HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 2626 **PRINTERS NO**. 4170 **PRIME SPONSOR**: Benninghoff

COST / (SAVINGS)

FUND	FY 2012/13	FY 2013/14
General Fund	**See Fiscal Impact**	**See Fiscal Impact**

SUMMARY: House Bill 2626, Printer's Number 4170, creates a freestanding act establishing the Promoting Employment Across Pennsylvania Program providing tax benefits to qualified companies in the form of withholding tax relief.

ANALYSIS: This legislation shall be known as the Promoting Employment Across Pennsylvania Act (PEP) to incentivize businesses to foster economic development and create jobs in the Commonwealth. Qualified companies would be eligible to retain 95% of the personal income tax (PIT) withheld for the new employees. The Department of Revenue (DOR) may allow qualified companies the option to remit 100% of the employee withholding tax to the Commonwealth and receive a rebate equivalent to 95% of the amount. DOR may also assess a fee of not more than $15 per new employee of the qualified company whose withholding tax is subject to the provisions of this program.

A qualified company may apply to the Department of Community and Economic Development (DCED) for the benefits under this act. DCED shall enter into an agreement with the qualified company which shall specify the terms and conditions in order to receive the benefits including the number of new employees hired by the company during the taxable year. A qualified company claiming benefits under this act may not (1) participate in any program in which any portion of new employees withholding taxes have been pledged to finance indebtedness or transferred to or for the benefit of the company or (2) claim any Commonwealth grants or credits if the payments or credits would be earned for the hiring of new employees.

A qualified company is defined as a for-profit corporation, partnership or other entity that provides health insurance coverage to its full-time employees and pays at least 50% of the premium for the insurance. A qualified company shall not include any corporation, partnership or other entity that is classified as a business in the gambling industry; a religious organization; retail trade; educational services; public administration; utility; food service; or drinking place. A qualified company may not be delinquent in the payment of any taxes to the Federal government, State government or any political subdivision and may not have filed for bankruptcy or publicly announced its intention to file for bankruptcy.

The legislation sets the parameters on the new employees needed to be hired within two years in order to qualify for the benefits. These parameters vary dependent on the county classification of the location of the business. Furthermore, parameters are established for the number of years a qualified company may retain PIT withholding taxes depending on the amount of the wages paid to the new employees as measured against the county average wage. The number of years range from 5 years up to 10 years for high-impact project retention.

The legislation provides that if a qualified company relocates outside of the Commonwealth within the five year period immediately following the last year in which the company received benefits under the program that the company shall refund to the Commonwealth 66% of the aggregate withholding retained if relocated out of the Commonwealth within three years and 33% of the aggregate withholding retained if relocated out of the Commonwealth within three to five years.

Within 30 days from the end of each calendar quarter, a qualified company shall file a quarterly report with DOR.

DCED shall conduct an annual review of the activities undertaken by a qualified company to ensure that the company is in compliance with the act. DCED shall also submit an annual report to the General Assembly indicating the effectiveness of the tax benefits provided by this act no later than March 15 following the year in which the benefits were approved.

The act shall take effect in 60 days.

FISCAL IMPACT: The exact impact on Commonwealth funds as a result of enactment of this legislation is unknown. The legislation is intended to encourage job growth and retention in the Commonwealth. It is impossible to measure and quantify which jobs qualifying for benefits under this legislation would or would not have been created in the absence of the legislation, especially since the Commonwealth already offers a job creation tax credit. The current Job Creation Tax Credit (JCTC) program provides a tax credit of $1,000 per new job created each year in the approved term of the agreement. This tax credit program has an annual cap of $10.1 million. In order to be eligible for the PEP program a qualified company would no longer be eligible for the JCTC program which may result in savings to the JCTC program.

The average annual wage in Pennsylvania is approximately $50,000. In order to qualify for the benefits of the program a qualified company must pay at least 100% of the county average wage. The withholding tax on $50,000 at the PIT rate of 3.07% is $1,535. Under this program a qualified company would be able to retain $1,458 (95%) and remit $77 (5%) to the Commonwealth.

For jobs that are created as a result of the enactment of this program it is assumed that the 95% of the PIT withheld and retained by qualified companies results in foregone revenues to the Commonwealth. At the same time the Commonwealth would realize additional revenues of 5% of the PIT withheld on new employees for those jobs created as a result of the provisions of this program. To the extent that these new employees would not have been hired without the provisions of this program the legislation would result in a net gain in revenues to the Commonwealth.

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House Appropriations Committee (R)

DATE: October 2, 2012

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.