



2017/18 Tax Code Summary
House Bill 542 Printer's Number 2598
October 27, 2017

Tax and Revenue Package Highlights		
HB 542 PN 2598		
<i>(\$ Amounts in Millions)</i>		
Tax Type	2017/18	2018/19
Sales and Use Tax - Online Marketplace	\$ 8.0	\$ 50.5
Fireworks Tax at 12%	\$ 2.8	\$ 8.7
Revenue Maximization - Non-resident Withholding	\$ 9.8	\$ 24.6
Revenue Maximization - Appeals Period, from 90 days to 60 days	\$ 10.0	\$ 10.0
TOTAL PROPOSED TAX PACKAGE	\$ 30.6	\$ 93.8
Tobacco Securitization	\$ 1,500.0	

Tobacco Securitization

- Authorizes the Commonwealth Financing Authority to either issue bonds against future Tobacco Settlement Agreement funds, or the CFA's executive director could solicit bids for the sale of future funds to net \$1.5 billion in lieu of issuing bonds. Any bonds issued would be limited to a 30-year term, and any sale of future revenues would be limited to 10 years. The State Employees Retirement and Public School Employees Retirement systems may submit bids for the purchase of future revenues.

Sales Tax

- Marketplace Providers – Provides an option to websites that facilitate third party sales to either collect and remit sales and use tax as if they were the vendor, or the marketplace provider can opt to provide documented records to the Department of Revenue stating information of their sales and customers. The second option would provide information so the department can attempt to collect use tax from PA residents who make online purchases. The measure would affect online companies like eBay, Etsy and Amazon Marketplace. Estimated revenue is \$8 million in 2017/18 and \$50.5 million in 2018/19.

Corporate Net Income Tax

- Net Operating Loss –The Net Operating Loss deduction today is 30 percent, or \$5 million. A recent court case questioned the uniformity of the two-part calculation, and severed the “or \$5 million” option of the deduction calculation. The resulting calculation requires businesses to multiply net operating losses by 30 percent, which equals the amount to be deducted from the total tax liability. This bill proposes a deduction calculation of 35 percent of net

operating losses for tax year 2018 and 40 percent for tax year 2019. While the decision of the court ruling increased base revenues, this bill would decrease those revenues, if enacted.

Fireworks Tax

- This bill proposes a new 12 percent tax on consumer fireworks purchases. This new levy would be in addition to existing sales and use taxes. The fireworks tax would not apply to purchases of professional fireworks or fireworks for agricultural purposes. Estimated revenue is \$2.8 million in 2017/18.
 - In addition to the proposed tax, numerous regulations and licensing requirements (with the Department of Agriculture) would be added that would affect businesses selling consumer fireworks and professional pyrotechnic display companies. Regulations would be added requiring municipalities to use professional, licensed operators for public fireworks displays.

Revenue Maximization

- This bill contains various methods, proposed by the Department of Revenue, to enhance and maximize revenue collections from current taxes.
 - Non-resident withholding – Businesses making rent and royalty payments on Pennsylvania property to non-residents would be required to withhold personal income tax from those payments. Also, businesses that bring non-resident independent contractors into the state for work would be required to withhold Pennsylvania personal income tax from that portion of their work performed in Pennsylvania. In either case, the tax is due under current law. This bill would simply require the withholding method as a better guarantee of receiving the tax currently owed.
 - A timing change on petitions for reassessments in the appeals process would be shortened from 90 days to 60 days.

Film Tax Credit

- This bill would allow the Department of Community and Economic Development to establish up to two film production tax credit districts. Districts must be at least 55 acres, located on a deteriorated property, and be occupied by a qualified business that would make a capital investment of at least \$400 million within five years and contain at least one qualified production facility and six sound stages.
 - This new tax credit would be in addition to the current \$65 million cap. The bill does not establish a cap on the new credits. The new credits would begin in 2019/20.

Concert Rehearsal and Tour Tax Credit

- This bill would move the concert tour tax credit from Title 12 and return it to the Tax Code where it was originally established.

Manufacturing Innovation and Reinvestment Deduction

- This would be a newly created deduction allowing qualifying businesses to deduct five percent of capital investments from their corporate net income tax liability if they invest at least \$100 million in building or refurbishing a manufacturing facility. The deduction would be available to each qualifying business for five years and would not exceed 50 percent of the tax liability.

Special Tax Zone Changes

- City Revitalization and Improvement Zones, or CRIZ, would allow excess funds in a pilot zone to be used for administrative costs.
- Also would make changes to allow for the transfer of real estate parcels into or out of a CRIZ.
- Neighborhood Improvement Zone, or NIZ, would make changes to allow for the transfer of a real estate parcel out of a zone and replaced with a parcel the same size or smaller. This bill contains no changes to the board appointments.
- Keystone Opportunity Zone application deadlines for additional zones are extended from Oct. 1, 2016, to Oct. 1, 2018.

Miscellaneous Provisions

- Help-desk and call-center support would be excluded from sales tax to clarify the digital download sales tax enacted in 2016.
- Beer kegs would be excluded from sales tax as part of the “wrapping and packaging of supplies” exemption.
- PA ABLE account earnings and distributions would be exempt from all state and local tax.
- Would exempt congressionally chartered veterans’ service organizations from the realty transfer tax.
- Removes the sunset date to make permanent checkoffs on tax returns for contributions to: Wild Resource Conservation, Organ and Tissue Donation, Military Family Relief Assistance, the Children’s Trust Fund and the American Red Cross.
- Inheritance tax clarification for the definition of timely filed returns.
- Would provide a prorated fee for partial daycare sharing services as a clarification to the current vehicle rental fee.
- Tax credit clearance would require the Department of Revenue to determine if all required state tax returns have been properly filed and all taxes paid before awarding a tax credit.