PA Chamber™
of Business and Industry

Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Hearting to Analyze Pennsylvania Corporate Net Income Tax

Before the:
Pennsylvania House Finance Select Subcommittee on Tax Modernization

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Harrisburg, PA
April 9, 2018

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Introduction

Chairman Evankovich and members of the subcommittee, thank you for the opportunity to testify before you today regarding Pennsylvania's corporate net income tax. My name is Sam Denisco and I am Vice President of Government Affairs for the PA Chamber of Business and Industry (PA Chamber). The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout Pennsylvania.

Economic Survey

Each year the PA Chamber compiles economic indicators from the broad based business community through our Annual Economic Survey. Our 2017 survey found the following:

> Concerns about the economy appear to have bottomed out – fueling new optimism among employers that things may finally be rebounding for the long haul.
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> The percentage of employers who report higher sales and/or new hiring in the last 12 months shows modest gains from previous years.
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> Projections for sales growth, capital investments and spending and even hiring are all on the rise – a strong indication employers are increasingly hopeful about the future.
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> Despite optimism, most employers continue to cite rising health care costs, crushing mandates and regulations and high tax rates as key obstacles to continued growth. Plus perceptions of the Commonwealth's overall business climate have yet to improve.

Importance of competitive business tax structure

Few issues draw as much attention as state business taxes for employers seeking to locate or expand operations. The single most hard line comparative indicator is the tax rate. Simply stated, at 9.99% Pennsylvania has the dubious distinction of having the highest effective corporate tax rate in the nation. This makes the Commonwealth an outlier among its competitor states. We have made some positive strides with the phase out of the capital stock and franchise tax, moving to a single sales apportionment formula and incremental movement in the net operating loss carryforward, however the Commonwealth continues to bear the scarlet letter - its tax rate. We believe that the legislature's successful pursuit of these tax reforms over the past few years contributed to employers' stronger performances and renewed sense of optimism, as evidenced in the PA Chamber's most recent Economic Survey.

Federal Reform

Washington has passed the first major tax reform in more than three decades, lowering rates for all businesses, making our federal tax system more competitive, and unleashing a new era of growth for the American economy.

Already, employers throughout the country are investing back into their companies, rewarding their employees, and hiring more American workers. Below are a few Pennsylvania examples:

AccuWeather in State College announced it would award bonuses to all of its employees.

Comcast is giving out $1,000 bonuses to eligible frontline and non-executive employees.

Customers Bank in Wyomissing announced that it would begin offering a bonus interest bearing checking account and increase its charitable giving by $1 million.

FNB Corporation in Pittsburgh is raising its minimum wage to $15 per hour and making an additional one-time 401(K) contribution to eligible employees.

Fulton Financial Corporation in Lancaster announced they will be giving bonuses in the form of one week additional pay and increase its charitable giving by $2 million.

Erie Insurance is giving its 5,400 permanent full-and part-time employees a $1,000 cash bonus and that it would contribute $1,000 to the account of any employee who has a 401(k) retirement savings plan.

In Pittsburgh, the owner of 16 Sport Clips barbershop franchises announced that he will reinvest savings from the tax overhaul to open another 12 Sport Clips locations throughout Pennsylvania. "With an average of 10 employees per location, that means 120 new well-paid, stable jobs," he wrote in an op-ed published by the Pittsburgh Tribune-Review. "With lower taxes and more money in our pockets, we will be able to expand locations, reinvest, buy new equipment, hire new employees and pay higher wages."

State Reform lowering of business taxes

Indiana implemented a four-year phased-in corporate rate reduction from 8.0% (2012) to 6.5% (2015), financed in part by eliminating tax credits. Additional rate cuts began in 2014, after a round of personal income tax reductions (from 3.4 to 3.23%), with the corporate rate set to phase down to 4.9% by 2022.

In 2014, New York adopted a tax plan which, among other things, lowered the corporate franchise rate from 7.1 to 6.5 percent.

Also in 2014, the District of Columbia enacted a tax reform package lowering individual income and business tax rates while making a number of other changes, some immediately and many using tax triggers. The District's business franchise tax (a corporate income tax) saw its rate decline from 9.975 to 9.0 percent while maintaining revenues

Entering 2013, North Carolina had a 6.9 percent corporate income tax and a franchise tax at the high rate of 0.15 percent of assets. In 2013, the state undertook comprehensive reform which broadened, flattened, and lowered the individual income tax, lowered corporate and franchise tax rates, and expanded the sales tax base. The corporate income tax rate was reduced in two stages from 6.9 to 5 percent, then further reduced using revenue triggers. The overall package was intended as a net cut, and was, but the state consistently beat its projections, prompting further rounds of reform in 2015 and 2017. The corporate income tax is now set to decline to 2.5 percent in 2019.

Mandatory unitary combined reporting will further erode PA's attractiveness

The PA Chamber opposes proposals to collect the CNI on a unitary combined basis because it is a potentially significant tax increase that would also impose massive administrative and litigation costs on Pennsylvania's job creators. For both affected taxpayers and the Department of Revenue, it will add considerable complexity and fiscal uncertainty. Mandatory unitary combined reporting is a far-reaching and harmful proposal that creates a specific disincentive for multi-state firms to do business in Pennsylvania.

NOL cap should be removed

Pennsylvania is one of a very few states that impose a cap on Net Operating Losses (NOLs). Last year, in response t a PA Supreme Court decision, the Commonwealth amended the tax code to eliminate the hard dollar cap of $5 million and increase the percentage based cap to 40% over two years. Although this is a positive change in that this is a move towards a full uncapping, the ongoing cap still represents a barrier to start-up companies looking to locate in Pennsylvania and a burden on cyclical companies looking to maintain existing operations.

By way of background, the vast majority of new start-up companies today are companies employing 100 or fewer employees. Due to the various components of start-up costs, these businesses tend to record significant losses in the first few years of operation. Likewise, cyclical businesses face regular fluctuations in income as part of their business operations. An NOL deduction that is free of any uncompetitive restrictions is an important way to help start-up companies and balance the effect of volatile economic conditions on cyclical businesses.

Conclusion

The PA Chamber recognizes that any change in the corporate tax rate will have a fiscal impact on the General Fund. We encourage our policymakers to not address tax reform in a vacuum, but rather take a comprehensive look at our entire tax structure and work with the business community to determine how we as a Commonwealth can be more competitive. Pennsylvania needs to be increasingly competitive, for both jobs and capital. Companies and investors have choices, both globally and among the states, to place their investments and we want businesses to remain here, invest here and grow here.