

## Summary of Tax & Revenue Proposal, House Bill 283, A03468

<b>Tax and Revenue Package Highlights</b> (\$ Amounts in Millions)			
<b>Tax Type</b>	<b>2015/16</b>	<b>2016/17</b>	<b>Impact</b>
<b>Personal Income Tax</b> Increase rate from 3.07% to 3.57%	\$ 1,400	\$ 2,100	Effective October 1, 2015
<b>Personal Income Tax</b> Increase in the poverty provision (tax forgiveness)	\$ (84)	\$ (111)	Forgiveness expanded to 150% of poverty for a family of four (e.g. a family of four with income of \$36,400 would pay no personal income tax)
<b>Severance Tax</b> 3.5% of value, plus 4.7 cents per thousand cubic feet (\$0.047 per Mcf)	\$ 67	\$ 389	Effective January 1, 2016. Based on West Virginia severance tax model. Estimates are in addition to the impact fee. Estimate assumes two months of collections in 2015/16 (first payment due May 20, 2016).
<b>TOTAL PROPOSED TAX &amp; REVENUE PACKAGE</b>	<b>\$ 1,383</b>	<b>\$ 2,378</b>	
<b>Transfer</b>	<b>2015/16</b>	<b>2016/17</b>	<b>Impact</b>
Transfer for Property Tax/Rent Rebate Program Expansion		\$ (5)	Would provide more than \$400 million in property tax relief by expanding the Property Tax/Rent Rebate program for homeowners (seniors, disabled and veterans) beginning in claim year 2016 (fiscal year 2017/18). Funded by a portion of the PIT increase.
<b>NET PROPOSED TAX &amp; REVENUE PACKAGE</b>	<b>\$ 1,383</b>	<b>\$ 2,373</b>	

- Please note: The underlying bill, House Bill 283, provides for a sales tax exemption for gun locks and gun safes.

### Property Tax Relief

- The proposal would provide nearly \$400 million in property tax relief for homeowners through an expansion of Pennsylvania's existing Property Tax/Rent Rebate (PTRR) program, beginning for claim year 2016.
  - The expanded PTRR program would benefit about 569,000 households – seniors and those who are disabled.
  - The proposal would eliminate school property taxes for more than 331,000 senior and disabled homeowners. (See chart below.)

<b>NEW Senior Households with School Property Taxes Eliminated</b>	<b>TOTAL Senior Households with School Property Taxes Eliminated</b>
216,344	282,878
<b>NEW Disabled Households with School Property Taxes Eliminated</b>	<b>TOTAL Disabled Households with School Property Taxes Eliminated</b>
30,915	48,439
<b>TOTAL NEW Senior &amp; Disabled Households with School Property Taxes Eliminated</b>	<b>TOTAL Senior &amp; Disabled Households with School Property Taxes Eliminated</b>
247,259	331,317

- The proposal would expand the PTRR program for homeowners (seniors, disabled and veterans) by increasing the eligibility income from \$35,000 to \$55,000 and maximum rebates from \$650 to \$2,000. (See chart below.)

<b>PTRR Program Expansion for Homeowners</b>		
<b>Eligibility Income Parameters (\$)</b>	<b>Current Rebate (\$)</b>	<b>Proposed Rebate (\$)</b>
0 - 8,000	650	2,000
8,001 - 15,000	500	1,700
15,001 - 18,000	300	1,500
18,001 - 35,000	250	1,200
35,001 - 45,000	0	900
45,001 - 55,000	0	600

- Note: Eligibility income does not include half of social security income or railroad retirement benefits; therefore, eligibility income can actually be much higher than \$55,000. For reference, the average annual social security benefit for retired workers is \$16,042 (half of that amount would be about \$8,021). (Source: *Social Security Monthly Statistical Snapshot*)
- The proposal would also exclude all veteran disability benefit payments from the eligibility income calculation.
  - There are approximately 90,000 disabled veterans in Pennsylvania. The Department of Revenue estimates that about 14,000 disabled veterans currently qualify for the PTRR program. The proposal would benefit an unknown number of additional veterans.
- Source of PTRR Information: PA Department of Revenue

## Personal Income Tax (PIT) Increase, With Expansion of Poverty Provision (Tax Forgiveness for Working Families)

- A modest increase in the personal income tax (PIT) rate, from 3.07 percent to 3.57 percent, would not affect most seniors, low-income families and those who are unemployed.
  - Currently, Pennsylvania's PIT rate, 3.07 percent, is the lowest of all states with an income tax (i.e. comparing the top rates).
  - At 3.57 percent, Pennsylvania would have the third-lowest PIT rate in the nation and continue to have the lowest rate compared to its surrounding states. (See table below.)

PIT Rates of Surrounding States	
State	Top PIT Rate
New Jersey	8.97%
New York	8.82%
Delaware	6.60%
West Virginia	6.50%
Virginia	5.75%
Maryland	5.75%
Ohio	5.39%
Pennsylvania	3.57% (proposed) 3.07% (current)

- Even with a modest increase in the PIT rate, Pennsylvania's tax structure would remain competitive with other states and one of the lowest rates in the nation.

- Low-income families would not be burdened by a higher PIT rate because of Pennsylvania's tax forgiveness provision.
  - The proposal includes an expansion of the tax forgiveness provision to mitigate the effects of the tax increase on low-income individuals, families and seniors.
  - This expansion will benefit 426,000 households, according to the Department of Revenue.
  - Under the proposal, a married couple with two children would pay no PIT if their eligible household income is \$36,400 (compared with \$32,000 under current law).
  - The income limits for tax forgiveness have not increased for many years – income limits for claimants and first dependents have not increased since 1998, and limits for dependent children have not increased since 2004.
  - Currently, about 1.2 million taxpayers (or 1 in 5 tax returns) claimed some level of tax forgiveness on their PIT return.

- Additionally, many other taxpayers would be able to offset a portion of the PIT increase by applying the federal tax deduction for state income taxes. The federal government would thereby subsidize part of the state PIT increase.
- The PIT increase would cost the average household less than a dollar per day.
  - The table below shows the impact of a PIT increase at various income levels. Note: The median household income in Pennsylvania is \$53,234. Average-income households in neighboring states pay between 5 percent and 6 percent in income taxes.

Impact of PIT Increase		
	0.5 Percent Increase (from 3.07% to 3.57%)	
Income	Additional PIT per WEEK	Additional PIT per DAY
\$ 20,000	\$ 1.92	\$ 0.27
\$ 40,000	\$ 3.85	\$ 0.55
\$ 53,234	\$ 5.12	\$ 0.73
\$ 60,000	\$ 5.77	\$ 0.82
\$ 80,000	\$ 7.69	\$ 1.10
\$ 100,000	\$ 9.62	\$ 1.37

#### Severance Tax on Natural Gas

- The proposal includes a severance tax on natural gas to increase funding for education.
- The proposal would levy a severance tax on natural gas from unconventional wells at 3.5 percent of the value of the gas, plus 4.7 cents per thousand cubic feet of gas extracted (similar to West Virginia's tax model) - while preserving Pennsylvania's local impact fee.
  - Note: The proposal does not include a price floor as the governor had originally proposed.
  - The proposal would allow drillers to deduct post-production costs; however, the costs would be capped at 15 percent of gross value.
  - The proposal would not permit producers to deduct tax or post-production costs from landowner royalty payments. This provision would apply to existing and future agreements and reinforce the minimum royalty guarantee of 12.5 percent to protect landowners.
- With an effective date of Jan. 1, 2016, the proposal would generate \$67 million in addition to the local impact fee in 2015/16 (based on two months of collections) and \$389 million in 2016/17. (Source: PA Department of Revenue)