



greater pittsburgh  
**chamber of commerce**  
advocacy to improve the pittsburgh region

**NFIB**  
The Voice of Small Business®



April 27, 2007

Honorable Members of the Pennsylvania General Assembly:

On behalf of the Pennsylvania Chamber of Business and Industry, the Pennsylvania Manufacturers' Association, the Pennsylvania Chapter of the National Federation of Independent Business and the Greater Pittsburgh Chamber of Commerce, we write to express a unified business community position with respect to business taxes.

Specifically, on behalf of our more than 60,000 employers from all industries and regions of the Commonwealth, we want to emphasize our continued and unequivocal support for the CompetePA business tax reduction priorities. Furthermore, we continue to have unequivocal opposition to further increasing state tax burdens on Pennsylvania employers to pay for these priorities or to close a perceived "budget gap" for next fiscal year.

Pennsylvania's tax climate for employers remains extremely uncompetitive:

- We are one of only two states to cap net operating loss carry forwards (NOLs), creating an uneven playing field for cyclical companies that do business in Pennsylvania and retarding the growth of start-up companies;
- Pennsylvania companies are penalized for expanding their physical presence and hiring employees in the state because the Commonwealth includes property and payroll as components of the calculation of the Corporate Net Income (CNI) tax. More and more states are recognizing that the formula used to apportion income to a state should be based on a single sales factor (SSF), not property and payroll, in order to help "hometown" employers; and
- Our CNI rate is the second highest in the nation, creating a recognizable barrier to economic development.

As a result, from 2000 through 2005, Pennsylvania's Gross State Product grew at less than three-quarters of the national average. This "growth gap" represents billions of dollars in lost investment and tens of thousands of missing jobs – wealth that Pennsylvania should have gained over the past five years but didn't. Pennsylvania's employers already pay taxes that produce more than 50% (\$13.6 billion) of total revenues generated by state tax policies, which is the 5<sup>th</sup> highest in the nation. And, when combined with local taxation, Pennsylvania's employers pay more than \$22 billion per year, in addition to innumerable state fees. Pennsylvania's economy

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simply cannot endure higher business taxes and policy makers should not be fooled by the reckless rhetoric that suggests the business community is not paying its fair share.

We believe that business tax reduction priorities should be viewed in the same light as spending priorities. Indeed, “investing” in the business tax cuts proposed by CompetePA would trigger the same outcome that occurred when Pennsylvania invested in the phase-out of the Capital Stock and Franchise Tax (CSFT) - total CSFT revenues have actually increased over the past five years, while the rate has dropped from 7.49 to 5.99 mills, and CSFT represents approximately the same percent of overall Commonwealth revenues.

The CompetePA business tax reduction priorities are:

1. Complete phase-out of the existing cap on net operating losses
2. Full implementation of the single sales factor
3. Reduction of the CNI tax rate

**Our four business organizations have unequivocal opposition to further increasing state tax burdens on Pennsylvania employers to pay for these priorities or to close a perceived “budget gap” for next fiscal year, including the Governor’s proposed Mandatory Unitary Combined Reporting Initiative.**

Mandatory unitary combined reporting is a multi-billion-dollar tax increase that would also impose massive administrative and litigation costs on Pennsylvania’s job creators. If adopted, mandatory unitary combined reporting would grant extraterritorial powers to the state Department of Revenue, allowing it to impose taxes on a multi-state firm’s operations outside the Commonwealth, possibly even outside the United States. Combined reporting would create a specific disincentive for multi-state firms to do business in Pennsylvania because of the ensuing risk of incurring Pennsylvania tax liability on its current operations in other states, even when that firm has already paid all of the state taxes to the state government where the operations are located.

Predictability is the most important factor in decision making for business leaders. The decision to invest in Pennsylvania jobs and infrastructure only comes *after* it is determined that the value created by the enterprise will be sufficiently greater than the costs to justify the investment. The uncertainty created by mandatory unitary combined reporting would effectively tell prospective investors to go somewhere else.

Pennsylvania’s employers need tax relief — not a new tax system creating winners and losers. Prospective employers need to see more competitive taxes here if we expect them to make discretionary investments in Pennsylvania.

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On behalf of a unified Pennsylvania business community, we ask you to support business tax relief as proposed by the CompetePA Coalition and oppose any business tax increases that would further shift the burden of paying for the out-of-control spending increases that have occurred in Pennsylvania in recent years. This year presents a great opportunity to build upon the momentum created by last year's modest business tax reductions. We urge you to seize that opportunity for the next fiscal year.

Sincerely,

Floyd Warner  
President  
Pennsylvania Chamber of Business & Industry

Frederick W. Anton, III  
President and CEO  
Pennsylvania Manufacturers' Association

Kevin Shivers  
State Director  
National Federation of Independent Business

Barbara McNees  
President  
Greater Pittsburgh Chamber of Commerce