



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 285

PRINTERS NO. 2655

PRIME SPONSOR: Metcalfe

REVENUE INCREASE / (DECREASE)

FUND	FY 2021/22	FY 2022/23
General Fund	See Fiscal Impact	See Fiscal Impact

SUMMARY: House Bill 285, Printer's Number 2655, amends the Tax Reform Code further providing for classes of income relating to employee stock ownership plans in personal income.

ANALYSIS: This legislation adds subsection (a.11) to Section 303 (Classes of Income) applying the provisions of sections 402(e)(4) and 1042 of the Internal Revenue Code, as in effect on the effective date of this subsection, to the calculation of Pennsylvania personal income tax for distributions from an Employee Stock Ownership Plan (ESOP). An ESOP is a qualified defined contribution plan that is a stock bonus plan or a stock bonus / money purchase plan which is designed to invest primarily in qualifying employer securities. This legislation would defer the taxation on a lump sum distribution from the ESOP of a company when the proceeds are reinvested in qualified replacement securities.

The act takes effect immediately and applies to taxable years beginning after December 31, 2020.

FISCAL IMPACT: This legislation allows for the deferral of gains for lump sum distributions from an ESOP in certain situations when the proceeds are reinvested in qualified replacement securities which will result in the reduction of General Fund revenues at the time of the distribution. To the extent that a future distribution of the gains that were reinvested into a qualified replacement security is taxable, the General Fund will realize an increase in revenues at the time of this distribution. The Department of Revenue is unable to provide a specific fiscal impact on the provisions of this legislation.

PREPARED BY: Ritchie LaFaver
House Appropriations Committee (R)

DATE: January 24, 2022

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