PENNSYLVANIA MANUFACTURERS' ASSOCIATION

HOUSE REPUBLICAN POLICY COMMITTEE: PENNSYLVANIA'S BUSINESS TAX CLIMATE

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PA BUSINESS TAX CLIMATE

According to the study *Total State and Local Taxes FY2019* by the Council on State Taxation, Pennsylvania's businesses accounted for 38.8% of state tax revenue, 47 % of local tax revenue, combining for 41.9% of total state and local tax revenue. While this does put Pennsylvania almost at the average in all three measures, there are major disparities on which sectors of the business community shoulder the burden of these percentages and thus, could be cause for concern when attempting to attract or retain certain types of economic development within our commonwealth.

According to the same study, Pennsylvania's business tax treatment of property taxes, sales taxes, and licenses/other taxes were below the national average; however, the business tax treatment of corporate income, excise, and unemployment insurance were all above the national average.

The growth percentage of business taxes paid increased by 7.8% from FY 21-22, however, the national average was 13.7%, indicating sluggish growth compared to other states. Only 7 other states and the District of Columbia saw less growth in the past year.

Espacially on paper, published tax rates matter and greatly influence site selectors when the next major plant, warehouse, office or headquarters is being considered. Overall, we have one of the least competitive corporate tax environments in the country. The Commonwealth was ranked 41st out of 50 states in the recently released Tax Foundation's Corporate Tax Rank; only nine states were listed as having a worse corporate tax environment. The two most glaring shortcomings in regard to Pennsylvania's corporate taxes are: the highest flat-rate in the nation 8.99% (to be reduced to 4.99% in 2031) corporate net Income tax rate; and, a 40% cap on net operating loss.

8.99%

CURRENT CORPORATE NET INCOME TAX RATE

40%

CURRENT NET OPERATING LOSS CARRYFORWARD LIMIT

3.07%

CURRENT PERSONAL INCOME TAX RATE

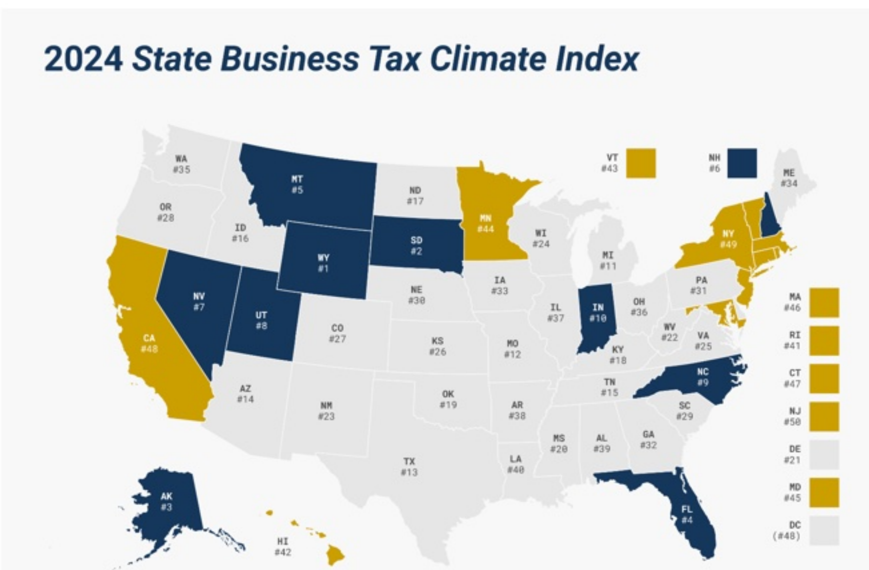
COMPETITIVENESS & BENCHMARKING

In the recently released *2024 State Business Tax Climate Index*, published by the Tax Foundation, Pennsylvania ranked just behind the national average of overall rankings at 31st. Alarmingly, however, PA received the ranking of 41st regarding corporate taxes, causing concerns.

Tax changes at the federal level, mainly due to the Tax Cuts and Jobs Act of 2017, make it the smart business decision for American corporations to repatriate their overseas operations and invest in American headquarters and operations. However, in Pennsylvania, with the highest flat-rate Corporate Net Income Tax of 8.99%, that investment is often directed to our competitor states. Business investment peaked in quarter two of 2019, and given the ongoing uncertainty of business taxes at the federal level, some repatriation has tapered. States do continue to compete for the investment that is occurring, and thus, tax reform at the state level is as important as it's ever been.

Gone are the days when being just slightly more competitive than New York, New Jersey, or other Northeast/Mid-Atlantic states was acceptable. Pennsylvania is competing for corporate investment with high-performing states such as Florida, North Carolina, Indiana, and Utah.

Pennsylvania		
	Rank	Score
Overall Rank	31 (+2)	5.01
Corporate Taxes	41 (+1)	4.35
Individual Taxes	23 (-3)	5.09
Sales Taxes	16 (+0)	5.14
Property Taxes	14 (+1)	5.51
Unemp. Insur. Taxes	21 (+1)	5.11



Neighboring States

#21 Delaware

#22 West Virginia

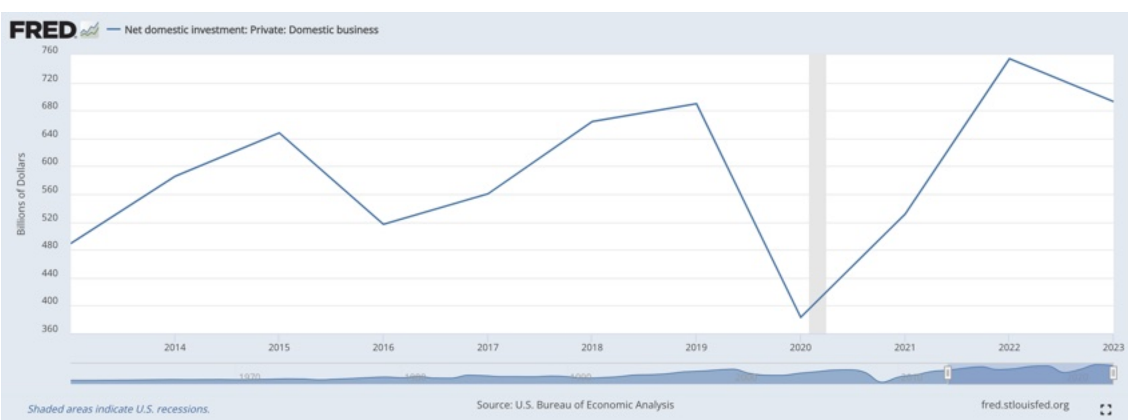
#31 Pennsylvania

#36 Ohio

#45 Maryland

#49 New York

#50 New Jersey



COMPETITIVENESS & BENCHMARKING

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The annual publication by the American Legislative Exchange Council, *Rich States Poor States*," provides regular and consistent benchmarking between states competing for business investment. Now in its 16th edition, this study looks both at current competitiveness as well as an outlook for future economic performance based on growth and migration patterns.

Pennsylvania's rankings have stagnated in the high-30s and low-40s, respectively, for the last decade. Our commonwealth does rank well in the areas of sales tax, progressive income tax, and public employees per population. However, Pennsylvania is at the bottom of the 50 states in areas such as corporate tax rates, estate/inheritance taxes, and worker compensation costs.

35th Economic Outlook Rank

Pennsylvania is currently ranked **35th** in the United States for its economic outlook. This is a forward-looking forecast based on the state's standing (equal-weighted average) in 15 important state policy variables. Data reflect state and local rates and revenues and any effect of federal deductibility.

Current Economic Outlook (2023)

From the 2023 edition of *Rich States, Poor States*. These values are the most recent available at the time of publication.

POLICY	VALUE	RANK
Top Marginal Personal Income Tax Rate	6.86%	37th
Top Marginal Corporate Income Tax Rate	15.82%	49th
Personal Income Tax Progressivity *(change in tax liability per $1,000 of income)*	$0.00	2nd
Property Tax Burden *(per $1,000 of personal income)*	$27.95	25th
Sales Tax Burden *(per $1,000 of personal income)*	$16.51	10th
Remaining Tax Burden *(per $1,000 of personal income)*	$21.94	43rd
Estate / Inheritance Tax Levied?	Yes	50th
Recently Legislated Tax Changes	-$0.24	20th
Debt Service as a Share of Tax Revenue	6.55%	33rd
Public Employees Per 10,000 of Population *(full-time equivalent)*	418.2	5th
State Liability System Survey *(tort litigation treatment, judicial impartiality, etc.)*	66.6	39th
State Minimum Wage *(federal floor is $7.25)*	$7.25	1st
Average Workers' Compensation Costs *(per $100 of payroll)*	$1.27	24th
Right-to-Work State? *(option to join or support a union)*	No	50th
Tax Expenditure Limits	0	32nd

46th Economic Performance Rank

Pennsylvania is currently ranked **46th** in the United States for its economic performance. This rank is a backward-looking measure based on the state's performance (equal-weighted average) in three important performance variables shown below. These variables are highly influenced by state policy.

OVERVIEW (2023) | CHARTS (2023)

Overview (2023 Edition)

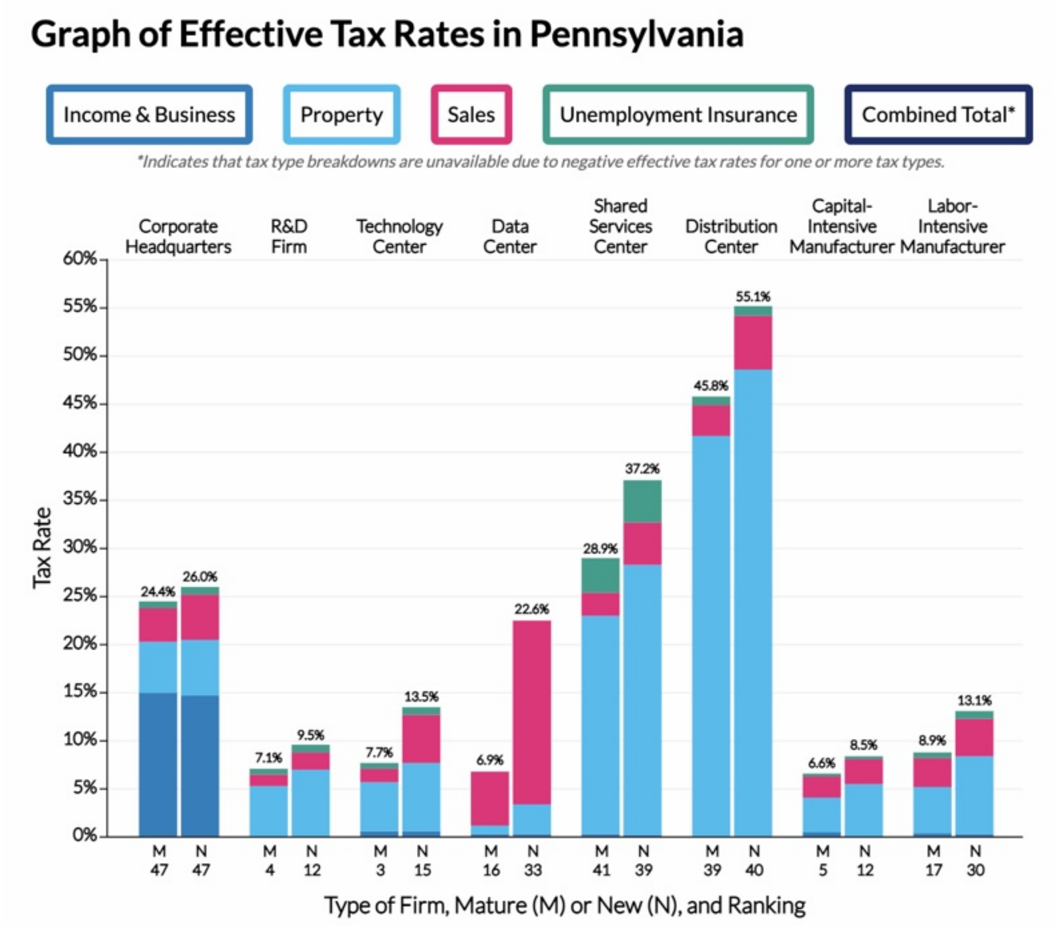
METRIC	VALUE	RANK
Cumulative GDP Growth, 2011 - 2021	35.16%	38th
Cumulative Domestic Migration, 2012 - 2021	-246,499	45th
Non-Farm Employment Growth, 2011 - 2021	2.07%	43rd

Migration Patterns: Pennsylvania

Year	Inbound	Outbound
2023	37%	63%
2022	42%	58%
2021	46%	54%
2020	48%	52%
2019	44%	56%
2018	45%	55%
2017	44%	56%
2016	45%	55%
2015	41%	59%
2014	43%	57%
2013	44%	56%
2012	46%	54%

Unsurprisingly, many of the high-performing states in the economic outlook rankings also rank highly on economic performance as they see in-migration and overall GDP growth. This is identified in the *Rich States, Poor States* graphic above, but is also solidified by the Atlas Van Lines *2020 Migration Patterns*, showing that Pennsylvania has had outward migration, every year, in the past decade. Compare this to the high-performing states identified on page 2, and the same study shows in-migration in all of these states.

BUSINESS TAX COLLECTION



In a 2021 study by the Tax Foundation titled *Location Matters 2021: The State Tax Costs of Doing Business*, it was found that Pennsylvania ranked highly in the average actual state/local tax burden in some industries, but ranked far behind the curse in others. Most disappointing was the ranking of 47th for both new and mature corporate headquarters. The study summarized:

> **"Both the new and mature corporate headquarters, however, experience the highest income tax burdens in the nation for firms of their type, due to the state's high 9.99 *(now at 8.99%)* percent tax on all corporate income. The effective income tax rate on the mature corporate headquarters is nearly three times the national median. The corporate headquarters and technology operations are also subject to locally-imposed gross receipts taxes, called business privilege and mercantile taxes."**

The study did conclude that Pennsylvania's tax treatment of manufacturing facilities and existing technology centers and research and development firms was far better than the national average. However, one of the main reasons for this could be construed as layers of tax compliance complexity and it's been our experience that this can vary greatly from firm to firm.

Most recently, the Independent Fiscal Office published revenue performance through March 2024. Collections for Corporate Net Income Taxes were down slightly below the estimate for the month of March, but actual revenue has surpassed estimates by $86M in the current fiscal year. This is a positive sign as the rate was lowered to 8.99% in this current fiscal year.

FY 2023-24 Revenue Performance Through March

	March Collections			FY Collections		
	Actual	Estimate	$ Diff	Actual	Estimate	$ Diff
General Fund	**$6,280**	**$5,982**	**$298**	**$32,799**	**$32,515**	**$284**
Corporate Net Income	686	716	-30	3,677	3,591	86

TAX POLICY RECOMMENDATIONS

SUPPORT THE PRIORITIES OF COMPETE PA

Accelerate the lowering of the Corporate Net Income tax (CNI). We strongly believe that a reduction of this highly uncompetitive rate will result in greatly enhanced economic growth, which will generate an increase in state tax revenue.

The cap on the usage of Net Operating Losses (NOLs) should be fully lifted. Pennsylvania is one of only two states that caps the amount of NOLs a company can offset against its current corporate net income. Additionally, the coalition supports removing the time limitation a business may carry forward a net operating loss.

Oppose Mandatory Unitary Combined Reporting (MUCR), as the policy will make Pennsylvania less competitive and have a broad range of negative consequences on the commonwealth's economic climate. MUCR has proven to be litigious in other states and creates much uncertainty for businesses.

SUPPORT THE "SMALL BUSINESS TAX PACKAGE"

- **HB 701 (Kutz)/ SB 662 (J. Ward) authorizes net operating loss for Small Businesses.**
- **HB 1404 (Topper) repeals Accelerated Sales Tax Prepayments.**
- **HB 166 (R. Mackenzie) Pennsylvania Families Tax Relief Bill package; includes reduction of personal income tax rate.**
- **And, more... SB: 75, 76, 77, 346, 659, 660.**

OTHER PRIORITIES

Oppose new, additional taxes on business inputs, such as on energy or other essential inputs and commodities, resulting in tax pyramiding.

- **Examples: Severance taxes, carbon taxes, excise taxes, gross receipts taxes, cap-and-tax programs, etc.**

Oppose House Bill 1773 (Rabb), which would quadruple the S-corp (small business tax rate) from 3.07% to 12%.

Support the Taxpayer Protection Act to control state government spending and ensure that government does not grow at a rate higher than the private sector.