

PA Adopts "No Tax Increase" Budget for 2010-11

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July 5, 2010

For the first time in years, Pennsylvania has adopted an "on time" budget! And, notwithstanding continued softness in revenue collections, the budget includes no general tax increases – in fact, no tax bill was passed as part of this year's budget process! However, we do expect the General Assembly and Governor Rendell to work toward adoption of a natural gas severance tax sometime this Fall. And, if the federal government fails to appropriate an additional \$800 million for Pennsylvania's Medicaid program – money anticipated in the new PA budget - legislators soon could be back at the budget table.

The good news for companies doing business in Pennsylvania is that a number of tax proposals fell by the wayside in the budget process. Proposals to either eliminate or cap the sales tax vendor's allowance had garnered some support. The Governor and some legislators had favored expanding the sales tax base to include many services consumed by business, and had proposed eliminating the bad debt refund provision and exemptions such as direct mail advertising materials, returnable containers, public utility equipment and wrapping supplies. With the Commonwealth facing a multi-billion dollar structural deficit next year due to loss of federal stimulus funds and due to increased pension funding obligations, these and other tax proposals will almost certainly be put back on the table by one or another of the participants in next year's budget process.

The Governor's long-sought proposal for combined reporting of corporate net income taxes may also be back on the table next year, regardless of the winner of this fall's gubernatorial election, inasmuch as it also has its legislative backers.

On the downside, a number of companies advocating single sales factor apportionment will have to wait another year.

At this point, the advance betting on next year's budget cycle almost universally anticipates the most difficult budget battle in decades. Although the business community seems to have skated through the 2010-11 budget process relatively unscathed, we urge companies who would be significantly impacted by possible tax changes to immediately assess their public affairs strategies. Companies which wait until the battle is joined next Spring will be too late to the table. Having a significant impact on the legislative process requires advance planning and laying the groundwork through advance contact with key legislators, legislative staffers and Governor's Office staff. We can assist you in evaluating your risks and developing a plan to protect your interest in next year's budget process.

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