

FISCAL NOTE

April 20, 2017

Bill No:	HB 331	Printer's No:	PN 0355	Sponsor:	Bloom
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COST / (SAVINGS)

Fund (s)	2016-17	2017-18
General Fund	See "Fiscal Impact"	See "Fiscal Impact"

SUMMARY: HB 331 amends the Tax Reform Code of 1971 by allowing the deferral of tax due on gains from like-kind exchanges for similar property. Currently federal law allows for tax deferral when an exchange of like items occurs.

ANALYSIS: Pennsylvania's Tax Reform Code does not currently contain a provision similar to the federal rules regarding like kind exchanges. As a result, like kind exchanges that occur in the commonwealth are generally subject to personal income tax. HB 331 would allow like kind exchanges to occur without tax consequence.

This legislation would take effect immediately and would apply to tax years beginning after December 31, 2018.

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FISCAL IMPACT: The estimated impact to the General Fund would be \$1.3 million in 2018, \$8.8 million in 2019 and further increasing thereafter.

HB 331 P.N. 0355 - Effect of IRC Section 1031 Like-Kind Exchanges
PIT Deferment of Capital Gains
Effective TY 2019
(\$millions)

	Total Impact					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Section 1031 Like-Kind Exchange	-	-	(1.3)	(8.8)	(9.0)	(9.3)

	Tax Impact					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Section 1031 Like-Kind Exchange	-	-	(1.3)	(4.5)	(4.6)	(4.7)

	Refund Impact					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Section 1031 Like-Kind Exchange	-	-	-	4.3	4.4	4.6

Notes:

1/ This bill proposes to amend the Tax Reform Code to mirror federal law by allowing the deferral of tax due on gains from like-kind exchanges of property. Under Section 1031 of the Internal Revenue Code, in some cases, the gain or loss on the disposition of property can be deferred when property held for productive use in a trade or business or for investment is exchanged for similar property and is held for productive use in business or investments. PA's Tax Reform Code does not currently contain a provision similar to the federal rules for like-kind exchanges.

2/ This estimate uses data on capital gains and gains or losses on non-capital assets for individuals and partnerships from the IRS Statistics on Income Division, including published data from the SOI bulletin and data on the deferred gains or losses reported on Form 8824. The estimate then determines a percent of deferred gain or loss and applies that percentage to data on gains or losses from the sale or exchange of property as reported on the PA-40. The tax impact is then calculated and projected using the capital gains growth rate provided by the CBO, last updated January 2017.

3/ Figures from PA-40 on sale or exchange of property may be overstated to extent that some taxpayers who have losses in that class of income enter zero on their returns.