

Income/Franchise:

Pennsylvania: New Law Lowers Corporate Tax Rates, Adopts Market Sourcing and Economic Nexus Standard

H.B. 1342, signed by gov. 7/8/22. Recently enacted legislation amends Pennsylvania's Tax Reform Code of 1971 (Act of March 4, 1971, P.L.6, No.2) by serving as the omnibus tax bill under Pennsylvania's Fiscal Year 2022-23 Budget implementation and includes the following Pennsylvania corporate net income tax (CNIT) law changes:
URL: https://www.legis.state.pa.us/cfdocs/billInfo/bill_history.cfm?syear=2021&sind=0&body=H&type=B&bn=1342

- An annual phase-down of the CNIT rate of one percentage point in the first year and one-half percentage point each year thereafter until it reaches 4.99% in tax year 2031, resulting in CNIT rates as follows:
 - For tax years beginning on or after January 1, 1995, through December 31, 2022, a rate of 9.99%;
 - For tax years beginning on or after January 1, 2023, through December 31, 2023, a rate of 8.99%;
 - For tax years beginning on or after January 1, 2024, through December 31, 2024, a rate of 8.49%;
 - For tax years beginning on or after January 1, 2025, through December 31, 2025, a rate of 7.99%;
 - For tax years beginning on or after January 1, 2026, through December 31, 2026, a rate of 7.49%;
 - For tax years beginning on or after January 1, 2027, through December 31, 2027, a rate of 6.99%;
 - For tax years beginning on or after January 1, 2028, through December 31, 2028, a rate of 6.49%;
 - For tax years beginning on or after January 1, 2029, through December 31, 2029, a rate of 5.99%;
 - For tax years beginning on or after January 1, 2030, through December 31, 2030, a rate of 5.49%; and
 - For tax years beginning on or after January 1, 2031, a rate of 4.99%;
- Modifies the sales factor calculation used for CNIT apportionment purposes by sourcing receipts from certain intangible property (e.g., receipts from patents, royalties, franchise agreements, sales or exchanges of securities held for sale to customers in the ordinary course of business, and interest in connection with loans) using market-based sourcing rules rather than location of income-producing activity based on costs of performance; and providing that income from intangibles other than items specified in these amendments generally are excluded from the sales factor, applicable for tax years beginning after December 31, 2022; and
- Codifies economic nexus standards currently implemented by the Pennsylvania Department of Revenue pursuant to Corporation Tax Bulletin 2019-04 (rev. 8/20), reflecting that companies with \$500,000 or more of annual in-state gross receipts generally are presumed to have substantial nexus for CNIT

purposes without regard to in-state physical presence, applicable for tax years beginning after December 31, 2022.

URL:

https://www.revenue.pa.gov/TaxLawPoliciesBulletinsNotices/TaxBulletins/CT/Documents/ct_bulletin_2019-04.pdf

Other tax law changes in the omnibus legislation impact Pennsylvania personal income tax (involving conformity to Internal Revenue Code section 179 expensing deductions and section 1031 like-kind exchanges), sales and use tax, insurance premiums tax, and various Pennsylvania tax credit programs and economic development zones (*e.g.*, research and development, film production, city revitalization and improvement zones, neighborhood improvement zones, and keystone opportunity zones). Please contact us with any questions.

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