

Testimony Before the House Appropriations Committee
Pat Browne, Secretary
Department of Revenue
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Chairman Harris, Chairman Struzzi, and members of the Committee, thank you for the opportunity to meet with you today to discuss the Governor's Executive Budget for the Pennsylvania Department of Revenue. I am Pat Browne, Secretary for the Department of Revenue. Joining me today are members from my team: Allison Morgan, Executive Deputy Secretary; Amy Gill, Deputy Secretary for Tax Policy; Adria Zimmerman, Deputy Secretary for Administration; and Stephanie Weyant, Deputy Executive Director of Marketing and Products for the Pennsylvania Lottery.

Governor Shapiro's Budget Initiatives

Governor Josh Shapiro's proposed 2026-27 budget builds on three years of historic progress by continuing to do what's working across the Commonwealth to lower costs, create economic growth, strengthen public safety, support students, and continue Pennsylvania's rise.

The Governor's budget proposal maintains fiscal responsibility, continues to cut taxes, and ensures taxpayer dollars are spent wisely. Additionally, this budget is balanced and does not rely on any broad-based tax increase over the next five years, ensuring long-term stability while continuing to deliver results for the people of the Commonwealth.

Improving & Modernizing PA's Corporate Tax Structure

Since taking office, Governor Shapiro has saved Pennsylvania businesses more than \$2.9 billion by lowering the Corporate Net Income Tax (CNIT) rate and increasing net operating loss deductions for small businesses. These actions make Pennsylvania more competitive and create a better environment in which to start or expand a business.

Since 2023, Pennsylvania's state business tax competitiveness ranking moved up nine places, after lagging nationally for decades. This budget continues to expand on this work to make the Commonwealth a leader in innovation, job creation, and economic development by modernizing our tax system and prioritizing fairness for Pennsylvania-based businesses. Specifically, the budget proposal:

- Continues to decrease taxes for Pennsylvania businesses with CNIT rate reductions scheduled under current law. The rate is scheduled to decline by **0.5 points every year** until it reaches **4.99 percent** in tax year 2031.
- Moves Pennsylvania from its present approach of taxing each separate entity doing business in the state to instead taxing each corporate group that has at least one member doing business in Pennsylvania.

To explain this latter point, it's important to acknowledge how our current system looks to just one piece of larger integrated businesses and imposes tax on it. Even without planning by taxpayers to reduce the amount of income in the entities subject to taxation by "separate company" states such as Pennsylvania,

this approach ignores that the federal government taxes entire corporate groups on a consolidated basis and a majority of the states which impose a corporate income tax do so on a “combined” basis where the whole corporate group is taxed together on one return.

The combined approach looks to the overall economic operation of the business and taxes that income, rather than the separate company approach that looks to only one piece of the overall operations of larger corporate groups, while at the same time taxing all of the operations of smaller businesses that consist of only one corporate entity.

In our current environment, everyone looks at the overall economic operation of the business and whether as a whole it is making or losing money. The switch from separate company reporting to combined reporting eliminates an antiquated approach in our tax system and will put all Pennsylvania corporations, large and small, on the same level playing field.

Skill Games Tax

As members on the committee are aware, unregulated gaming machines marketed as “Games of Skill” continue to be prevalent in establishments across Pennsylvania. Previous estimates suggest there are as many as **70,000 Games of Skill terminals** in the Commonwealth, including **24,000** at Pennsylvania Lottery retailers **alone**.

To address this issue and establish parity in Pennsylvania’s gaming industry, the Governor’s budget proposal seeks to legalize and regulate Games of Skill by defining them as Video Gaming Terminals (VGTs). Below are some key details of the Governor’s proposal.

- The Pennsylvania Gaming Control Board (PGCB) will regulate both existing VGTs — which are currently legal and operating in the state — as well as Games of Skill, allowing **40,000 total combined machines** in establishments in 2026-27.
- Each establishment will be permitted to have **a maximum of 5 machines**.
- Gross terminal revenues will be taxed at **an effective rate of 52 percent**, with all the proceeds after funding for compulsive gambling support and local share transfers deposited into the General Fund.
- This proposal is projected to generate **more than \$2 billion a year** in revenues once fully implemented.

It’s also important to understand this is an issue of great importance for the Pennsylvania Lottery and our seniors. As it stands now, unregulated Games of Skill are siphoning dollars from the Lottery — and in turn punishing older Pennsylvanians who benefit from the critical services and programs the Lottery funds each and every day. That means less money is available to help seniors with prescription assistance, free and reduced-fare transportation, meals, senior centers, and a host of other important programs and services. Our seniors deserve better and that requires action on this issue.

Treating Games of Skill the same as VGTs, as the Governor proposes, also means that all retailers carrying Games of Skill will be required to be Lottery retailers (the current law requires VGT locations to be Lottery retailers). This crucial change will help the Lottery expand its points of distribution.

Adult Use Cannabis

As the federal government takes steps to reform its approach to cannabis — and other states put in place responsible regulations — Pennsylvania remains stuck in place, without commonsense consumer protections and losing out on critical tax revenue and new business to neighboring states. All of Pennsylvania's neighboring states, except for West Virginia, have legal adult use cannabis policies and regulation.

This budget proposes a regulatory framework to legalize and tax adult use cannabis and provide a real opportunity for Pennsylvania farmers to cultivate a new, legal industry and establish a thriving market for the state. Specifically, the 2026-27 budget proposal:

- Proposes the legalization of adult use cannabis effective July 1, 2026, with regulated sales within Pennsylvania beginning January 1, 2027.
- Is projected to generate **more than \$200 million annually** in tax revenue once fully implemented.
- Will provide relief to law enforcement agencies and the judicial system, which are unnecessarily overburdened with cannabis-related arrests and adjudications.
- Addresses the illicit market that exists because of the current prohibition for cannabis. This market fuels violence perpetrated by drug traffickers and gangs seeking to control harmful forms of synthetic marijuana in Pennsylvania communities.

Additionally, with the funds generated by the legalization of adult use cannabis, Pennsylvania can right some of the wrongs done to individuals impacted by archaic laws. In addition to the immediate expungement of the records of those incarcerated for only a possession-related offense attributed to cannabis, the budget proposes to invest **\$10 million** in restorative justice initiatives at the Pennsylvania Commission on Crime and Delinquency. The proposal also includes **\$25 million** to assist new small and small diverse businesses attempting to enter the new marketplace through the Department of Agriculture.

Raising the Minimum Wage for Pennsylvania Workers

Pennsylvania must take action to raise the minimum wage and compete with neighboring states — including Maryland, Delaware, New York, and New Jersey who are all at or over \$15 per hour. Our current minimum wage of \$7.25 per hour has remained unchanged for more than 15 years and is far too low, which hurts workers.

This proposed budget calls to raise the **minimum wage to \$15 per hour on January 1, 2027**, which will generate economic activity, increase the purchasing power of Pennsylvania residents, and add roughly **\$80 million annually** in increased revenue to the Commonwealth once fully implemented.

Raising the minimum wage would directly benefit as many as 514,800 Pennsylvania workers earning between \$7.25 and \$15 per hour. Many of these workers are adults with families, and this is an incredibly important step to take at a time when Pennsylvania's workforce is aging. As a result, young Pennsylvanians are increasingly considering other places to build their economic futures. We must take action to ensure that Pennsylvania is a place where families, workers, and students see a place to work — and earn a decent wage.

DOR History and Mission

For nearly 100 years, the Department of Revenue has been tasked with fairly, efficiently, and accurately administering the tax laws and revenue programs of the Commonwealth of Pennsylvania. The Department takes great pride in the fact that our daily work to collect and distribute tax monies due to the Commonwealth funds the vital programs and services that are essential to all Pennsylvanians.

In addition to the collection and distribution of tax monies, the Department also administers the Pennsylvania Lottery, which was established by law in 1971. The Pennsylvania Lottery generates funding for programs that benefit older Pennsylvanians. Since selling its first ticket in 1972, the Lottery has generated more than \$37.2 billion for those critical senior programs.

Collectively, our work at the Department is an important part of **Governor Shapiro's** overarching goal to create economic opportunities for Pennsylvanians and to advance Pennsylvania's government to become more effective and efficient. To meet these goals, our Department has taken many important steps to improve customer service, enhance effectiveness in tax compliance, and continue boosting sales and net profits for the Lottery in a responsible manner.

Please allow me to provide an overview of some of our recent work and important initiatives that are ongoing at our agency.

Cutting Costs and Putting Money Back in Pennsylvanians' Pockets

During his first three years in office, **Governor Shapiro** has taken historic steps to deliver tax relief and cut costs for Pennsylvania's working families and seniors. We are very proud of the fact that the Department of Revenue plays a leading role in many of the initiatives the Governor has fought for to deliver meaningful results for Pennsylvanians.

Taken together, the three Revenue-administered programs noted below — the Working Pennsylvanians Tax Credit, the Property Tax/Rent Rebate program, and the Child and Dependent Care Enhancement Tax Credit — will deliver nearly \$650 million this year alone. That is real money that is helping Pennsylvanians across the Commonwealth.

Working Pennsylvanians Tax Credit

As members on the committee are aware, the 2025-26 budget created the new **Working Pennsylvanians Tax Credit (WPTC)**. This new credit is historic because it is the first initiative the Commonwealth has advanced in more than 50 years in its personal income tax system to specifically help low-income residents of our Commonwealth.

This tax season, the WPTC is expected to deliver **\$193 million in tax relief to approximately 940,000 working Pennsylvanians**. As Governor Shapiro has said, this gives hardworking Pennsylvanians more resources to put food on their tables, fill their cars with gas, and keep up with rising bills.

Modeled after the federal Earned Income Tax Credit (EITC), the new WPTC equals **10 percent of the federal credit**. Anyone who qualifies for the federal EITC will now **automatically be eligible for both credits**.

During this first year of the WPTC, our team at the Department will automatically calculate the WPTC for taxpayers who submit documentation showing they also claimed the federal EITC. The WPTC is a refundable tax credit, meaning taxpayers can receive a refund even if they don't owe Pennsylvania income tax.

Property Tax/Rent Rebate Program Expansion

Governor Shapiro, with the help of the General Assembly, delivered the largest targeted tax cut for seniors in nearly two decades by expanding the Property Tax/Rent Rebate (PTRR) program. As all the members of the Committee know from their own constituent service efforts, this program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older.

The expansion that **Governor Shapiro** championed delivered three key changes:

- The program's income limits for homeowners and renters were significantly raised and made equal.
- The maximum standard rebate was increased to \$1,000 (up from the prior \$650 maximum).
- The program's income limits are now tied to the cost of living, meaning they will be evaluated on an annual basis and are designed to keep pace with inflation.

We're extremely proud to report that the recent expansion of this program has been a resounding success that delivered real results for Pennsylvanians in need. According to our most recent data, our Department processed more than 511,000 rebates totaling roughly \$314 million for PA residents who applied for a rebate on property taxes or rent paid in 2024.

Based on the latest data from the past two years, the expansion of the PTRR program has already opened the door for **approximately 165,000 first-time filers to receive a rebate for the very first**

time. Furthermore, based on a recent DOR analysis, the expansion has increased the average rebate for repeat filers to nearly **21 percent of the rent or property tax paid by each filer.**

This achievement helped us deliver upon **Governor Shapiro's** pledge to provide real relief to seniors and to help them at a time when rising costs are a real concern. We're also proud of the work we did to ensure that the expansion was administered as smoothly and quickly as possible.

Expansion of Child and Dependent Care Enhancement Tax Credit

Governor Shapiro also delivered for working families by signing legislation to expand Pennsylvania's Child and Dependent Care Enhancement Tax Credit. The expansion has been a major help to working families with children in daycare and other people in the Commonwealth who care for a family member.

The expansion resulted in nearly **222,000 credits totaling roughly \$139 million** being approved for Tax Year 2024, resulting in many Pennsylvanians receiving meaningful relief. Under the expansion, the state credit is now equal to 100 percent of the federal credit, meaning:

- The maximum credit is \$1,050 (one child) or \$2,100 (two or more children).
- The credit cap phases down as income levels increase.
- The minimum credit is \$600 (one child) or \$1,200 (two or more children).
- The credit is refundable, meaning qualified taxpayers will earn the full amount of the credit in a refund, after accounting for any tax obligation due.

Research has shown that a similar tax credit on the federal level significantly reduced childhood poverty, addressed food insecurity, and helped many families secure their finances. The Department has been especially proud to administer the expanded Child and Dependent Care Enhancement Tax Credit and play a part in making a real difference for working families and others caring for a loved one.

Impact of Tax System Modernization

At the outset of the Shapiro Administration, the Department fully transitioned to a new, state-of-the-art tax system that has been well received by taxpayers and tax practitioners. As many members of the committee know, this project was a major undertaking and was necessary because our agency had reached a point where we needed to replace several legacy tax systems that had been in place for decades.

The Department contracted with a leading vendor in the industry to help with this work — and it remained on time and on budget. I am proud to report that our system, known as PATH (Pennsylvania Tax Hub), has now been fully operational for more than three years.

All taxes and revenue programs the Department is responsible for are now administered through PATH — one unified, integrated tax system. With the rollout of this new system, the Department has achieved a longtime goal of modernizing the way it handles taxes for Pennsylvanians.

Below are some highlights of how impactful this system has been not only for our internal operations, but for the taxpayers we serve. They also cover myPATH, which is the online portal that our customers use to meet their filing, payment, and account obligations:

- More than 43 million payments have been processed in PATH for a total of more than \$175 billion.
- Nearly 54 million returns have been processed since the system went live.
- Since inception of the new system, more than 12 million refunds have been issued out of PATH, totaling more than \$10.6 billion. The majority of these refunds were issued electronically via direct deposit.
- 99.9 percent of payments processed through PATH have not required manual intervention by a department employee.
- Since it debuted, myPATH has been visited more than 23 million times while logged in and more than 5 million times while not logged in.
- In 2025, 163,000 PTRR applications were submitted electronically through myPATH, a 13 percent increase from the prior year. The overall online PTRR application received a rating of 4.7 out of 5 stars from users.
- The Department has been nimble in implementing several legislative changes, such as the recently implemented Working Pennsylvanians Tax Credit. Several new services have been made available electronically in myPATH, such as recently enacted business tax credit applications with the ability to pass through those credits electronically to owners.

The benefits of the PATH system align with the Department's strategic goals related to streamlining agency processes, improving customer service, and boosting tax compliance. Many of the changes allow Department employees to focus on value-added processes that are core to our mission. The PATH system has reduced processing errors, improved internal processes, and enhanced the Department's organizational capacity.

Lottery Success

The Pennsylvania Lottery continues to be the only state Lottery that generates funding solely for programs that benefit older adults. The Lottery closed another fiscal year in 2024-25 by generating more than \$1 billion for programs that benefit older Pennsylvanians. This was the 14th consecutive year the Lottery has generated more than \$1 billion in funding that supports prescription assistance, free and reduced-fare transportation, meals, senior centers, and many other critical programs and services for our seniors.

I'm happy to report that the profit margin relief the Lottery received last year in Act 37 of 2025 is already showing signs of making a difference for our business. As you recall, the legislation

permanently reduced the Lottery's statutorily required profit margin to 10 percent (down from the prior 20 percent requirement), which allows the Lottery to offer more games with higher payouts that players want to play.

Because of the timely passage of this legislation, the Lottery had the ability to boost payouts for our holiday Scratch-Off games that were offered in the latter half of 2025. The early results are promising, as we are seeing our total Scratch-Off sales showing signs of growth halfway through the current fiscal year (2025-26). This follows four consecutive years of declining growth for Scratch-Off sales, which continue to make up about 70 percent of Lottery's total sales.

Additionally, the margin relief helped our holiday games offer 1.4 million additional winning prizes for our players when you compare the holiday-themed games to those sold during the prior year. This trend will continue moving forward, as all of our Scratch-Off games will continue to have higher payouts and more winning prizes, due in large part to the General Assembly's support for the legislation that passed last year.

Despite this recent success, I must stress that the Lottery continues to face an incredible amount of competition in the gaming industry that is negatively impacting sales and our ability to generate revenue for the programs that benefit older Pennsylvanians. As I mentioned earlier in my testimony, the biggest threat continues to be unregulated Games of Skill.

The Lottery estimates that it loses approximately \$250 million in Scratch-Off sales per fiscal year solely because of competition from these unregulated machines. Put another way, more than 50 percent of Lottery's retailers have at least one Games of Skill terminal. We anticipate that number will continue to grow as long as these machines are left unregulated. That's one driving reason why Governor Shapiro has put forth a plan to regulate these machines, support the Lottery moving forward, and create a more level playing field in Pennsylvania's gaming industry. This, along with the Lottery efforts to seek creative and innovative ways to attract players, will allow it to remain competitive in the expansive gaming market in Pennsylvania.

Conclusion

In closing, I want to express how extremely proud I am of the great work our team at the Department of Revenue and Lottery has done for the betterment of all Pennsylvanians and PA Lottery players. I look forward to working with each of you in the weeks ahead. Thank you for the opportunity to provide testimony on behalf of the Department of Revenue and the Pennsylvania Lottery. My colleagues and I welcome any questions from the members of your Committee.