



General Fund Tax Expenditures and Revenue Options

Policymakers may consider the following sources as replacement revenue to offset other tax reductions, to improve equitable treatment of taxpayers, to pay for proposed initiatives, or to balance the state budget.

Incremental Revenue Estimates

This table shows how state revenue would be affected by an increase or decrease in the tax rate. The revenue change for each hypothetical rate represents a general approximation estimated of revenue that could be gained or lost. The estimates shown in the table can generally be extrapolated to calculate other tax rate scenarios by multiplying or dividing the estimate.

Incremental Revenue Estimate Table			
Revenue Impact of Incremental Changes in Tax Rates (\$ amounts in millions)			
Tax Type	Current Rate	Tax Rate Increment	Revenue
Sales and Use Tax	6%	1%	\$ 2,100
Personal Income Tax	3.07%	1%	\$ 5,100
Corporate Net Income Tax	10%	1%	\$ 378
Realty Transfer Tax	1%	1%	\$ 683
Liquor Tax	18%	1%	\$ 24
Malt Beverage Tax	\$2.48/barrel	1 cent/barrel	\$ 0.1
Cigarette Tax	\$1.60/pack	10 cents/pack	\$ 56
Other Tobacco Products	30% of wholesale	1%	\$ 5

This table is a guide, not an endorsement of any particular policy, nor is it an endorsement of any general policy to increase or decrease taxes.

Corporate Taxes - Combined Reporting

Currently, 28 states and the District of Columbia use combined reporting to calculate corporate taxes. In its first year, Pennsylvania could realize \$100 million to \$200 million in new revenue. After four years, when fully phased in, combined reporting could generate more than \$600 million annually. The Department of Revenue estimates possible revenue of almost \$1.0 billion at the full rate. Pennsylvania enacted add-back provisions in 2013, but these are generally considered weak, and there is room for strengthening these rules legislatively to be in line with other states.

Sales and Use Tax Exclusions

Currently, 75 items are specifically excluded from the sales tax base. Removal of any such exclusion would result in new revenue to the state. The two largest sales tax exclusions are for food and clothing, worth about \$1.5 billion and \$680 million, respectively. Only five other states with a sales tax exempt clothing, and 38 states have a full or partial exemption for groceries.

Any proposal to eliminate sales and use tax expenditures should be carefully studied and stakeholder interest should be considered. The list of tax expenditures is annually updated in the governor's executive budget.