

FISCAL NOTE

April 9, 2018

Bill No:	HB 333	Printer's No:	PN 1710	Sponsor:	Nelson
-----------------	--------	----------------------	---------	-----------------	--------

COST / (SAVINGS)

Fund (s)	2018-19	2019-20
General Fund	\$2.8M	\$18.1M

SUMMARY: HB 333 amends the Tax Reform Code of 1971 to allow for Section 179 property deductions of up to \$1,000,000.

ANALYSIS: This legislation would allow for Section 179 Property to be a deductible expense under current Internal Revenue Code levels of \$1,000,000. Currently, in Pennsylvania, Section 179 Property is limited to deductions of up to \$25,000.

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

FISCAL IMPACT: The estimated impact to the General Fund would be \$18.1 million in 2019, \$13.9 million in 2020, \$10 million in 2021 and further decreasing thereafter.

HB 333 P.N. 1710 - Effect of Increasing Section 179 Deductions to \$1 Million

Effective January 1, 2019

(\$millions)

CAP LEVEL	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
\$1,000,000	-	(2.8)	(18.1)	(13.9)	(10.0)	(6.7)

Notes:

1/ This bill proposes to increase the monetary cap on the amount of property that businesses can claim as deductible expenses. The Tax Reform Code references Section 179 of the Internal Revenue Code, which restricts the amount that businesses can claim as deductible expenses regarding the cost of property. The current cap on those deductible expenses in PA is \$25,000; this bill proposes increasing the monetary cap to the current IRC cap, which is \$1 million following 2017's federal tax reform.

2/ Estimate uses PA K-1 data and federal 1065 and 1120S K-1 data. The PA and federal data were matched, where possible, to determine the amount of increase per return, then grown based on the expected growth in non-withheld PIT income. The total impact is reduced by the amount of depreciation (expenses in excess of \$25,000) that would be recovered in subsequent tax years under current law. It is assumed that the \$25,000 carry forward limit will be increased. Due to lack of available data on actual amounts over \$500,000, cap increases beyond this level were estimated using regression-derived growth rates.

3/ Estimate may be overstated to the extent that a Section 179 deduction cannot create a negative amount for any of the eight PIT income classes, and thus the entire amount of the deduction may not be realized. The estimate may also be understated in that it may over-estimate the amount of expenses that would no longer be carried forward and deducted in subsequent tax years. The estimate may also be understated due to data limitations.