HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 1531 **PRINTER'S NO: 2748** **PRIME SPONSOR: George**

FISCAL IMPACT SUMMARY	FY 2009/10	FY 2010/11
Expenditure Increase/(Decrease):		
General Fund	See Analysis	See Analysis
Revenue Increase/(Decrease):		
General Fund	$1,735,836,000	$991,100,000
Local Government Funds	$0	$0

OVERVIEW:

This bill amends the Tax Reform Code of 1971 by making various changes to the sales and use tax remittance schedule, personal income tax remittance schedule, corporate net income tax, capital stock and franchise tax, gross receipts tax on managed care, cigarette tax, various tax credit programs, and extends sunset dates on various check-off programs. This bill would also impose a new tax on small cigars and create a tax amnesty program.

ANALYSIS:

The following table is a summary of each of the changes to the tax code that are contained in this bill, as well as the estimated revenue or expense associated with each item. The Department of Revenue has estimated that the cost of implementing the tax amnesty program will cost approximately $13 million. Due to the high volume of tax changes which would occur near the same time, the department could incur additional costs to implement the following tax changes. A total estimate of that cost is not available at this time.

Provisions of House Bill 1531 as Amended - Includes recurring and non-recurring revenue. Estimate in ($ thousands)	2009-10 Estimate	2010-11 Estimate
Exempts helicopters and helicopter parts and maintenance from the State sales tax.	(100)	(100)
In FY 2009/2010, accelerates the due date for sales tax collections.	211,400	-
In FY 2010/2011, accelerates the due date for personal income tax collections.	-	164,500
Extends the expiration of the following tax check-offs: Wild Resource Conservation, Organ Donation Awareness, Military Families, and Juvenile Diabetes.	-	-

Provisions of House Bill 1531 as Amended - Includes recurring and non-recurring revenue. Estimate in ($ thousands)	2009-10 Estimate	2010-11 Estimate
Makes changes to the Corporate Net Income Tax exemption for Net Operating Loss Carry-Forward and apportionment provisions, which more heavily weight the sales factor and are advantageous to corporate taxpayers (Tax Year 2009: $3 million or 15% NOL and 83% Sales Factor; Tax Year 2010 and beyond: $3 million or 20% NOL and 90% Sales Factor).	**(73,200)**	**(87,700)**
Increases the fixed formula deduction from the value of capital stock in the calculation of the Capital Stock and Franchise Tax which is advantageous to all taxpayers (changes from $150,000 to $160,000). Some small business tax payers would owe no tax.	**(500)**	**(1,700)**
Slows down the phase-out of the Capital Stock and Franchise Tax by maintaining it at 2.89 mills for the next two fiscal years (this was the rate in 2008). The CSFT will be completely phased out by 2014.	**373,900**	**550,600**
Imposes a 59 mills Gross Receipts Tax on Managed Care Organizations that are parties to Medicaid managed care contracts with the Department of Public Welfare in order to draw down federal reimbursement dollars. See narrative below for more details.	**-**	**-**
Increases the cigarette tax by 25 cents per pack (total tax will be $1.60 per pack or 8 cents per stick).	**100,100**	**150,700**
Expands cigarette tax to include small cigars.	**16,400**	**25,900**
Re-directs the portion of the cigarette tax that was going to the Health Care Provider Retention Account to the General Fund.	**170,900**	**170,900**
Eliminates the Health Care Provider Retention Account, which diverts the balance in the fund to the General Fund	**707,936**	**-**
Makes changes to the Educational Improvement Tax Credit program: Adds students with a disability and special education schools to those benefitting from the program; increases the maximum annual household income limit for student eligibility in FY 2011-2012 to $60,000; increases the income allowance in FY 2011-2012 to $12,000 and adds an annual CPI adjustment for both beginning in July, 2012; includes a multiplier to be applied to the annual household income for families with students with disabilities; expands the eligible pre-K program to allow programs that operate over the summer recess to qualify for the EITC program.	**-**	**-**

Provisions of House Bill 1531 as Amended - Includes recurring and non-recurring revenue. Estimate in ($ thousands)	2009-10 Estimate	2010-11 Estimate
Reduces the amount of tax credits awarded for the next 2 fiscal years. All programs affected and expected to be utilized in the next two years are as follows: Neighborhood Assistance Program, Employment Incentive Payments, Job Creation Tax Credit, Research & Development Tax Credit, Education Improvement Tax Credit, Film Production Tax Credit, Resource Enhancement and Protection Tax Credit, First Class Cities Economic Development District Tax Credit, Call Center Tax Credit Contains a complete suspension for the next 2 fiscal years of the Alternative Energy Production Tax Credit Program, which has not commenced yet.	**39,000**	**75,000**
Contains a tax amnesty program that will run from April 26 through June 18, 2010. This program would waive half the interest and all penalties on eligible taxes (includes all PA taxes administered by the Department of Revenue) that are delinquent as of June 30, 2009. This program also applies to unknown liabilities for five years prior to June 30, 2009.	**190,000**	**(57,000)**
Total	**$ 1,735,836**	**$ 991,100**

Gross Receipts Tax on Managed Care

In response to a federal change that took effect October 1, 2009, the Governor's Executive Budget proposed a 2 percent statewide assessment on all managed care organizations as a new funding source for Medical Assistance managed care, replacing the previous assessment which terminated September 30, 2009 in accordance with federal law. As an alternative to the Governor's proposed statewide assessment, House Bill 1531 would institute a state gross receipts tax on managed care organizations (MCOs) that are under contract with the Department of Public Welfare (DPW) and enroll Medical Assistance recipients – these are the same managed care organizations that paid the recently terminated assessment. Revenue from the gross receipts tax will be used to draw down additional federal Medicaid matching funds for the Medical Assistance managed care program. The Commonwealth earns the additional federal match by making supplemental payments to the Medicaid MCOs that equals the gross receipts tax paid by the MCOs and then seeking federal reimbursement for the supplemental payments.

The gross receipts tax on managed care organizations will generate $528.548 million in 2009/10 and $529.459 million in 2010/11. The Commonwealth will, in turn, incur a concomitant expense in the form of the supplemental payments (which will be incorporated in the monthly rate that DPW pays the MCOs). These payments are anticipated to draw additional federal Medicaid matching funds of $316.118 million in 2009/10 and $317.060 million in 2010/11. Consequently, the net revenue gain to the Commonwealth is equal to the federal Medicaid match.

If the federal government determines that this tax is not permissible for federal financial participation, the tax will cease to be imposed.

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DATE: October 7, 2009

General Note and Disclaimer: *This Fiscal Note was prepared pursuant to House Rule 19(a), and the elements considered and reported above are required by Section 5 of the rule. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*