



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman



Monthly Report March 2021

February Revenues Bounce Back Following Facility Closure

General Fund revenue collections of \$2.68 billion for February were \$593.9 million, or 28.4%, above estimate for the month. On January 19, 2021, the Department of Revenue announced that its Bureau of Imaging and Document Management (BIDM) facility in Harrisburg was being temporarily closed due to COVID-19 health and safety protocols. The closure impacted the depositing of checks and pushed revenue that would have been deposited in January to February. The fourth quarterly installment of estimated personal income tax (PIT) for 2020 was due in January, so the facility closure significantly increased personal income tax collections in February when the payments were finally processed, which accounts for much of this month's surplus and offsets January's monthly revenue shortfall of \$162.4 million.

February's quarterly estimated personal income tax collections were \$360.5 million higher than the monthly estimate as a result of the facility closure in January. Additionally, personal income tax withheld from payroll was above estimate by \$32.2 million for the month, and PIT from annual tax payments was \$20.8 million above estimate. Combined, PIT collections from all sources were \$413.4 million above estimate for February.

Sales tax collections for February were also strong, coming in at \$106.7 million above estimate. Sales tax and withheld PIT collections are paid in more "real time" than some other tax types that are paid annually or quarterly, so these two tax types, in particular, are often a good barometer to measure the Commonwealth's revenue performance going forward – at least in the near-term. Collectively, in a typical fiscal year (e.g., without COVID), sales tax and withheld PIT make up approximately 65% of all General Fund tax revenue, which is another reason why having these two tax types performing well is important to the Commonwealth's fiscal position.

General Fund revenue collections for the fiscal year-to-date are \$901.3 million ahead of estimate. The Governor's FY 2021-22 Executive Budget, released about one month ago, projects that FY 2020-21 General Fund revenue collections will exceed the Official Revenue Estimate by \$535.5 million at fiscal year's end. Therefore, General Fund revenue for FY 2020-21 is now \$365.8 million higher than the Governor's revised estimate for the fiscal year, and significant tax collection months are still to come. ~Continued Page2~

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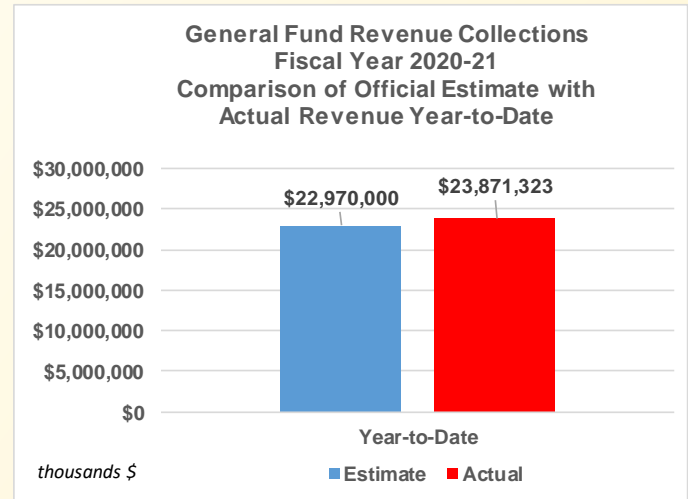
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February Revenues Bounce Back Following Facility Closure Continued....

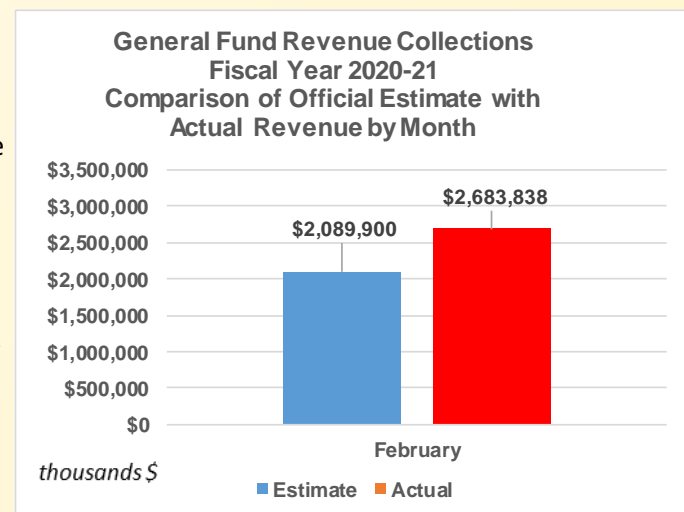
February 2021 General Fund Revenue vs. Monthly Estimate:

- General Fund revenue collections of \$2.68 billion were above the monthly estimate by \$593.9 million, or 28.4%, as a result of the Department of Revenue's January processing facility closure.
- General Fund tax revenues were above the estimate by \$598.6 million, or 28.9%.
- Corporation taxes were \$22.4 million, or 24.2%, above the estimate, but corporation tax collections in the month of February are relatively minimal compared to other months of the year.
- Sales and use tax (SUT) collections beat the estimate by \$106.7 million, or 13.3%, for the month.
 - General SUT collections were \$104.8 million, or 15.3%, above estimate.
 - SUT collections on motor vehicle sales were \$2 million, or 1.7%, higher than the estimate.
- Personal income tax collections were above estimate by \$413.4 million, or 43.9%.
 - Withheld PIT was \$32.2 million, or 3.6%, more than the estimate.
 - Non-withheld PIT (annual & estimated payments) was \$381.2 million higher than the estimate after recovering from January's facility closure setback.
- Inheritance tax revenues exceeded the estimate by \$17.1 million, or 20.5%.
- Realty transfer tax collections were \$17.5 million, or 71.9%, above estimate.
- Non-tax revenues missed the estimate by \$4.6 million, or 23.6%.



Fiscal Year 2020-21 vs. the Official Revenue Estimate To-Date:

- Total General Fund revenues are \$901.3 million, or 3.9%, higher than the Official Revenue Estimate through the month of February.
- General Fund tax revenue is \$881.9 million, or 4%, above estimate.
- Corporation taxes are \$394.1 million, or 18.9%, higher than the estimate.
- Sales and use taxes are \$171 million, or 2.1%, above estimate.
 - General SUT collections are \$191.3 million, or 2.7%, more than the estimate.
 - SUT collections on motor vehicle sales are \$20.3 million, or 1.7%, lower than the estimate.
- Personal income tax collections are ahead of the estimate by \$177.5 million, or 1.8%.
 - Withheld PIT is \$59.8 million, or 0.9%, above estimate.
 - Non-withheld PIT (annual & estimated payments) is \$117.7 million, or 4.3%, above estimate.
- Non-tax revenues are \$19.4 million, or 2.8%, higher than the estimate.



Fiscal Year 2020-21 vs. Fiscal Year 2019-20:

- An overall comparison of FY 2020-21 to FY 2019-20 is difficult and misleading because of various tax shifts between the two years and one-time special fund transfers made in FY 2020-21.

Motor License Fund:

- Motor License Fund revenues are below estimate by \$39.1 million, or 2.1%, through February.
- Motor License Fund revenues are \$2.1 million, or 0.1%, lower than last fiscal year at this time.

The General Fund revenue surplus for the current fiscal year through February 2021 stands at \$901.3 million above the Official Revenue Estimate. This surplus is made up of \$881.9 million in tax revenues and \$19.4 million in non-tax revenues. The Governor's Executive Budget projects that FY 2020-21 year-end revenue will exceed the Official Revenue Estimate by \$535.5 million.

For the Five-Year Economic and Budget Outlook released in January 2021, the Independent Fiscal Office (IFO) increased its General Fund revenue estimate for FY 2020-21 by \$2.56 billion from its original estimate that was made in June 2020. For FY 2020-21, the IFO's updated mid-year General Fund revenue estimate is nearly \$950 million higher than the Administration's revised 2020-21 Revenue Estimate, as adjusted in the FY 2020-21 Governor's Executive Budget.

Current-Year General Fund Revenues <i>Governor's Budget vs. Independent Fiscal Office</i> Fiscal Year 2020-21 <i>(thousands \$)</i>			
Revenue Type	Governor	IFO	Difference
Personal Income Tax	\$ 15,572,000	\$ 15,807,000	\$ (235,000)
Sales and Use Tax	\$ 11,981,000	\$ 12,327,000	\$ (346,000)
Corporate Net Income Tax	\$ 3,570,000	\$ 3,775,000	\$ (205,000)
Inheritance Tax	\$ 1,131,000	\$ 1,196,000	\$ (65,000)
Gross Receipts Tax	\$ 1,003,000	\$ 1,002,000	\$ 1,000
All Other (incl. Non-Tax)	\$ 4,233,000	\$ 4,331,000	\$ (98,000)
Total	\$ 37,490,000	\$ 38,438,000	\$ (948,000)

For FY 2021-22, the IFO revenue estimate (excluding any effect from the Governor's proposed tax changes and revenue modifications) is \$332 million more than the amount projected in the Governor's Executive Budget.

FY 2021-22 General Fund Revenue Reconciliation <i>Governor's Budget vs. Independent Fiscal Office</i> <i>(Thousands)</i>			
	Governor	IFO	Difference
Governor's Budget/IFO Economic and Budget Outlook	\$40,085,800	\$36,675,000	\$3,410,800
<i>Add:</i>			
Cigarette Tax - TSF Debt Service Transfer	\$115,300	\$115,300	\$0
Personal Income Tax - GG II Debt Service Transfer	\$13,800		\$13,800
<i>Remove:</i>			
Personal Income Tax - Rate Increase to 4.49%	(\$2,964,000)		(\$2,964,000)
PIT Tax Forgiveness - Increased Tax Refunds	(\$428,900)		(\$428,900)
Corporate Net Income Tax - Combined Reporting	(\$208,500)		(\$208,500)
PIT & SUT - Minimum Wage Effect	(\$116,400)		(\$116,400)
PIT - Additional SUT from Tax Forgiveness Changes	(\$39,000)		(\$39,000)
Current Law General Fund Revenue Comparison	\$36,458,100	\$36,790,300	(\$332,200)
Comparing current law (i.e., base) General Fund revenues, the Administration's estimate for FY 2021-22 is \$332.2 million less than the IFO's projection from its January 21, 2021 Economic and Budget Outlook.			

Coronavirus Aid, Relief, & Economic Security (CARES) Act: Pennsylvania Taxability

The Coronavirus Aid, Relief, & Economic Security Act, more commonly known as the CARES Act, is a law that was established to help individuals who were financially affected by the COVID-19 pandemic in the United States. Below is information on CARES Act relief payments and how they are treated in Pennsylvania.

ANNUITY FUNDS FROM LABORERS' UNIONS

The taxability of an Annuity Fund distribution in 2020 from a Laborers' Union would not be affected under the CARES Act. Whether PA tax is applicable will depend on the specifics about the distribution and fund.

CORONAVIRUS-RELATED DISTRIBUTIONS (CRD)

Coronavirus-related distributions on retirement accounts allow taxpayers to spread their federal income tax burden on the distribution over three years. If the amount is paid back within three years, taxpayers may request a refund of federal taxes paid on the withdrawal.

Pennsylvania does not follow the federal provision on this. If the withdrawal meets the age or years of service requirement, then it is not subject to PA income tax. Otherwise, early distributions from retirement accounts are subject to tax to the extent that they were not already subject to tax at the time the money was contributed to the account.

In the event someone takes an early distribution from a retirement plan that would be subject to tax and subsequently pays it back, the department would not refund tax paid on that amount. Any reinvestment would be considered basis and wouldn't be taxable upon later distribution.

COVID DISASTER RELIEF PAYMENTS

COVID-19 disaster relief payments set up by employers or charities to be paid to employees do not constitute compensation for federal income tax purposes under IRC 139(a).

The department does not follow IRC § 139. The taxability of these payments would be dependent on the nature of the payments and would have to be reviewed on a case by case basis.

ECONOMIC IMPACT PAYMENTS (EIP) FEDERAL STIMULUS CHECK

The stimulus checks, otherwise known as economic impact payments, being distributed by the federal government are not subject to Pennsylvania personal income tax. The payments are considered a rebate that is non-taxable in Pennsylvania. Additionally, Act 1 of 2021 (SB 109) that was signed into law by the Governor specifically states the payments are not taxable under Pennsylvania's Tax Reform Code.

ECONOMIC INJURY DISASTER LOANS (EIDL)

The Economic Injury Disaster Loan (EIDL) program provides for an "advance" of up to \$10,000 within 3 days of the loan application even before the loan is approved. Section 1110(e)(5) of the CARES Act provides that the EIDL "advance" does not have to be repaid (even if the loan is subsequently denied). Because the "advance" never has to be repaid (i.e., there are no

conditions that have to be met to have the advance on the loan forgiven or discharged), the department will treat the "advance" as a grant which is not subject to tax.

GRANTS FROM LOCALITIES

Grants that businesses received from their localities due to COVID-19, that were not from the EIDL program, are not subject to PA income tax.

PAYCHECK PROTECTION PROGRAM (PPP)

Act 1 of 2021 (SB 109) that was signed into law by the Governor on February 5, 2021 states that Paycheck Protection Plan (PPP) loans used to pay business expenses during the COVID-19 pandemic that are subsequently forgiven by the lender are not taxable income for Pennsylvania personal income tax purposes. The bill also states that for PA personal income tax purposes no deduction may be disallowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan.

For corporate net income tax, Pennsylvania taxable income is based upon federal taxable income. Pennsylvania law does not include an add back to or deduction from federal taxable income for forgiveness of a Paycheck Protection Plan loan.

1099-C, CANCELLATION OF DEBT

The IRS has clarified that lenders should not file Forms 1099-C to report the amount of qualifying forgiveness of covered loans made under the Paycheck Protection Program administered by the Small Business Association. This is not required to be filed with the PA Department of Revenue as well.

PROVIDER RELIEF FUND (PRF)

The federal government has allocated \$175 billion in payments to be distributed through the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 pandemic. The PRF distributes payments to healthcare providers to cover healthcare-related expenses or lost revenue due to COVID-19. The payments are nontaxable as grants for PIT Purposes.

This includes Health Resources and Service Administration (HRSA) claims reimbursements for uninsured patients.

STUDENT LOAN DEBT

The CARES Act provides that certain student loan repayments made by an employer up to \$5,250 will not be subject to Federal Income Tax. However, these repayments are considered taxable for PIT purposes. The amount of the student loan debt repayment made by the employer on behalf of an employee should be included as compensation on the employee's PA-40 return.

Fiscal Year 2020-21
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(\$ thousands)

REVENUE SOURCES	YTD FY 2019-20	February 2021 Actual	February 2021 Estimated	Surplus/ (Deficit)	YTD Actual	YTD Estimated	Surplus/ (Deficit)
TOTAL - GENERAL FUND	20,879,580	2,683,858	2,089,900	593,958	23,871,323	22,970,000	901,323
TOTAL - NON-TAX REVENUE	284,534	14,970	19,600	(4,630)	706,538	687,100	19,438
TOTAL - TAX REVENUE	20,595,046	2,668,868	2,070,300	598,568	23,164,785	22,282,900	881,885
TOTAL - Corporation Taxes	1,921,640	114,930	92,500	22,430	2,477,121	2,083,000	394,121
Accelerated Deposits	2,788	3,417	0	3,417	4,783	0	4,783
Corp. Net Income	1,747,936	71,846	71,500	346	2,356,133	1,975,400	380,733
Gross Receipts	77,802	2,695	4,100	(1,405)	20,636	24,300	(3,664)
PURTA	1,937	16	0	16	2,485	2,200	285
Insurance Premiums	68,564	27,059	13,100	13,959	62,356	60,200	2,156
Financial Institutions	22,613	9,897	3,800	6,097	30,729	20,900	9,829
TOTAL - Consumption Taxes	8,738,581	1,039,305	912,500	126,805	9,452,622	9,270,800	181,822
Sales and Use	7,668,558	906,232	799,500	106,732	8,366,916	8,195,900	171,016
General (net of transfers)	6,648,880	788,961	684,200	104,761	7,202,999	7,011,700	191,299
Motor Vehicle Sales	1,019,678	117,271	115,300	1,971	1,163,918	1,184,200	(20,282)
Cigarette Tax	698,691	89,934	73,100	16,834	705,088	695,900	9,188
Other Tobacco Products	87,267	10,585	9,800	785	88,933	85,700	3,233
Malt Beverage	15,392	1,113	1,600	(487)	15,160	15,500	(340)
Liquor	268,673	31,441	28,500	2,941	276,524	277,800	(1,276)
TOTAL - Other Taxes	9,934,825	1,514,633	1,065,300	449,333	11,235,042	10,929,100	305,942
Personal Income	8,691,548	1,354,112	940,700	413,412	9,839,766	9,662,300	177,466
Withholding	7,147,119	926,267	894,100	32,167	6,958,451	6,898,700	59,751
Non-Withholding	1,544,429	427,845	46,600	381,245	2,881,315	2,763,600	117,715
Realty Transfer	366,527	41,767	24,300	17,467	413,069	360,900	52,169
Inheritance & Estate	751,354	100,847	83,700	17,147	807,444	761,200	46,244
Minor & Repealed	6,760	(292)	500	(792)	29,422	6,500	22,922
Gaming	118,636	18,199	16,100	2,099	145,341	138,200	7,141
TOTAL - MOTOR LICENSE FUND	1,804,916	199,780	222,630	(22,850)	1,802,789	1,841,920	(39,131)
TOTAL - Liquid Fuels Taxes	1,200,522	119,899	158,600	(38,701)	1,104,225	1,167,500	(63,275)
Motor Carriers/IFTA	90,400	105	26,500	(26,395)	65,271	89,000	(23,729)
Alternative Fuels	8,409	870	1,200	(330)	7,369	7,400	(31)
Oil Company Franchise	1,101,708	118,923	130,900	(11,977)	1,031,628	1,071,100	(39,472)
Minor & Repealed	5	1	0	1	(42)	0	(42)
TOTAL - Licenses, Fees & Other	604,394	79,881	64,030	15,851	698,564	674,420	24,144
Licenses and Fees	594,452	74,004	63,000	11,004	691,103	667,700	23,403
Other Motor Receipts	9,942	5,876	1,030	4,846	7,462	6,720	742