dependents				Married - No Dependents			
	Average Tax Rate		Dollar Change	Percent Change	Average Tax Rate		Dollar Change	Percent Change
	Current	Proposed			Current	Proposed		
\$5,000	0.00%	0.00%	\$0	0.0%	0.00%	0.00%	\$0	0.0%
10,000	3.07	0.00	-307	-100.0	0.00	0.00	0	0.0
15,000	3.07	0.00	-461	-100.0	2.46	0.00	-368	-100.0
20,000	3.07	0.45	-524	-85.4	3.07	0.00	-614	-100.0
25,000	3.07	0.90	-543	-70.7	3.07	0.00	-768	-100.0
30,000	3.07	1.35	-517	-56.1	3.07	0.00	-921	-100.0
40,000	3.07	2.25	-330	-26.9	3.07	0.90	-869	-70.7
50,000	3.07	3.14	37	2.4	3.07	1.80	-637	-41.5
60,000	3.07	4.04	583	31.6	3.07	2.69	-226	-12.2
80,000	3.07	4.49	1,136	46.3	3.07	4.04	1,136	46.3
100,000	3.07	4.49	1,420	46.3	3.07	4.49	1,420	46.3

Taxable Income	Single - One Dependent				Married - Two Dependents			
	Average Tax Rate		Dollar Change	Percent Change	Average Tax Rate		Dollar Change	Percent Change
	Current	Proposed			Current	Proposed		
\$5,000	0.00%	0.00%	\$0	0.0%	0.00%	0.00%	\$0	0.0%
10,000	0.00	0.00	0	0.0	0.00	0.00	0	0.0
15,000	0.00	0.00	0	0.0	0.00	0.00	0	0.0
20,000	3.07	0.00	-614	-100.0	0.00	0.00	0	0.0
25,000	3.07	0.00	-768	-100.0	0.00	0.00	0	0.0
30,000	3.07	0.45	-786	-85.4	0.00	0.00	0	0.0
40,000	3.07	1.35	-689	-56.1	3.07	0.00	-1,228	-100.0
50,000	3.07	2.25	-413	-26.9	3.07	0.00	-1,535	-100.0
60,000	3.07	3.14	44	2.4	3.07	0.90	-1,303	-70.7
80,000	3.07	4.49	1,136	46.3	3.07	2.69	-301	-12.2
100,000	3.07	4.49	1,420	46.3	3.07	4.49	1,420	46.3

Note: Average tax rate equal to tax paid divided by taxable income. Dollar Change and Percent Change refer to changes in personal income tax liability.

Source: Computations by IFO.

PIT Revenue Proposal: Impact on Average Effective Tax Rates

Summary The higher SP thresholds disproportionately impact wage earners at lower end of income distribution and greatly reduce the average effective tax rate paid on that type of income. Residents reporting capital gains income effectively pay a rate closer to the statutory tax rate.

Taxable Income		Net Comp	Net Profits	Dividend & Interest	Capital Gains	All Other	Taxable Income	Share of Tax Base
Low	High							
\$1	\$9,999	\$3,866	\$415	\$955	\$129	\$214	\$5,578	1.3%
10,000	19,999	8,823	1,084	938	223	249	11,316	2.7
20,000	29,999	13,540	979	801	244	246	15,811	3.8
30,000	39,999	17,240	927	707	244	238	19,355	4.6
40,000	49,999	17,860	896	629	250	234	19,869	4.8
50,000	74,999	42,210	2,083	1,332	605	565	46,794	11.2
75,000	99,999	37,333	1,895	1,086	569	532	41,414	9.9
100,000	249,999	109,148	7,823	3,789	2,644	2,252	125,657	30.1
250,000	499,999	36,087	6,817	2,568	2,390	1,792	49,654	11.9
500,000	999,999	16,614	6,382	1,957	2,296	1,490	28,739	6.9
1,000,000		<u>16,480</u>	<u>15,797</u>	<u>3,986</u>	<u>13,025</u>	<u>4,189</u>	<u>53,477</u>	<u>12.8</u>
TOTAL		319,200	45,099	18,747	22,618	12,000	417,664	100.0
Share of Tax Base		76.4%	10.8%	4.5%	5.4%	2.9%	100.0%	

Current Law - Tax Rates on Income Categories

Statutory Tax Rate	3.07%	3.07%	3.07%	3.07%	3.07%	3.07%
Effective Tax Rate w/ SP	<u>3.01%</u>	<u>2.99%</u>	<u>2.95%</u>	<u>3.05%</u>	<u>2.99%</u>	3.01%
Difference	-0.06%	-0.08%	-0.12%	-0.02%	-0.08%	-0.06%

Proposed Law - Tax Rates on Income Categories

Statutory Tax Rate	4.49%	4.49%	4.49%	4.49%	4.49%	4.49%
Effective Tax Rate w/ SP	<u>3.64%</u>	<u>4.07%</u>	<u>3.57%</u>	<u>4.28%</u>	<u>4.05%</u>	3.73%
Difference	-0.85%	-0.42%	-0.92%	-0.21%	-0.44%	-0.76%

Note: Data from 2018 personal income tax micro data file. Computations by IFO.

PIT Revenue Proposal: Simulation Using Tax Year 2018 Data

Taxable Income		Returns	Current Law (\$ millions)				Effective Tax Rate
			(000s)	Taxable Income	Tax Liability	Tax Forgive	
Low	High						
\$0		259	\$0	\$0	\$0	\$0	0.00%
1	\$9,999	1,488	5,578	171	75	96	1.72
10,000	19,999	768	11,316	347	77	270	2.39
20,000	29,999	634	15,811	485	51	434	2.74
30,000	39,999	556	19,355	594	26	568	2.93
40,000	49,999	443	19,869	610	10	600	3.02
50,000	74,999	762	46,794	1,437	6	1,430	3.06
75,000	99,999	478	41,414	1,271	1	1,271	3.07
100,000	149,999	532	65,133	2,000	0	2,000	3.07
150,000	or more	<u>529</u>	<u>192,394</u>	<u>5,906</u>	<u>0</u>	<u>5,906</u>	<u>3.07</u>
TOTAL		6,451	417,664	12,822	248	12,574	3.01

Taxable Income		Returns	Proposed Law (\$ millions)				Effective Tax Rate
			(000s)	Taxable Income	Tax Liability	Tax Forgive	
Low	High						
\$0		259	\$0	\$0	\$0	\$0	0.00%
1	\$9,999	1,488	5,578	250	200	50	0.90
10,000	19,999	768	11,316	508	468	40	0.35
20,000	29,999	634	15,811	710	580	130	0.82
30,000	39,999	556	19,355	869	587	282	1.46
40,000	49,999	443	19,869	892	466	426	2.14
50,000	74,999	762	46,794	2,101	592	1,509	3.22
75,000	99,999	478	41,414	1,859	141	1,718	4.15
100,000	149,999	532	65,133	2,924	7	2,917	4.48
150,000	or more	<u>529</u>	<u>192,394</u>	<u>8,638</u>	<u>0</u>	<u>8,638</u>	<u>4.49</u>
TOTAL		6,451	417,664	18,753	3,042	15,711	3.76

Taxable Income		Returns	Proposed Law less Current Law (\$ millions)				Percent Change
			(000s)	Taxable Income	Tax Liability	Tax Forgive	
Low	High						
\$0		--	--	\$0	\$0	\$0	0.00%
1	\$9,999	--	--	79	125	-46	-47.92
10,000	19,999	--	--	161	391	-230	-85.15
20,000	29,999	--	--	225	529	-304	-70.06
30,000	39,999	--	--	275	561	-286	-50.34
40,000	49,999	--	--	282	456	-173	-28.93
50,000	74,999	--	--	664	586	79	5.51
75,000	99,999	--	--	588	140	448	35.25
100,000	149,999	--	--	925	7	918	45.89
150,000	or more	--	--	<u>2,732</u>	<u>0</u>	<u>2,732</u>	<u>46.25</u>
TOTAL		--	--	5,931	2,794	3,137	24.95
Project to Tax Year 2022				6,675	3,145	3,531	24.95

States With Corporate Net Income Tax

State ¹	Income Tax Rate ²	Method	NOL Deduction Cap ³
Alabama ⁴	6.50%	Separate	None
Alaska	9.40	Combined	Conforms to Federal
Arizona	4.90	Combined	Conforms to Federal
Arkansas	6.20	Separate	None
California	8.84	Combined	None
Colorado	4.55	Combined	Conforms to Federal
Connecticut	7.50	Combined	50% of taxable income on CFs
Delaware	8.70	Separate	Conforms to Federal
Florida	4.46	Separate	Conforms to Federal
Georgia	5.75	Separate	Conforms to Federal
Hawaii	6.40	Combined	Conforms to Federal
Idaho	6.93	Combined	\$100,000 on CBs
Illinois	9.50	Combined	Conforms to Federal
Indiana	5.25	Multiple	None
Iowa	9.80	Separate	None
Kansas	7.00	Combined	None
Kentucky	5.00	Combined	Conforms to Federal
Louisiana ⁴	8.00	Separate	72% of taxable income on CFs
Maine	8.93	Combined	Conforms to Federal
Maryland	8.25	Separate	Conforms to Federal
Massachusetts	8.00	Combined	None
Michigan	6.00	Combined	None
Minnesota	9.80	Combined	Conforms to Federal
Mississippi	5.00	Multiple	None
Missouri ⁴	4.00	Separate	None
Montana	6.75	Combined	\$500,000 on CBs
Nebraska	7.81	Combined	None
New Hampshire	7.70	Combined	\$10M on CFs
New Jersey	11.50	Combined	None
New Mexico	5.90	Combined	Conforms to Federal
New York	6.50	Combined	None
North Carolina	2.50	Multiple	None
North Dakota	4.31	Combined	None
Oklahoma	6.00	Separate	Conforms to Federal
Oregon	7.60	Combined	None
Pennsylvania	9.99	Separate	40% of taxable income on CFs
Rhode Island	7.00	Combined	Conforms to Federal
South Carolina	5.00	Multiple	Conforms to Federal
Tennessee	6.50	Multiple	None
Utah	4.95	Combined	Conforms to Federal
Vermont	8.50	Combined	None
Virginia	6.00	Multiple	Conforms to Federal
West Virginia	6.50	Combined	Conforms to Federal
Wisconsin	7.90	Combined	None

1 Nevada, Ohio, South Dakota, Texas, Washington and Wyoming do not levy a corporate net income tax.

2 Tax rate reflects the highest tax bracket for states with a graduated corporate income tax.

3 Does not reflect conformity with 2020 federal CARES Act provisions. Reflects conformity with the 2017 TCJA, which limited the NOL carryforward (CF) deduction to 80% of taxable income and removed the carryback (CB) provision for tax years beginning after December 31, 2017.

4 State allows corporation to deduct all federal taxes paid from state taxable income (or up to 50%, LA).

Source: CCH State Tax SmartCharts (January 2021).

Combined Reporting Base Expansion Estimates in Other States

State	Tax Year CR Effective	Year Est. Prepared	Est. Impact (\$ Millions)	Est. Base Expansion
Pennsylvania (DOR)	--	2021	\$798	29%
New York	2007	2008	315 - 420	6-8%
Wisconsin	2008	2007	76	11%
Massachusetts	2008	2007	188	9%
West Virginia	2009	2007	24 - 28	8-10%
Rhode Island	2015	2018	38	28%
Connecticut	2016	2015	39	5%
Kentucky	2018	2018	--	--
New Jersey	2018	2016	115 - 280	5-10%
New Mexico	2020	2019	--	--
Maryland	--	2021	125	8%

Note: Base expansion and dollar impact estimates relate to the first full fiscal year of tax impacts. The base expansion estimate is the impact of combined reporting only and does not incorporate the impact of simultaneous tax law changes.

Source: Pennsylvania estimate from Department of Revenue. Non-Pennsylvania estimates from a survey of select states by the National Conference of State Legislatures, various state fiscal notes and reports.

IFO Combined Reporting vs. Separate Reporting Analysis

Background

- A difference in differences analysis was used to estimate the possible corporate net income tax (CNIT) base expansion as a result of enacting combined reporting.
- Eleven control states that did not enact combined reporting were compared with three large states that enacted combined reporting during period: Massachusetts, Wisconsin and New York.
- The average annual growth rate of state private GDP was compared to state CNIT revenue for 2005/2007 - 2018/2020. U.S. data compares U.S. corporate domestic profits to private GDP growth.

	U.S.	Control States	PA only	Enacted Combined Reporting		
				MA	WI	NY
CNIT Revenue	2.1%	2.2%	2.0%	4.5%	4.4%	3.2%
Private GDP	<u>3.4%</u>	<u>3.2%</u>	<u>3.5%</u>	<u>4.0%</u>	<u>3.2%</u>	<u>4.3%</u>
Difference	-1.2%	-1.0%	-1.5%	0.5%	1.3%	-1.1%

General Findings

- For U.S. and control states, average CNIT growth fell short of GDP growth by -1.1 percentage points.
- For states that enacted combined reporting during the time period, the average CNIT revenue growth outperformed GDP growth by +0.2 percentage points.
- If combined reporting expanded the tax base, it would "close the gap" between GDP and CNIT revenue growth rates. For combined reporting states, the data suggest this may have occurred.
- For Pennsylvania, the potential improvement in CNIT performance relative to GDP growth could imply a **\$300 to \$400 million revenue gain or 10 to 12 percent base expansion.**

Note: The 11 control states did not enact major tax law changes during the time period, such as a rate reduction (except Maryland, Indiana and New Jersey, which are rate adjusted). They are also economically diversified states and are not dependent on natural resources or particular sectors (e.g., high tech). Control states were: Pennsylvania, Alabama, Florida, Georgia, Indiana, Iowa, Maryland, Missouri, New Jersey,

Source: Revenue data from U.S. Census Bureau. GDP from U.S. Bureau Economic Analysis.

Marijuana Tax Collections

State	Fiscal Year (\$ millions)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Alaska	--	\$1.7	\$11.1	\$19.2	\$24.5
California ¹	--	--	\$397.3	\$636.9	\$1,026.8
Colorado ¹	\$193.6	\$247.4	\$266.5	\$302.5	\$387.5
Massachusetts	--	--	--	\$22.1	\$81.7
Nevada	--	--	\$69.8	\$99.2	\$105.2
Oregon	\$20.7	\$70.3	\$82.2	\$102.1	\$133.2
Washington	\$186.0	\$315.2	\$362.0	\$390.4	\$469.2

¹ Represents calendar year data.

Source: Various state websites.

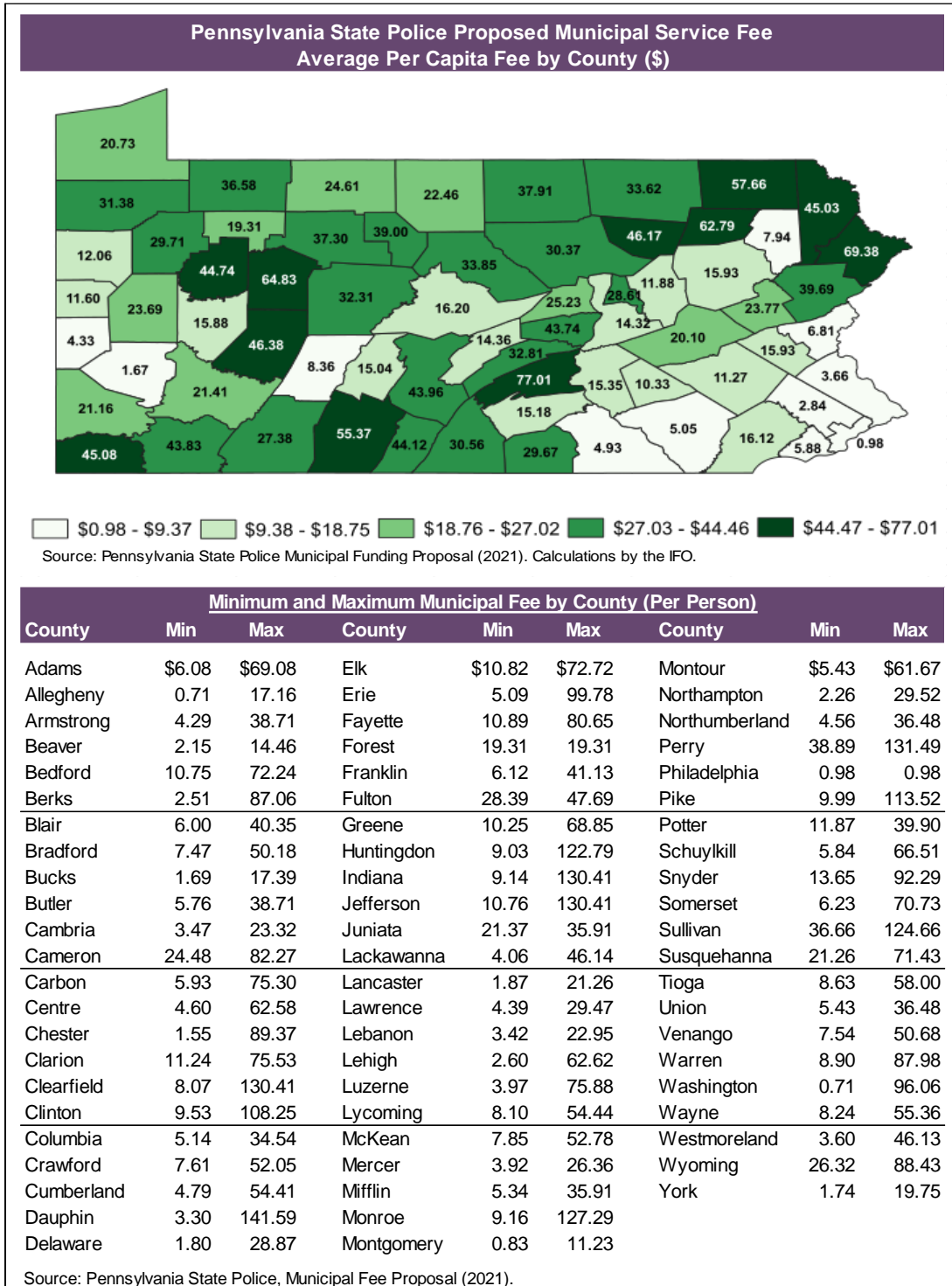
State Taxes on Recreational Marijuana

State	Year	Unit or Wholesale Tax	Excise Tax	Sales Tax
Alaska	2014	\$50/oz. mature bud and flower; \$25/oz. immature/abnormal bud; \$15/oz. remainder of plant; \$1/clone		
Arizona	2020		16.0%	5.60%
California	2016	Cultivation Tax: \$9.65/oz. flowers; \$2.87/oz. leaves; \$1.35/oz. fresh cannabis plant	15.0%	7.25%
Colorado	2012		15.0%	15.00%
Illinois	2019	Cultivation Privilege Tax: 7% on the value at the wholesale level	10% tax- cannabis flower or products <= 35% THC; 20% tax- products infused with cannabis; 25% tax- any product with THC concentration > 35%	6.25%
Maine	2016	\$335/lb. of flower or mature plant; \$94/lb. of trim; \$1.50 per immature plant or seedling; \$0.30 per seed	10.0%	5.50%
Massachusetts	2016		10.75%	6.25%
Michigan	2018		10.0%	6.00%
Montana	2020		20.0%	
Nevada	2016	15% at the wholesale level	10% retail/consumer tax	6.85%
New Jersey	2020			6.63%
Oregon	2014			17.00%
South Dakota	2020		15.0%	
Vermont	2020		14.0%	6.00%
Washington	2012		37.0%	6.50%

Note: Local sales taxes may apply. DC allows for the possession of less than 2 ounces of marijuana but has not legalized the cultivation, distribution or retail sales.

Source: Various state websites.

As PSP moves away from reliance on the Motor License Fund, the department developed a proposal to implement a fee on municipalities based on PSP station costs. The fee is scaled for factors including population, income and whether the municipality employs a full- or part-time police department. The fee ranges from \$0.71 per person in certain municipalities in Allegheny County to \$141.59 per person in Wayne Township in Dauphin County.



Performance-Based Budgeting and Tax Credit Review Schedule

Performance-Based Budgets						
Year						
1	Corrections	Board of Probation and Parole	PA Commission on Crime & Delinquency	Juvenile Court Judges' Commission	Banking and Securities	General Services
2	Economic & Community Development	Human Services – Part 1	Health	Environmental Protection	PA Emergency Management Agency	State
3	PennDOT	Human Services – Part 2	State Police	Military & Veterans Affairs		
4	Education	Human Services – Part 3	Aging	PA Historical & Museum Commission	Agriculture	Labor and Industry
5	Drug and Alcohol Programs	Insurance	Revenue	Executive Offices	Environmental Hearing Board	Conservation and Natural Resources
Tax Credits						
Year						
1	Film Production	New Jobs	Historic Preservation Incentive			
2	Research and Development	Keystone Innovation Zones	Mobile Telecom and Broadband	Organ and Bone Marrow		
3	Neighborhood Assistance	Resource Enhancement and Protection (REAP)	Entertainment Economic Enhancement Program	Video Game Production	Keystone Special Development Zones	
4	Educational Tax Credits	Coal Refuse and Reclamation	Mixed Use	Community-Based Services		
5	Resource Manufacturing	Brewers'	Computer Data Center	Manufacturing and Investment	Waterfront Development	Rural Jobs and Investment

 Independent Fiscal Office

