INDEPENDENT FISCAL OFFICE

March 7, 2022

The Honorable Stanley Saylor
House Appropriations Committee, Chairman
245 Main Capitol Building
Harrisburg, PA 17120

Dear Chairman Saylor:

Thank you for your letter dated January 20, 2022. Your letter requests an analysis of three bills: HB 105 PN 2611 (like-kind exchanges); HB 333 PN 1160 (Section 179 expensing); and HB 1960 PN 2247 (raise the net operating loss (NOL) deduction threshold). You request that the estimates "be prepared on the basis of assumptions that consider the probable behavioral responses of taxpayers, businesses and other persons and any potential dynamic or macroeconomic impacts in response to the proposed change."

As noted in a February 14, 2022 response letter to your office, the Independent Fiscal Office (IFO) recently purchased the REMI model which gives the office the capability to perform dynamic analyses for certain proposals. If a request is received from an authorized requestor, then the model may be used for proposals that could impact General Fund revenues by $50 million or more in a single year. For the three bills cited in your letter, the IFO assessed whether the static revenue impact exceeds that threshold. The results for the three bills are as follows:

- HB 105 allows conformity to the federal income tax code for like-kind exchanges (Section 1031 of the Internal Revenue Code). The IFO estimates a negative revenue impact of $30 to $35 million (first full fiscal year effective) that declines to $20 to $25 million per annum after several years.
- HB 333 allows conformity to the federal income tax code for Section 179 expensing for pass-through entities. For the current tax year, Section 179 allows full expensing of eligible investments up to $1.08 million. Pennsylvania law only allows $25,000. The IFO estimates a negative revenue impact of approximately $60 million (first full fiscal year effective) that declines to $30 million after several years, and then $15 million after several more years.
- HB 1960 increases the share of taxable income that C corporations can offset through net operating loss deductions from 40% to 80% over four years. The IFO estimates that the bill would reduce revenues by $115 million (first full fiscal year), peak at $250 million after two to three years, and then decline to $200 million.

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Based on these estimates, only HB 1960 exceeds the $50 million static threshold for a potential dynamic score once temporary timing issues have been reflected in the estimates. Therefore, the IFO will now assess whether it is possible to use the REMI model to estimate the dynamic impact of that proposal. As noted in the previous response letter, if it is not possible to directly model the impact of the proposal, then the IFO may use the impact from a general corporate net income tax rate reduction to inform the potential size of the dynamic impact.

If you have further questions regarding this letter, please do not hesitate to contact my office (717-230-8293). Per IFO policy, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

Matthew J. Knittel

Matthew J. Knittel
Director, Independent Fiscal Office