Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Workshop on Western PA’s Ongoing Economic Recovery

Before the:
Senate Republican Policy Committee

Presented by:
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Good afternoon Chairman Argall, Senator Bartolotta and members of the Senate Republican Policy Committee. My name is Gene Barr, President and CEO of the Pennsylvania Chamber of Business and Industry – the largest, broad-based business advocacy organization in the Commonwealth. Our membership, which is nearly 10,000 strong, consists of sole proprietors to Fortune 500 companies and represents all industry sectors in every region of the state. Thank you for providing me with the opportunity to present the perspective of the Commonwealth’s business community on the economic recovery of the western region of the state and, more broadly, all of Pennsylvania.

Pennsylvania is full of economic potential. Our prime location, ample natural resources, world-class educational institutions, diverse industry base and strong work ethic provide a host of opportunities for businesses to locate and thrive. And yet, despite all of these positive attributes, the Commonwealth often falls short when competing with other states for jobs and capital. Pennsylvania’s often unfavorable tax climate; as well as its burdensome regulatory and legal environments create barriers to growth that are red flags for job creators looking where to potentially invest. The unprecedented COVID-19 pandemic has further exacerbated an already challenging business climate, while at the same time putting significant strains on state resources and programs.

Prior to the outbreak of COVID-19 in the United States, Pennsylvania was on a positive economic trajectory. Our economy was doing well, with state revenues coming in slightly higher than anticipated, and unemployment levels consistently low. In the six months since cases of the virus were first identified in the Commonwealth, we’ve seen a complete reversal of these trends. The administration’s business shutdown orders – which we understand were necessary in the early days as the goal was to “flatten the curve” in new case counts, but have now become unsustainable for many in the private sector - have had a far-reaching impact, leading many employers to close their doors or curtail operations. There have also been a record number of claimants to flood the state’s Unemployment Compensation (UC) system. As the virus caused economic activity to grind to a halt for several months, Pennsylvania’s fiscal outlook also took a hit with the state now anticipating a $5.5 billion shortfall.

Now that the Commonwealth has moved towards a re-opening phase – albeit with restrictions still in place – there needs to be a focus on policies that prioritize re-opening safely, and encourage business investment and reinvestment. As the ‘Statewide Voice of Business™,’ the PA Chamber has taken the lead in driving Pennsylvania’s economic resurgence through our ‘Bringing PA Back’ Initiative. This initiative is arming employers with the information they need to re-open their facilities for employees and customers; along with promoting public policies that will help employers overcome hurdles to operating that they face in this new pandemic era. We have hosted numerous calls with our local chamber partners and statewide associations to identify employers’ major concerns and needs and to communicate those with both the legislature and Wolf administration. We have strived to be a trusted, fact-based resource for businesses in the ever-changing COVID-19 landscape and for elected officials who are weighing the public policies that will best move Pennsylvania’s economy forward.

An important policy area to highlight is unemployment compensation. The ongoing pandemic has placed unforeseen pressure on the state’s UC system and highlighted problem areas in the current
UC law. Unemployment compensation has been a key component of the government response to the pandemic and it made sense to utilize an existing system to drive financial support to impacted individuals. Over time, however, it has become clear that the existing UC law lacks the clarity and guidance necessary to fairly and efficiently address these unique pandemic-related claims. According to Pennsylvania Labor and Industry Secretary Jerry Oleksiak, since March 15 the Department of Labor and Industry paid out more than $25.5 billion in total benefits to millions of unemployed Pennsylvanians. And according to U.S. Department of Labor data compiled by the U.S. Chamber, 11.3 percent of Pennsylvania’s workforce filed for UC relative to our February employment levels -- the 13th highest level in the country.

We are supporting legislation, H.B. 2557, which would bring transparency, predictability and fairness to the process of determining eligibility for unemployment benefits based on pandemic-related reasons. For example, a claimant with an underlying medical condition who quits a job based on their doctor’s advice should probably not have to worry about benefits being denied. At the same time, an employee considering quitting because benefits may be more lucrative than wages should know in advance that they will not be eligible.

Unfortunately, a perception was erroneously conveyed to the public early on that individuals can refuse to return to work in order to continue collecting UC. We still hear from employers that this trend continues and may only increase if additional federal enhancements are enacted. House Bill 2557 will help address this misuse of the system by implementing more transparent guidelines, which means fewer contested claims, and a more efficient process for resolving disputes, which helps avoid the logjams we have unfortunately heard so much about.

The Department and all stakeholders are still responding to the emergency but eventually it will be necessary to address the long-term fiscal stability of the UC system; and doing so in a way that does not unduly burden employers. Pennsylvania employers already pay the 5th highest UC tax rate on average in the country, according to the most recent U.S. Department of Labor statistics; and, up until this year, were being levied an additional assessment to pay off debt incurred during the Great Recession.

Another critical component to moving Pennsylvania forward through the next phase of this pandemic is limited liability protection. Over the past several months, businesses, nonprofits, child care and academic facilities and the medical community have invested tremendous resources, time and energy to operate in accordance with state and CDC-issued guidelines. Unfortunately, opportunistic plaintiffs’ attorneys are increasingly seeking to capitalize on this pandemic by bringing unwarranted lawsuits. Pennsylvania employers are already being targeted, including some for safety policies the Governor himself has directed the business community to enforce. This ongoing litigation threat puts Pennsylvania at risk for additional economic and societal hardships. That’s why local chambers from across the Commonwealth and associations representing a wide range of constituencies – including advocates for children, nonprofits, the United Way, pediatricians, colleges and universities, school districts and small businesses – have united in calling for targeted and temporary COVID-19 liability protections. These protections will encourage best practices by
safeguarding those operating in good faith to comply with safety requirements, while still holding bad actors accountable.

The Commonwealth’s tax structure also creates significant barriers - especially when compared to other states. According to the Tax Foundation’s “2020 State Business Tax Climate Index,” Pennsylvania ranks 46th in corporate taxes. Our Corporate Net Income tax is one of the highest effective rates in the country and serves as a major red flag for potential investors. Adding to our uncompetitive nature is the fact that Pennsylvania is one of only a few states to cap Net Operating Loss carry forwards. This cap represents a barrier to start-up companies looking to locate to the Commonwealth, and places burdens on cyclical companies looking to maintain existing operations. We strongly encourage lawmakers to reduce the CNI rate – without “strings attached” provisions like mandated combined reporting - and also to remove the cap on NOLs.

Likewise, we also support tax reforms that will help small businesses that often operate on a thin profit margins, even in the best of economic circumstances. We encourage the House to take action on the three bills that make up the Small Business Tax Fairness package that was introduced last year. This includes H.B. 105, which would put the Commonwealth in line with every other state by allowing for “like-kind” exchanges for tax deferral when property is exchanged with similar property. House Bill 333 would also increase the state’s competitiveness by increasing the deductible amount of a small business’ qualifying equipment purchases from the current $25,000 to the federal limit, which is $1 million. Lastly, H.B. 1603 would expand tax strategies available to small businesses by allowing a small business to deduct net losses from a subsequent tax year’s total state tax liability. These targeted tax reforms will help small businesses – which are the backbone of the state’s economy – as they fight to survive the economic downturn.

In the months ahead, the PA Chamber looks forward to continuing to work with lawmakers and the administration on policies that will move our state toward an economic recovery. There have been many sacrifices made during this time and the business community has made many of them, along with the brave medical professionals and first responders who are fighting this virus head-on. Pennsylvania is fortunate to have a strong foundation in our healthcare, medicine, energy, manufacturing, telecommunications, and education sectors and we know that by working together, we can come out of this difficult time stronger than ever. Our members are up for the challenge of leading our state forward, safely and responsibly, but we need collaboration from the General Assembly and the Wolf administration to do it.

Thank you. I’d be happy to answer any questions.