PA Chamber® of Business and Industry

TO: The Honorable Members of the PA House of Representatives
FROM: Neal Lesher, Director, Government Affairs
DATE: October 3, 2023
RE: Support Pro-growth tax reform

On behalf of the PA Chamber, I write regarding amendments inserted into HB 1219. We thank you for acknowledging that Pennsylvania's business taxes, including our Corporate Net Income Tax rate and treatment of Net Operating Losses, are uncompetitive. When considered separately, these reforms were adopted by the House yesterday with broad bipartisan support, securing votes of 150-53 and 166-37 respectively.

At the same time, we strongly oppose the inclusion of combined reporting, which will make Pennsylvania less competitive. We urge the House to remove the combined reporting provision and advance these important pro-growth tax measures in order to keep this important discussion moving forward.

Accelerating the CNI Phasedown

Pennsylvania's 8.99% Corporate Net Income Tax rate (CNI) is currently 4th highest in the country. HB 1219 would immediately drop it to 7.99% followed by a point each year until it's 4.99% in 2026, five years before Act 53 of 2022.

Pennsylvania is in perpetual competition with other states to attract business and economic growth. Act 53 represented significant progress, yet many other states are reducing business taxes more aggressively. We support Gov. Shapiro's call to expedite the CNI phase-down.

NOL Reform: Ending PA's Tax on Business Start-ups

Federal and state tax law allow businesses to reduce their tax liability if they lost money in previous years. Net Operating Loss allowances (NOL) promote a fair tax system by reducing tax burdens on entrepreneurs and cyclical businesses like small manufacturers. PA is one of only two states that cap NOL deductions below the federal limit of 80% of income.

HB1219 would gradually increase the current 40% cap on NOL deductions until it reaches 80% in 2027. This bill will promote future growth, provide more stability as businesses make long term investment and hiring decisions, and make Pennsylvania more attractive to entrepreneurs.

Combined Reporting & Expanded Department of Revenue powers

HB 1219 also includes omnibus amendments that the Council on State Taxation claims **would make Pennsylvania's corporate net income tax one of the most punitive and aggressive in the country.**

The bill requires PA to adopt an entirely different corporate tax structure, Combined Reporting, that would make Pennsylvania less competitive, add great complexity for employers, creates revenue volatility, picks winners and losers among taxpayers, and lead to additional litigation and administrative costs.

The bill also gives nearly unlimited powers to the Department of Revenue to target specific taxpayers without objective standards; adopts a particularly unfavorable method for treating NOLs throughout the company, and attempts to include foreign income (which almost every other combined reporting state has repealed).

The PA Chamber has worked with lawmakers on both sides of the aisle to ensure DOR has the tools to prevent corporate tax avoidance, enacting reforms that generate roughly $300 million annually. Pursuing combined reporting would be a significant misstep at a time when corporate income tax collections are at an all-time high. We urge you to remove these provisions from the legislation.

We thank you for considering our perspective on this important legislation. For any questions or further discussion, please contact Neal Lesher at nlesher@pachamber.org or 717-507-9240.