

# SENATE APPROPRIATIONS COMMITTEE

## FISCAL NOTE

**BILL NO.** House Bill 1232

**PRINTER NO.** 3500

**AMOUNT**

See Fiscal Impact

See Fiscal Impact

**FUND**

General Fund

Special Funds

**DATE INTRODUCED**

April 16, 2019

**PRIME SPONSOR**

Representative Dunbar

**DESCRIPTION**

House Bill 1232, as amended, amends the Fiscal Code to update provisions pursuant to the Enhanced Revenue Collection Account (ERCA), authorizes certain fund transfers related to the Commonwealth's COVID-19 response and adds a new Article I-A (Emergency Finance and Tax Provisions).

House Bill 1232 permanently establishes the ERCA restricted account within the General Fund. Revenues collected and the amount of refunds avoided as a result of expanded tax return reviews and tax collection activities by the Department of Revenue (department) will be deposited into the account. The General Assembly may appropriate money in the account to the department to fund the costs associated with expanded tax return reviews and tax collection activities. Except for amounts appropriated to the department, funds in the ERCA restricted account will be returned proportionately to the General Fund revenue or refund accounts that were the source of the money no later than the 28<sup>th</sup> day of each month of the fiscal year.

By June 5, 2020, and each June 1 thereafter, the department must generate a report to the governor and General Assembly including a detailed breakdown of the administrative costs, the amount of revenue collected, and the amount of refunds avoided.

House Bill 1232, as amended, also provides up to \$50 million of additional funding to be made available for the Commonwealth's COVID-19 response efforts within the Commonwealth's health care system. The legislation provides for the transfer to be made to a restricted account in the General Fund and stipulates that funding shall only be used to buy medical equipment and supplies for healthcare entities to meet urgent patient and staff needs to address surge demand.

The Secretary of the Budget is prohibited from making any transfer that will result in a deficit in any of the respective funds and must provide 24 hours' advance notice of any transfers to the restricted account. In addition, the Secretary of the Budget is required to provide to the General Assembly monthly reports of spending activity for the Commonwealth's COVID-19 response.

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The legislation requires available federal funding and any funding made available through the Governor's disaster proclamation to be used before the transfer of funding can occur. The authority to transfer funds expires on September 30, 2020.

As amended, House Bill 1232 extends the temporary regulations authorized and published under section 1107 of the act of April 17, 2016 (P.L.84, No.16), known as the Medical Marijuana Act. The temporary regulations shall remain in effect and may not expire until November 20, 2021, or upon the Department of Health's publication of the final-form regulations, whichever is sooner.

House Bill 1232, as amended, adds new Article I-A (Emergency Finance and Tax Provisions) to the Fiscal Code, which provides temporary powers and duties for Commonwealth agencies at times when an emergency makes it impossible to comply with law relating to state finance or state tax. With regard to Pennsylvania Personal Income Tax (PIT) deadlines not directly affected by federal tax filing deadline changes made in response to the COVID-19 emergency, House Bill 1232 temporarily authorizes the Department of Revenue to extend filing and payment deadlines related to the PIT as follows:

- Extends the deadline for declarations of estimated Personal Income Tax;
- Extends the deadline for payments of estimated Personal Income Tax; and
- Extends the deadline for the filing of informational returns related to Pennsylvania S corporations and partnerships, estates and trusts (Form PA-20S/PA-65).

With regard to the local Earned Income Tax imposed by the Local Tax Enabling Act (Act 511 of 1965), the legislation authorizes the Department of Community and Economic Development (DCED) to coordinate with the governing bodies and local agencies of political subdivisions to extend filing and payment deadlines for the local Earned Income Tax (EIT) imposed under chapter 5 of the Local Tax Enabling Act.

The legislation extends the aforementioned PIT and EIT deadlines to July 15, 2020. In both instances, House Bill 1232 provides that the deadlines shall coincide with the filing deadline for a tax return and payment due under section 330 of the Tax Reform Code of 1971, relating to the filing of annual Pennsylvania PIT returns and payments. Because the federal government temporarily extended its income tax return filing and payment dates from April 15 to July 15, 2020, under current law Pennsylvania's PIT annual tax return filing and payment dates defaulted to July 15, 2020, by automatically conforming to federal deadlines.

This legislation is effective July 1, 2019, or immediately, whichever occurs later. The sections authorizing the Department of Revenue and DCED to extend tax filing and payment dates expire July 31, 2020.

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### **FISCAL IMPACT**

The passage of the ERCA provisions of House Bill 1232 will have no fiscal impact to the Commonwealth. As prescribed in the legislation, the General Assembly will be required to determine the appropriations to the ERCA each fiscal year.

Extending the temporary regulations authorized under the Medical Marijuana Act will have no fiscal impact on Commonwealth funds.

The legislation will make up to \$50 million available for COVID-19 response efforts and will reduce the amount of funding available in the special funds from which the transfers are ultimately made.

The addition of Article I-A, which authorizes the Department of Revenue and DCED to extend certain tax filing and payment dates to July 15, 2020 will reduce General Fund and local tax revenues received in the 2019-20 fiscal year. However, such revenue will be due and payable by July 15, 2020, which is 15 days following the close of the current fiscal year.

According to the Official General Fund Revenue Estimate of the Commonwealth, estimated Personal Income Tax payments projected to be received in April, May and June 2020 total nearly \$800 million. House Bill 1232, as amended, will have the effect of moving much of this revenue out of FY 2019-20 and into FY 2020-21.

With regard to local EIT revenues, the legislation extends the filing deadline for 2019 final tax reports and payments and also one of the 2020 quarterly estimated payments, which are typically paid by the self-employed, certain residents who work outside of Pennsylvania or employees whose employers withhold incorrect tax amounts. For employees, the EIT operates as a payroll tax whereby tax is withheld on earned income from paychecks and remitted on a regular basis, so many EIT filers have no payment due upon filing an annual EIT return on or before April 15. Likewise, for self-employed filers, residents working outside of Pennsylvania or employees whose employers withhold incorrect tax amounts, April 15 final payments consist of reconciliations of underpaid quarterly estimated taxes for the prior year, which are likely a relatively small portion of total EIT payments.

For most school districts, the extension of time to file one 2020 quarterly estimated EIT payment will have the effect of moving some revenue out of FY 2019-20 and into FY 2020-21 because they operate on a July-to-June fiscal year. However, local municipalities generally operate on a calendar year basis, so the legislation will delay a small portion of revenue for a few months but will not move revenue across fiscal years.

The available EIT revenue data does not differentiate tax collection amounts between estimated payments and payroll withholding payments, so it is unclear exactly how much revenue will be moved into FY 2020-21 for school districts. However, only one quarterly estimated EIT payment will be extended by the legislation because, under current law, the second quarterly estimated payment is not due until July 15.