PMA

The Bulletin

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Unprecedented Tax Credit Seed of Manufacturing Resurgence in Pa.

Business and Labor, Republicans and Democrats, put aside historical differences to support an innovative incentive for manufacturing companies to locate and expand in Pennsylvania: a Corbett Administration tax credit plan that will not only secure a $4 billion Royal Dutch Shell petrochemical plant in southwest Pennsylvania but attract other major manufacturers and jobs as well.

"There is nothing speculative about this facility, the technologies it uses, or the related industries it empowers," said Frederick W. Anton III, President & CEO of the PMA. "All of it has been proven in the marketplace over decades. You can look at any of the 29 plants in America, see how they work, and calculate the value added, jobs created, and economic output generated."

Of the 29 petrochemical plants in the United States, none is located in the northeast. But the tax credit combined with reliable, plentiful supply of ethane from the Marcellus Shale will create a business climate that Shell and other cracker and manufacturing plants will find hard to resist. A cracker plant converts ethane to ethylene; a building block for plastics and other synthetics used in hundreds of industry and consumer products.

PMA's Executive Director David N. Taylor said in a recent address supporting the Governor's plan that business and labor became part of a coalition he called PRO-PRODUCTION. "More production means more value-added and more economic growth, which is pro-business. More production means more opportunity and more family-sustaining jobs, which is pro-worker," Taylor said. "There is an ongoing competition between Pennsylvania and other states for investment, jobs, and growth, and we want Pennsylvania to win. "

The credit provides $0.05 per gallon of ethane purchased and used. The credit covers upstream companies, the suppliers of the liquids from the natural gas, and downstream businesses, those using the ethylene in the manufacturing of plastics and other products.

The credit is equal to $0.05 per gallon of ethane purchased from January 2, 2017 to December 31, 2042, for use in manufacturing ethylene. To qualify, a taxpayer must make a capital investment of at least $1 billion and create at least 2,500 construction-phase jobs. Credits may offset up to 20% of a qualified taxpayer's tax liabilities in the year for which credit is claimed. Credit may not be carried back or forward and may not be used to obtain a refund. Unused credits may be transferred to the owner of a pass-through entity. Unused credits also may be sold or assigned. Sales to upstream or downstream companies are favored. A purchaser or assignee must use the credit in the calendar year in which purchased or assigned; up to 50% of a qualified tax liability may be offset by purchased or assigned credit.

“The visionary thing about this credit is that it will encourage the natural gas to stay in the state and lure other manufacturing companies here to take advantage of the gas,” said Steve Kratz, Press Secretary, Department of Community and Economic Development. Kratz added that Shell has created a website with updates on the progress of the plant.

For an update on Shell’s plan for its PA cracker plant visit:
http://www.shell.com/home/content/chemicals/aboutshell/our_strategy/marcellus_cracker_project/

Budget Makes Strides to Keep Costs in Check Yet Lower Business Taxes

Approval of the manufacturing tax credit, a near doubling of an educational improvement tax credit and the lowering of business taxes constitutes one of the most successful state budgets in years, according to PMA Executive Director, David N. Taylor.

“We had a bit of an uptick in spending but it’s still less than what the Commonwealth spent two years ago,” Taylor said. “The Governor and legislative leaders deserve a lot of credit for a cost conscious budget, delivered on time.”

The $27.7 billion spending plan for the 2012-13 spends $371 million more than last year yet lowers business taxes by nearly $300 million.

Lawmakers and the governor were aided by surging tax receipts in April, May, and June that allowed them to approve a budget with no tax increases and reverse spending cuts first proposed by the Governor in his February budget address. At that time, the Governor’s Budget Office predicted the spending deficit would be $730 million. Rather, the state ended the fiscal year on June 30 collecting $162.8 million less than anticipated.

Single Sales/Capital Stock & Franchise

The budget maintains the scheduled phase-out of the Capital Stock and Franchise Tax (CSFT), and changes the formula used to calculate a business’s Corporate Net Income Tax (CNI) burden. The move to a single sales factor under the CNI ends a tax practice that disadvantaged in-state companies. According to a 2011 report by the Institute on Taxation and Economic Policy, Pennsylvania will join 16 other states, including states such as New York and Massachusetts that have already made the move to the single sales factor method.

Under a single sales factor, a company’s sales will be the sole determining factor in the calculation of a company’s CNI burden. The earlier formula included a company’s payroll and property holdings, meaning that hiring Pennsylvanians and investing in Pennsylvania infrastructure increased a company’s CNI obligation.

“The single sales factor eliminates the perverse disincentive to hiring and investment in Pennsylvania, giving in-state business a ‘home team’ advantage,” Taylor said.

The budget also maintains the phase-out pace of the Capital Stock & Franchise Tax (CSFT); a tax on business assets that is due even when a firm is not profitable. The tax rate was reduced to 1.89 mills on January 1, 2012, and will be reduced to 0.89 mills on January 1, 2013, with full elimination on January 1, 2014.

Educational Improvement Tax Credit

The budget expands the Educational Improvement Tax Credit (EITC), a highly successful ten year-old program aimed at helping children in the worst performing schools.

"We're talking about effectively doubling the amount of money available to the kids," said Matthew J. Brouillette, President and CEO of the Commonwealth Foundation for Public Policy Alternatives on the radio program, *Capitol Watch*. "It gives so many more children a choice to get out of not only poor performing schools, but those with the highest rates of violence." The changes include the consolidation of the two separate business application dates and an increase in tax credits available.

Secretary of the Department of Community and Economic Development, C. Alan Walker, said the application process would be simplified by consolidating applications to one date for all businesses. "Through a simplified application process and a larger budget, the new changes to the EITC program will benefit both school districts and businesses alike," Walker said.

Through EITC, eligible businesses can contribute donations to a Scholarship Organization, Educational Improvement Organization, and/or a Pre-Kindergarten Scholarship Organization. Tax credits may be applied against the tax liability of a business for the tax year in which the contribution was made. The tax credits awarded to businesses will be equal to 75 percent of their contribution amount, which can be increased to 90 percent upon the business committing for two years.

The EITC program has increased from $75 million to $100 million for the fiscal year that began July 1. Effective immediately, all business entities are eligible to apply, Walker said in a statement.

Another new change is the establishment of the Opportunity Scholarship program, a $50 million tax credit program. Scholarships will be offered to students currently enrolled in public schools that are ranked among the lowest 15 percent of underperforming districts. The scholarships will allow eligible students to withdraw from their current district and enroll at a public school outside of their district or at a nonpublic school.

The Commonwealth Foundation calculates the EITC program has awarded more than 284,000 scholarships worth $335 million since its inception in 2001. The program also saves Pennsylvania taxpayers millions each year. With an average scholarship of approximately $1,000, the EITC serves students for a small fraction of the $14,000 spent per student by school districts. If each of the 38,600 students receiving EITC scholarships in 2009-10 returned to public schools, schools would require an additional $512 million in revenue to handle the additional enrollment.

PA Businesses Weigh Options After Health Care Mandate Upheld

The business community is yet again required to underwrite a mandate from Washington with the Supreme Court's recent 5-4 ruling that the March, 2010 Patient Protection & Affordable Care Act is constitutional. As businesses begin to assess the costs that come with requiring every American to carry health care coverage, they are at the same time throwing support behind efforts to mitigate the law's impact, or repeal it all together.

"Outside of the particulars, one rule that always holds true is that whenever anything is mandated the price for it goes up," said Kevin Shivers, State Director of National Federation of Independent Business (NFIB) in Pennsylvania. "And we're being asked to pay that price. The ideal of course would be for a repeal in Congress. But we will be working on the state level as well. " The NFIB led the constitutional challenge to the two year-old law.

One possible alternative, writes Elizabeth Stelle of the Commonwealth Foundation, is for states to refuse to establish statewide exchanges required under the law, and not to expand Medicaid to those above the federal poverty line – another provision in the federal law. The exchanges are purported to create a market where consumers can pick, in some cases cafeteria style, a health care plan. Stelle characterizes the exchanges as little more than enforcement tools for the individual mandate and employer penalties.

“By voluntarily participating in the exchanges or the Medicaid expansion, state officials will not only cost taxpayer billions, they’ll strengthen the law by making it harder to repeal,” Stelle wrote in a recent commentary.

The Corbett Administration said it would review the Supreme Court ruling before deciding on any action. Earlier, the Administration did say it was going forward with the establishment of the exchanges. As Attorney General, Corbett joined 12 other states in challenging the constitutionality of the law.

In the General Assembly, two proposals, SB 10 & HB 42, would effectively shield Pennsylvanians from the law’s mandate by establishing the right to choose to buy health care coverage. SB 10, introduced by Senate President Pro Tem Joseph Scarnati (R-Jefferson), would amend the state Constitution to establish such a right.

Meanwhile, the High Court’s ruling may put the White House and those in Congress supporting the law on the horns of a dilemma as they insisted in debate it did not constitute a tax increase. This as the Supreme Court ruled the law constitutional under Congress’s authority to tax.

For his part, the Minority Leader of the Senate, Mitch McConnell (R-Kentucky) told National Review online that he sees an opportunity to present a tax reconciliation bill to the next president.

“The chief justice said (the mandate) is a tax, and taxes are clearly what we call reconcilable. That’s the kind of measure that can be pursued with 51 votes in the Senate,” McConnell said.

Reconciliation grew out of the Congressional Budget Act of 1974 as an attempt to streamline the legislative process when the subject was limited to “reconciling” differences in expenditures or “changes” in spending. It has been greatly expanded over the years and was used to pass “ObamaCare” in 2010 after it failed to pass in 2009. It eliminates the rule that filibusters can be ended only by 60 votes and now limits debate to 20 hours before bringing a bill to the floor of the Senate for a majority rule vote.

Shivers of the Pennsylvania NFIB said the Supreme Court ruling means the piling-on of another tax under the health care law.

“Our analysis shows there are 21 new taxes in all,” Shivers said.

To review a list of those taxes go to http://www.nfib.com/advocacy/healthcare.