

**Testimony Before the House Appropriations Committee**  
**Pat Browne, Secretary**  
**Department of Revenue**  
**Tuesday, February 18, 2025**

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 2025-26 budget puts forth a commonsense plan that builds on two years of progress, continues to solve problems, and paves the way for a stronger, more competitive Pennsylvania.

This budget will build on the foundation the Shapiro Administration has constructed over the past two years and move Pennsylvania forward as **Governor Shapiro** continues working across the aisle to get stuff done and ensure people across the Commonwealth have the freedom to chart their own course and the opportunity to succeed.

**Improving PA's Tax Structure & Closing the Delaware Loophole**

Pennsylvania's tax structure is an antiquated and complex outlier, especially when it comes to Corporate Net Income Tax (CNIT). In fact, Pennsylvania used to have the second highest business tax in the nation — and **Governor Shapiro** knows this was making it too difficult for companies to grow and succeed, and more challenging to attract businesses to the Commonwealth.

This budget sends the message that Pennsylvania is open for business by modernizing and simplifying the tax system while creating opportunities for businesses to grow and thrive. Taken together, these steps will yield huge cost savings for businesses. Under the Governor's plan, by FY 2029-30, Pennsylvania businesses would realize **\$10.5 billion in total savings** as a result of these tax cuts. Specifically, the Governor's proposal will:

- Expedite Corporate Net Income Tax (CNIT) cuts by two years, reducing the current tax rate each year by 0.75 percent resulting in a 4.99 percent tax rate in tax year 2029.
- Move Pennsylvania from its current 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. This change will eliminate the antiquated approach in

our tax system, often known as the “Delaware Loophole,” that allows some large corporations to engage in tax planning to minimize their taxes in Pennsylvania.

It’s important to acknowledge that Pennsylvania is currently one of 45 states with a CNIT and uses the federal income of a corporation as the tax base. However, Pennsylvania is one of only 17 states that still allow the calculation of income for each separate entity, even if the entity is part of a corporate group, before applying the current tax rate.

By adopting the Governor’s proposal, we will:

- Put all Pennsylvania corporations, large and small, on the same playing field by eliminating intercompany transactions and other tax planning techniques.
- Move to a taxing structure that aligns with the majority of other states and the federal government, which taxes entire corporate groups on a consolidated basis.
- Create a more modern tax system that accounts for the overall economic operation of each business, rather than the separate company approach.
- Protect small Pennsylvania businesses, as 82 percent of businesses in PA are registered as pass through businesses, meaning they pay Personal Income Tax (PIT) and are not subject to CNIT.
- Supplement the steps Pennsylvania has already taken under **Governor Shapiro** to create a more business-friendly state. These steps from prior budgets include implementing add-back provisions and the expansion of Net Operating Loss (NOLS) provisions.

Additionally, the Governor’s proposal provides tax parity by lowering the rate paid by Mutual Thrift institutions, ensuring fairness across the financial services spectrum while allowing these institutions to remain competitive. Many of these institutions are locally owned and operated, serving communities with access to affordable mortgages, small business loans, and relations-savings banking. By moving these companies under the Corporate Net Income Tax, these institutions would see a more competitive tax rate, continuing to decrease over time, and assure tax parity with non-banking entities. The budget further recommends eliminating the Bank and Trust Company Shares Tax and the Private Bank Tax and moving these institutions under the Corporate Net Income Tax umbrella. These separate financial institution taxes date back to the Civil War. Moving banks to a similar schedule as other companies will result in a more competitive rate, providing a key industry a tax rate cut that could result in larger capital pools available for lending, thus further driving the economy.

## **Skill Games Tax**

It's estimated that there are over 70,000 unregulated skill game terminals in use across Pennsylvania with no oversight for the customers using them. On top of that, these unregulated, untaxed skill games are undermining the Pennsylvania Lottery and reducing revenues generated by the Lottery for the Commonwealth that are specifically used to provide critical services for our seniors. These machines are often located in PA Lottery retailers, directly competing with the Lottery for sales. That means less money for property tax rent rebates, less money to help seniors afford prescriptions, and less money to deliver meals to seniors who have trouble getting around. Our seniors deserve better.

The Governor's budget proposal will charge the Pennsylvania Gaming Control Board (PGCB) — which already regulates other video gaming terminals — with regulating skill games, just like any other video gaming terminal:

- The proposal will allow **30,000** total combined Video Gaming Terminals and skill game machines in establishments in FY 2025-26, increasing incrementally to **40,000** machines by FY 2029-30.
- Each establishment will be permitted to have a maximum of **5** machines.
- Gross terminal revenues will be taxed at a rate of **52 percent**, with **47 percent** going to the General Fund to strengthen our Commonwealth and **5 percent** to the Lottery Fund to fill the funding gap for older adults that skill games have eroded from the PA Lottery's sales revenue.
- This proposal is projected to generate \$8 billion in new General Fund revenue for the Commonwealth over five years.

## **Adult Use Cannabis**

This budget recognizes that the time has come for Pennsylvania to legalize adult use cannabis. Almost all of Pennsylvania's neighbors have legalized adult use cannabis, including New York, New Jersey, Delaware, Maryland, and Ohio. Pennsylvania is currently at a competitive disadvantage, losing out on critical revenue and new businesses to our neighbors. Executives from neighboring states with cannabis stores on the border have reported that up to 60 percent of their customers are from Pennsylvania. This means many Pennsylvanians are already consuming adult use cannabis, but they are purchasing it and paying taxes to other states and helping their economies instead of Pennsylvania's.

This budget proposes the legalization of adult use cannabis effective July 1, 2025, with sales within Pennsylvania beginning January 1, 2026. It invests **\$10 million** in restorative justice initiatives from adult use cannabis proceeds, in addition to the immediate expungement of the records of those for only a small amount possession related offense attributed to cannabis. The

budget also proposes a **\$25 million** investment to help new small and small diverse businesses enter the new marketplace. This industry will yield **\$250 million annually** in additional revenue for the Commonwealth and will generate \$1.3 billion over the first five years as the market gets up and running.

### **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/hr. Our current minimum wage is too low — and it's hurting workers. This proposed budget calls to raise the **minimum wage to \$15 per hour**, which will generate economic activity, increase the purchasing power of Pennsylvania residents, and add roughly **\$100 million annually** in increased revenue to the Commonwealth once fully implemented.

### **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. 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, the Department also administers the Pennsylvania Lottery, which was established by law in 1971. Since selling its first ticket in 1972, the Lottery has generated more than \$36.2 billion for programs that benefit older Pennsylvanians.

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. With that goal in mind, the Department continues its efforts to find ways to improve services for Pennsylvanians. The Department established several goals in its strategic plan that are designed 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.

### **Successes at Revenue**

There have been no better examples of how the Department has achieved its goal of providing efficient, effective and timely tax administration than the recent expansions of two critically important programs: The Property Tax and Rent Rebate program and the Child and Dependent Care Enhancement Tax Credit program.

**Governor Shapiro** delivered results for both Pennsylvania's working families and seniors during his first two years in office with the expansions of these two programs, and we are proud to support the Governor's leadership in these areas.

### PTRR 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 — which went into effect for the 2023 claim year — was a resounding success that delivered real results for Pennsylvanians in need. According to our most recent data, our Department processed more than 522,000 rebates totaling roughly \$319 million for PA residents who applied for a rebate on property taxes or rent paid in 2023. This included roughly 100,000 first-time filers who benefited from the PTRR program for the very first time.

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 the Department did to ensure that the expansion was administered as smoothly as possible. Specifically, the Department:

- Added additional full-time staff and hired additional temporary staff.
- Held nearly 300 events at Area Agencies on Aging and senior centers throughout the Commonwealth to deliver direct in-person support to eligible Pennsylvanians and to help Pennsylvanians limit errors when applying.
- Made system improvements to better utilize existing functions within myPATH to validate eligibility for first-time filers.

- Changed myPATH to prevent common errors from being allowed when filling out the application.

### Expansion of Child and Dependent Care Enhancement Tax Credit

**Governor Shapiro** also signed 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 are caring for a family member.

The expansion resulted in nearly 220,000 credits totaling roughly \$136 million being approved for Tax Year 2023, 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.

### Modernization Paying Off

As you know, the Department has worked over the last several years to update its technology and computer systems 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 two years.

As mentioned with regard to the expansion of the PTRR program, PATH has played a significant role in allowing the Department to process applications and rebates quicker and more efficiently than in the past, despite the increased volume of applications and rebates awarded this past year.

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. The highlights also cover myPATH, which is the online portal that our customers use to meet their filing, payment, and account obligations:

- Over 31 million payments have been processed in PATH for a total of more than \$126 billion.
- Since inception of the new system, more than 10 million refunds have been issued out of PATH, totaling more than \$8 billion. The majority of these refunds were issued electronically via direct deposit.
- Since it debuted, myPATH has been visited more than 16 million times while logged in and more than 4 million times while not logged in.<sup>1</sup>
- Over 1.1 million myPATH accounts have been created since inception.
- Nearly 42.5 million returns have been processed since the system went live.
- 99.9 percent of payments processed through PATH have not required manual intervention by a Department employee.
- The Department has been nimble to implement several legislative changes, such as the expansions of the Property Tax/Rent Rebate program and Child and Dependent Care Enhancement Tax Credit.

myPATH also has introduced a number of customer service improvements. For example, myPATH has a Spanish-language interface for customers to apply for the Property Tax/Rent Rebate program and to file a PA Personal Income Tax Return (PA-40). These are examples of big results that not only benefit those who use the system but improve our processes and create efficiencies that have helped our staff.

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 2023-24 by

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<sup>1</sup> Taxpayers can file a PA-40 return without logging in. However, creating an account and logging in has additional advantages such as pre-populating forms, electronic correspondence from the department and ability to view taxes owed, payment details, assessment notices and updated statement of account information.

generating more than \$1 billion for programs that benefit older Pennsylvanians. This was the 13th consecutive year that the Lottery has generated more than \$1 billion in funding that supports services for older adults, such as free and reduced-fare transportation, prescription assistance, and more.

The Department is incredibly proud of the progress that it has made to incorporate innovative ideas and expand the Lottery's portfolio of products. By becoming more diversified, we are in a better position to continue funding the vital programs that Pennsylvania's older residents rely upon.

Additionally, we are in the midst of a major modernization project that has improved many parts of our business, including retail, administrative functions, and the playing experience for Lottery players. By debuting new equipment, players are experiencing more convenience when purchasing Lottery products. At the same time, our modernization work has and will continue to make it easier for businesses to start selling Lottery products and interact with the Lottery. All of these efforts will help sustain the longevity of the Lottery so that we can continue to generate proceeds for vital programs that older Pennsylvanians rely on every day.

Despite this positive work, there is no question that the Lottery is facing an incredible amount of competition and other factors that are negatively impacting sales — and in turn the vital Lottery-funded programs that older Pennsylvanians rely upon. While our sales and profits in the two most recent fiscal years (2022-23 and 2023-24) have been boosted by several nationwide jackpots of \$1 billion or more in the popular multi-state draw games, Powerball and Mega Millions, we cannot solely rely on these large jackpots from multi-state games to drive sales and sustain our business. Lottery has not seen the same boost in FY 24-25 from those jackpots to offset struggles it continues to experience with the more traditional games.

The Lottery also has been monitoring an unprecedented decline in Scratch-Off sales, which continue to be the bedrock of our business. Scratch-Off sales have declined for four consecutive fiscal years and have generally been in decline throughout the United States as other forms of gaming, specifically sports betting, expand. Sports betting is now legal in 39 states, and more than half of all American adults participated in some form of gambling in the past year. As other forms of gaming expand, especially unregulated skill games, the Lottery must be allowed to innovate in order to remain competitive.

These trends are why we are asking members of the committee and other legislators to work with us to find solutions to ensure the Lottery is positioned for future success — and continues to be a reliable source for funding senior programs.

The Lottery is again asking the General Assembly to consider legislation that would eliminate the statutory minimum profit margin. The requirement that the Lottery maintain a profit percentage is in direct conflict with the Lottery's goal of generating funds to help older Pennsylvanians. Lottery must have the ability to operate as its competitors do, with the certainty

that it can sustain a higher payout rate. Taking this legislative step would help the Lottery offer products that are more attractive to its customers, including higher-priced games, ensuring a level of certainty required for any company to successfully plan for the future.

The Department appreciates the work of the previous Administration and General Assembly to enact Act 137 of 2022, which extended the temporary reduction of the mandated margin rate of return from 25 percent to 20 percent through June 30, 2029. By eliminating the profit margin requirement altogether, the Lottery would have the ability to prepare its future game portfolio to meet what players want and to maximize profits for older Pennsylvanians.

We are also eager to have further discussions with members of the General Assembly where we can discuss additional legislative proposals that will help the Lottery remain competitive in the current gaming landscape.

### **Conclusion**

In closing, 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.