



**REPORT ON KEY ISSUES FROM THE  
HOUSE APPROPRIATIONS COMMITTEE**

# BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

October 18, 2007

## First Quarter Revenue on Track for Fiscal Year

Total General Fund Revenue was one percent or almost \$72 million ahead of the official estimate through the first quarter of the fiscal year. While the overall General Fund overage is positive news, it is not significant enough to alter expectations about the fiscal year estimate.

The majority of the first quarter overage can be attributed to Corporation Taxes, which are coming in 5.4 percent or \$36.4 million above projections. Sales Tax is 0.9% above projections or \$20.5 million. Personal Income Tax collections are down 0.4% or \$8.6 million.

The table on the next page shows first quarter collections by tax category. The next few months will provide a better picture of Pennsylvania's revenue trends as retailers enter the holiday shopping season and taxpayers (corporate and individual) make their final quarterly estimated payments for the 2007 calendar year.

### Corporate Taxes

The entire \$36.4 million first quarter surplus in Corporate Taxes was driven by September collections, which came in \$38.4 million over the monthly estimate. September is always a significant deposit month for Corporate Taxes because many corporations make their 2007 third quarter estimated payments for the Corporate Net Income Tax and the Capital Stock/Franchise Tax. The current overage in Corporate Taxes is largely due to the Capital Stock/Franchise Tax, which is \$40 million over estimate for the first quarter. The Capital Stock/Franchise Tax overage is offsetting the Corporate Net Income Tax shortfall of \$5.5 million. Corporate Net Income Taxes are running 3.7 percent or \$18 million behind first quarter collections last year. Preliminary indications are that December will be another strong month for Capital Stock/Franchise Tax; however, we must monitor Corporate Net

Income Tax deposits in the upcoming months to determine if any trends are developing.

### Sales Tax

First quarter Sales Tax receipts are ahead of estimate due to non-motor vehicle sales. Non-motor vehicle sales turned in strong receipts for September, coming in 3.5 percent or \$20 million over estimate for the month, and are nearly \$32 million over estimate for the year. Surplus non-motor vehicle sales are offsetting an \$11 million shortfall in motor vehicle sales. It remains to be seen how Sales Tax collections will perform in the critical holiday months ahead.

### Personal Income Tax

First quarter Personal Income Tax (PIT) collections were below estimate with a slight 0.4% or \$8.6 million shortfall for the year. Withholding, which reflects wages and salaries, is \$29.6 million below estimate through the first quarter. Non-withholding (on investment earnings and proprietors' income) has a first quarter surplus of \$21 million or 5.1 percent. Three months of collections is not sufficient to discern any trends and we carefully will monitor deposits in the coming months.

### QUESTIONS AND COMMENTS

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Preliminary General Fund Revenue Report	Official Estimate	Actual	Change from Estimate	
			Amount	Percent
(\$ in millions)	Year-Through-September			
<b>GENERAL FUND TOTAL</b>	<b>\$5,856.8</b>	<b>\$5,928.7</b>	<b>\$71.9</b>	<b>1.2%</b>
<b>I. TAX REVENUE</b>	\$5,735.9	\$5,816.3	\$80.4	1.4%
<b>A. CORPORATION TAXES</b>	\$677.7	\$714.1	\$36.4	5.4%
<b>B. CONSUMPTION TAXES</b>	\$2,419.8	\$2,450.8	\$31.0	1.3%
<b>1. Sales</b>	\$2,169.2	\$2,189.7	\$20.5	0.9%
<b>a. Non-Motor Vehicle</b>	\$1,852.5	\$1,884.3	\$31.8	1.7%
<b>b. Motor Vehicle</b>	\$316.7	\$305.4	<b>(\$11.3)</b>	<b>-3.6%</b>
<b>2. Cigarette</b>	\$190.4	\$200.3	\$9.9	5.2%
<b>3. Malt Beverage</b>	\$7.2	\$7.6	\$0.4	5.2%
<b>4. Liquor</b>	\$53.0	\$53.3	\$0.3	0.6%
<b>C. OTHER TAXES-TOTAL</b>	\$2,638.4	\$2,651.3	\$12.9	0.5%
<b>1. Personal Income</b>	\$2,306.5	\$2,297.9	<b>(\$8.6)</b>	<b>-0.4%</b>
<b>a. Withholding</b>	\$1,892.9	\$1,863.3	<b>(\$29.6)</b>	<b>-1.6%</b>
<b>b. Non-Withholding</b>	\$413.6	\$434.6	\$21.0	5.1%
<b>2. Realty Transfer</b>	\$128.0	\$142.5	\$14.5	11.3%
<b>3. Inheritance</b>	\$203.5	\$210.5	\$7.0	3.4%
<b>4. Minor &amp; Repealed</b>	\$0.400	\$0.444	\$0.044	11.0%
<b>II. NON-TAX REVENUE</b>	\$120.9	\$112.4	<b>(\$8.5)</b>	<b>-7.0%</b>