PA Budget Watch: Revenues Improve; Addback Legislation Advances

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The budget picture in Pennsylvania has improved markedly, with FY 2011-12 revenue shortfall estimates being cut back from over $700 million to $300 million or less. The Senate has passed a preliminary budget restoring some cuts previously targeted by Governor Corbett. There now is talk about a final budget being adopted two weeks or more in advance of the June 30 constitutional deadline.

We now expect to see a Tax Reform Code Bill in conjunction with the FY 2012-13 budget. The bill almost certainly will not include any general tax increases but will include a number of “tweaks” to the tax code. The House recently passed Corporate Net Income Tax legislation (H.B. 2150) providing for addback of royalties and related interest paid to certain affiliates, tied to rate reduction, single sales factor, and gradual lifting of the net loss cap. A number of other tax bills are moving in the House and Senate. Only time will tell which of the proposals will make the final budget package.