

Veto No. 11

HB 605

July 9, 1976

To the Honorable, the House of Representatives
of the Commonwealth of Pennsylvania:

I return herewith, without my approval, House Bill No. 605, Printer's No. 3087, entitled "An act amending the act of March 16, 1970 (P.L.180, No.69), entitled 'An act relating to State taxation; changing the manner in which tentative and annual taxes are to be paid; providing a penalty in certain cases; and making a repealer,' further providing for a revision in the method of reporting, for additional tax and interest, for the underpayment of annual and quarterly taxes, for removing additional tax for understatement, and for the quarterly reporting and payment of the tentative Corporate Net Income Tax and Corporation Income Tax."

This bill would:

1. Permit the quarterly payment of Corporate Net Income Tax and Corporation Income Tax.
2. Provide that the last filed annual tax report (rather than the immediate prior year's report) would be the basis for determining the 90% prepayment for those paying various corporation taxes as currently provided, and,
3. Remove the 10% addition to tax (penalty) for understatement and impose the same "penalty" for underpayment of the tax.
4. Take effect with regard to 1 above for tax periods beginning January 1, 1978, and with regard to 2 and 3 above, immediately.

At the outset, I strongly favor, and would approve, those provisions referred to in 2 and 3 above. However, I cannot at this time approve the quarterly payment.

If House Bill No. 605 becomes law, it would be necessary to reduce annual revenue estimates beginning with fiscal year 1977-78. It has been estimated that enactment of House Bill No. 605 would result in the following loss of revenues to the fiscal years listed below.

| Fiscal Year | Estimated Revenue Loss |
|---------------------------|------------------------|
| 1977-78 | \$67.5 million |
| 1978-79 | \$63.1 million |
| 1979-80 | \$82.5 million |
| 1980-81 | \$82.1 million |
| 4-year total revenue loss | \$295.2 million |

The Commonwealth of Pennsylvania simply cannot sustain such a substantial delay of tax revenues which would reduce our funds available for appropriation in each of the next four fiscal years.

This reduction would hit the Commonwealth at a very critical time.

We are faced in our next budget, which will be presented in January, with deepening fiscal problems, especially those involving the public schools. Our needs will increase substantially while this bill, if approved, would reduce the funds available for appropriation by nearly \$300 million over the next four years. I believe any change in the 90 percent prepayment must be done in the context of a complete tax revision.

I fully recognize the need and justification for some type of relief. The prepayment law was passed by previous administrations to balance past budgets, but the overriding consideration now is the fiscal solvency of the Commonwealth. A bill of this kind at this time and under the circumstances we face would jeopardize that solvency, or force the State to raise taxes to make up the deficiency. In all likelihood, since corporation taxes now account for about 26% of the total tax receipts of the State (which is substantially below the 30% which Governor Scranton declared was the ideal level) the tax increase necessitated by such action would be levied against corporations anyway, and the net cash savings to corporations in any given year would be negated.

I cannot approve the implementation of the quarterly payment of the Corporate Net Income and Corporation Income Tax as provided in this bill.

For these reasons, I return House Bill No. 605 without my approval.

MILTON J. SHAPP