



Budget Facts 2010

from the COMMONWEALTH FOUNDATION

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Pennsylvania Sales Tax Expansion

Pennsylvania faces a projected General Fund shortfall approaching \$1 billion. In February, Gov. Rendell proposed a \$29 billion budget for FY 10-11 that increases business taxes, imposes new taxes on natural gas and tobacco products, and expanding the sales tax to include many goods and services currently exempt. This is the fourth in a series of fact sheets on the state budget.

GOV. RENDELL'S PROPOSED SALES & USE TAX EXPANSION

- Gov. Rendell has proposed lowering Pennsylvania's Sales & Use Tax from **6% to 4%** and expanding the tax to **74 goods and services** currently not taxed.
 - ⇒ Philadelphia charges an additional 2%, and Allegheny County 1%, on top of the state rate.
 - ⇒ Major exemptions that would remain include: health care, food, clothing, tuition, prescription drugs, gasoline, manufacturing materials, and purchases by charitable organizations and governments.
- Broadening the Sales & Use Tax base provides greater tax neutrality and fairness—i.e., not picking and choosing favored special interests for an exemption—and the lowered rate would make many goods less expensive for Pennsylvanians. However, the proposed tax change **is not revenue neutral**.
 - ⇒ The Sales Tax expansion would result in an estimated **\$531 million** in additional revenue next year, and **\$900 million** per year when fully implemented, coming out of the pockets of Pennsylvanians.
- Rendell would also eliminate Sales & Use Tax vendor compensation.
 - ⇒ Vendors that collect the Sales & Use Tax and submit their collections properly and timely receive a 1% rebate on their collections; 99% goes to the state.
 - ⇒ This change represents a **\$74 million** tax increase.
- There have been previous efforts to broaden the Sales & Use Tax base to lower the rate and to reduce property taxes, but they were defeated by political opposition.
 - ⇒ The largest item, advertising, faces opposition by both advertisers and newspapers.
 - ⇒ Taxing of specific services like accounting, consulting, engineering, computer programming, dry cleaning would affect those providers.
 - ⇒ Taxing popular items like coal and flags also draw objections.
 - ⇒ The taxing of gratuities, as businesses wouldn't be able to pass that on to customers, would result in less pay to employees like waiters and waitresses.
 - ⇒ Gov. Rendell proposes a repeal of the helicopter exemption that was used to entice Rep. Houghton to vote for last year's budget deal.
- Based on the Pennsylvania State Tax Analysis Modeling Program (PA-STAMP), the increased collections will result in **10,000 fewer private sector jobs** in 2011 and a loss of **15,000 jobs** by 2012.

Proposed Categories for Sales & Use Tax Expansion

Goods		Services	
Category	Value (millions)	Category	Value (millions)
Candy and Gum	\$90	Parks and Campgrounds	\$41
Personal Hygiene	\$40	Dry Cleaning	\$38
Newspapers	\$52	Personal Care	\$121
Magazines	\$9	Funeral Parlors	\$49
Non-Prescription Drugs	\$56	Other: personal services	\$44
Liquor or Malt Beverages from Retail Dispensers	\$153	Advertising	\$665
Charges for Returnable Containers	\$8	Services to buildings and dwellings	\$148
Caskets	\$16	Consulting	\$304
Flags	\$2	Scientific research	\$213
Textbooks	\$25	Information services	\$17
Gratuities	\$63	Administrative services	\$422
Coal	\$127	Custom Programming	\$313
Firewood	\$0	Parking Lots	\$76
Residential Utilities: Electric	\$416	Theater, dance, music tickets*	\$17
Residential Utilities:Fuel Oil/ Gas	\$269	Amusement & recreation industries	\$134
Residential Utilities: Telephone	\$101	Museums, historic parks, zoos & parks*	\$11
Water and Sewage Services	\$124	Sports Admissions*	\$27
Common Carriers	\$110	Legal	\$549
Commercial Vessels Construction and Repair	\$1	Architectural and Engineering	\$248
Maintenance)	\$3	Accounting	\$260
Helicopters	\$0	Specialized Design	\$62
Motor Vehicles (out-of state purchasers)		Professional and Technical	\$156
School Buses	\$16	Transit and ground transportation	\$43
Manufacturing exemption (public utility)	\$59	Air Transportation	\$20
Airline Catering	\$1	Truck Transportation	\$49
Hotel-Permanent Resident	\$0	Other Transportation	\$1
Temporary Usage		Basic Television	\$156
Horses	\$4	Electrical, plumbing, heating, AC	
Rail Transportation equipment	\$19	Veterinary	\$44
Fish Feed	\$0	Financial Institution Fees	\$333
Tourist Promotion	\$1	Waste Management	\$122
Trout	\$0	All exemptions	\$6,614
Storage	\$107		
Construction of Memorials	\$0		
Stair Lifts	\$0		
Bad Debts	\$7		
UCC Filing Fees	\$2		
Call Center Credit	\$15		
Rental of Films for Comm. Exhibition	\$28		
Investment Metal Bullion	\$3		
Catalogs and Direct Mail Advertising	\$2		
Vending Machines	\$3		
Wrapping and Packing			

* Not for-profit museums, theaters, etc would remain exempt. School sports events would remain exempt.

Value at 6% Sales Tax Rate

Source: Governor's Executive Budget

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For more information on the **Pennsylvania State Budget**, visit CommonwealthFoundation.org/Budget.

