

Pennsylvania's 2005-06 Proposed Budget

The Revenue Side of the
Equation

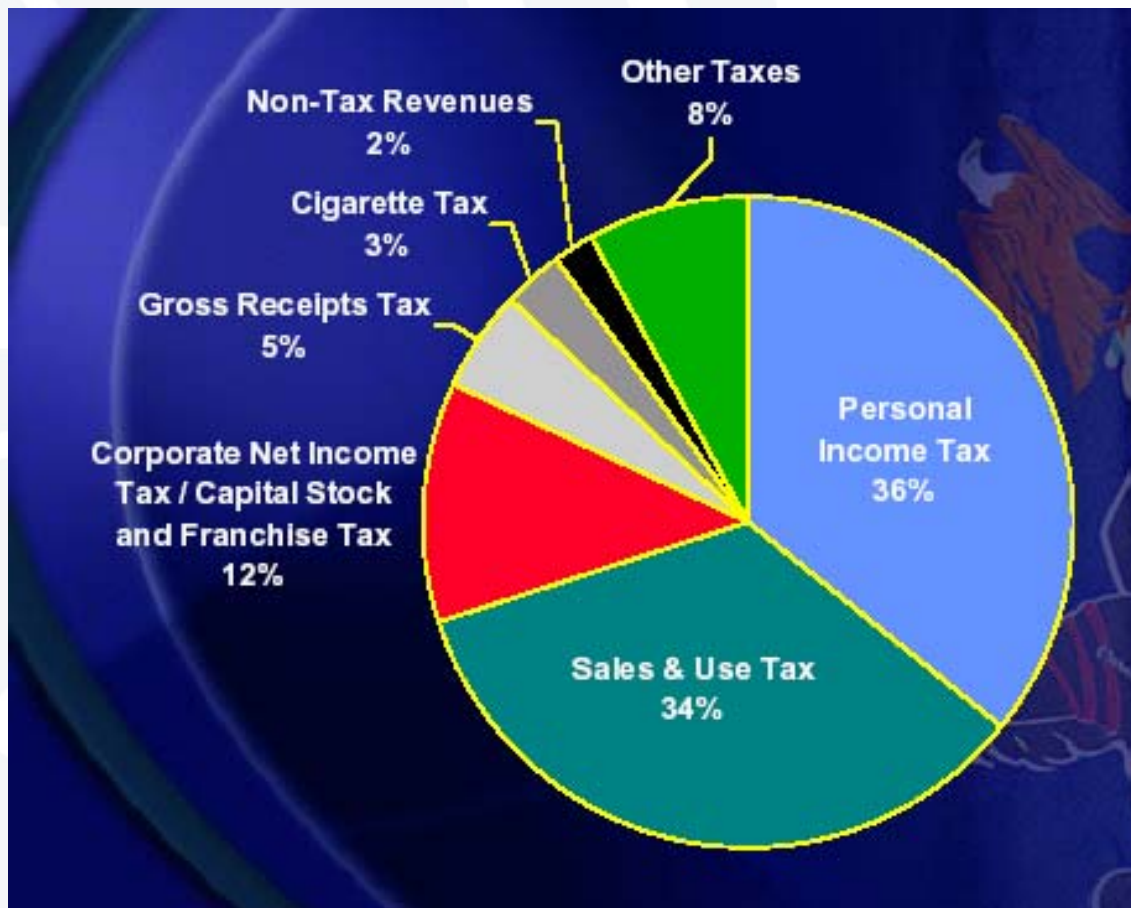


Why Pay Attention to Revenues?



- Balance budget requirement
- 2006 election season underway
- The structure of the tax system is just as important as the rates
 - Revenue sufficiency
 - Equity of burden
 - Revenue efficiency

General Fund Revenues



February 11, 2005

Annual Growth in Revenues



Percent Change in Revenues			
Tax Source	2003-04 to 2004-05	2004-05 to 2005-06	2005-06 to 2006-07
Personal Income Tax	11.1%	4.3%	4.2%
Sales and Use Tax	3.5%	3.3%	3.8%
CNI/CSFT	9.2%	1.5%	-1.8%
Total	5.8%	2.4%	3.7%

Revenue Outlook for This Year



- Factors:
 - Full year of PIT rate increase
 - Improving economy
- Ending surplus of \$201 million
 - Receipts above estimates: +\$291 million
 - Spending reductions: +\$129 million
 - Supplemental appropriations: -\$154 million
 - Rainy Day Fund: -\$67 million

Revenue Outlook for Budget 2005-06



- Beginning surplus: budget-balancer
- Loss of several one-time sources – mostly federal sources
- 2.4% growth rate = \$550 million
 - Minimal growth in corporation taxes
 - Moderate growth in PIT and sales taxes


Revenue Proposals in the 2005-06 Budget



- Continue phase-out of the CSFT
- Beyond 2005-06: restructuring corporation taxes (January 1, 2007)
 - Lower CNI rate/expand other incentives
 - Widen Base – combined reporting
 - Almost revenue neutral - \$12 million cost

Looking Long Term

- Policy-makers: short term perspective
- Trouble on the horizon
 - Demographics
 - Structure of the tax system
- Solutions
 - Comprehensive restructured system
 - State and local



IssuesPA

*A Project of the
Pennsylvania Economy League*

www.issuespa.net