



INDEPENDENT FISCAL OFFICE

May 16, 2022

The Honorable Francis X. Ryan
Pennsylvania House of Representatives
149A East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Representative Ryan:

On April 12, 2022, the Independent Fiscal Office (IFO) provided updated estimates for potential property tax replacement revenues proposed under House Bill 13. This letter responds to your April 20 request for additional information related to those estimates.

Estimates Adjusted for Effective Dates

The IFO projects that an October 1 effective date for the proposed sales and use tax (SUT) changes would yield roughly 70% of the full-year revenue estimate. For fiscal year (FY) 2022-23, the full-year SUT estimate is \$5.2 billion (\$4.3 billion for the rate increase, \$0.7 billion for the new 2% tax on clothing and \$0.3 billion for the new 2% tax on food). Assuming an effective date of October 1, 2022, roughly \$3.7 billion (\$5.2 billion * 70%) in additional revenue would be collected in FY 2022-23. The same percentage can be applied to other full-year SUT estimates based on the anticipated year of implementation.

For personal income tax (PIT), the IFO assumes an effective date of January 1, because a mid-year PIT increase would be difficult to implement, particularly for the new tax on retirement income (and associated new exemption for contributions to retirement accounts). Adjusting for a January 1 effective date, the IFO estimates that roughly 40% of the full-year PIT impact would be received in the first fiscal year. For FY 2022-23, the full-year PIT estimate is \$11.1 billion (\$9.6 billion for the rate increase and \$1.5 billion for the state and local tax on retirement income). Assuming an effective date of January 1, 2023, roughly \$4.5 billion (\$11.1 billion * 40%) would be received in FY 2022-23. Again, this same percentage can be applied to other fiscal year estimates based on the anticipated date of implementation.

These estimates should be viewed as approximations and include the impact of changes in behavior and compliance at full implementation for each of the proposed tax increases. In the short term, taxpayers may have a stronger reaction to the tax increase. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.

School District Cash Balances

According to annual financial reports filed with the Pennsylvania Department of Education, the total school district unassigned fund balance for fiscal year ending 2020 was \$1.975 billion. For fiscal year ending 2021, the unassigned fund balance increased to \$2.207 billion. Both years include school districts reporting negative unassigned fund balances.

If you have any questions regarding this information, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office