



Testimony Submitted on behalf of the  
Pennsylvania Chamber of Business & Industry

***Hearing on Revitalizing Pennsylvania's Business Climate with a Focus on Tax Policy***

Before the:  
**Pennsylvania House Finance Committee**  
Harrisburg, PA  
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## **Introduction**

Chairman Peifer and members of the House Finance Committee, thank you for the opportunity to testify before you today regarding Revitalizing Pennsylvania's Business Community with a Focus on Tax Policy. My name is Sam Denisco, and I am Vice President of Government Affairs for the Pennsylvania Chamber of Business & 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.

Few issues draw as much attention as business taxes for companies seeking to locate or expand operations. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, and the long-term health of a state's economy.

Taxes on business have been found to be the most harmful to economic growth. If taxes take a larger portion of revenue, that cost is passed along to either consumers (through higher prices), employees (through lower wages or fewer jobs), or shareholders. Thus, a state with lower tax costs will be more attractive to business investment and more likely to experience economic growth.

The Chamber supports well-balanced tax reform with a goal of enhancing Pennsylvania's competitive standing and adhering to the principles of sound tax policy – that to the greatest extent possible, taxes should be simple, transparent, neutral and stable, and that the best tax structure is one with a broad base and low rates.

In 2018 the Pennsylvania Chamber of Business & Industry commissioned a Study from the Tax Foundation entitled, *A 21st Century Tax Code for the Commonwealth*. The Tax Foundation examined Pennsylvania's tax climate and structure, offering a series of recommendations for reforming our tax code.

In the legislative sessions following the report, a number of bills promoting the menu of reform solutions have been introduced, but not one of them has ever made it to the Governor's desk.

The Tax Foundation's *2021 State Business Tax Climate Index* rated Pennsylvania 27<sup>th</sup> among the fifty states. While we are buoyed by our low, flat personal income tax, it is our disproportionately high corporate income tax and our treatment of net operating losses that holds us back. States with more competitive tax systems score well in the index, because they are best suited to generate economic growth. Pennsylvania doesn't even make the top 50%.

In late 2020, the PA Chamber introduced our Bringing PA Back initiative; a member-driven recovery effort to advocate for policies that will rebuild Pennsylvania's economy in a manner that provides opportunity for all. Through thorough member surveys and targeted polling and research, we've developed policy positions designed to set us on a path to economic recovery.

Pennsylvania continues to experience outward migration, and our unemployment rate remains consistently above the national average. Although, these tax policy changes are not new concepts,

we cannot afford to keep kicking the can down the road at the expense of Pennsylvania's families and businesses.

Pennsylvania's onerous tax policies continue to put PA businesses at a competitive disadvantage. As businesses look to recover from the pandemic, they are looking to the legislature to enact balanced, streamlined & predictable tax reform policies.

## **Corporate Net Income Taxes**

### *Lowering the Corporate Net Income Tax*

At 9.99%, Pennsylvania has the second highest corporate income tax rate in the country, driving businesses to locate and operate anywhere else but Pennsylvania.

Should President Biden's proposed tax hikes go into effect, as part of the \$3.5 billion reconciliation package being considered in Congress, Pennsylvania businesses would pay a combined rate of 36.49% - that's more than ten points higher than the weighted average rate of every other developed nation on Earth.

Many on both sides of the aisle agree that a reduction of the CNI is necessary, but some consider it "too expensive." Legislators must take a more comprehensive look at the benefits of a reduction. The Tax Foundation noted that high corporate taxes are the most harmful;

eliminating jobs, lowering GDP, stifling productivity, increasing prices and lowering wages.<sup>1</sup>

Instituting incremental reductions over time while incorporating a series of “tax triggers,” would be a sensible way to get the corporate net income tax reduction we need, while executing responsible pro-growth tax policy. “Tax triggers” can institute incremental CNI reductions when certain economic growth targets are reached. These triggers would allow for reductions only when revenues exceed the cost of the reduction.

North Carolina successfully implemented tax triggers to lower its CNI as part of its tax reform package in 2013. The state’s tax code was among the bottom 10 of states on the Tax Foundation’s *State Business Tax Climate Index*, ranking 46th in 2011, 45th in 2012, and 44th in 2013.

The state lowered its corporate income tax as part of its 2013 tax reform package from 6.9% to 6% in 2014 and 5% in 2015. In addition, NC created a unique tax trigger to further lower the corporate rate if the state’s revenue hit specific targets.

As a result, after a concerted effort to reform its tax code, North Carolina is currently rated 4<sup>th</sup> among fifty states on the Tax Foundation’s *2021 State Business Tax Climate Index*.

### *Improving the Treatment of Net Operating Losses*

Pennsylvania is one of only two states to cap Net Operating Losses (NOLs.) The existing cap operates as a barrier to growth for start-up companies and those with cyclical income. It is particularly

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<sup>1</sup>The Tax Foundation, *The Benefits of Cutting the Corporate Income Tax Rate*, by Erica York 2018

burdensome on our businesses as they work to recover from this pandemic. Those who experienced losses, but are returning to profitability, can deduct those losses against future taxable income as they look to even out their tax liabilities. We must work towards the total elimination of the cap on Net Operating Loss Carry Forwards.

## **Small Business Tax Reform**

### *Small Business Treatment of Net Operating Losses*

Currently, only those subject to state corporate income tax can utilize net operating loss deduction. Small businesses paying the state personal income tax must be given parity with corporate taxpayers and be provided with the ability to deduct losses against other sources of income. Removing that barrier would assist small businesses in remaining competitive while giving the greater control over the management of their own finances in their road to recovery.

### *Like Kind Exchanges*

Under Federal tax law, a "like-kind" exchange under Internal Revenue Code Section 1031 allows for tax-deferral when property is exchanged for similar property. Pennsylvania is the only state that does not provide for a similar deferral on the state level. Mirroring the federal language, would align Pennsylvania with every other state in the country, allowing for the exchange of assets of productive use without tax liability.

### *Section 179 Deductions*

Section 179 of the federal tax code allows owners of pass-through businesses to take a tax deduction for the full purchase price of qualifying equipment. Pennsylvania law allows those subject to state corporate income tax to take the full deduction, but limits the deductions for businesses subject to the state personal income tax. Legislation must be enacted at the state level to provide equity for small businesses, increasing the deduction during the current year from \$25,000 to \$1,050,000 or consistent with the federal limit.

### **Conclusion**

The PA Chamber recognizes that the Commonwealth is facing budgetary challenges and any change in the corporate tax structure may have a negative effect on short-term revenues. However, Pennsylvania can no longer continue to be an outlier among other states. The Commonwealth needs to be increasingly competitive, for both jobs and capital. Companies and investors have choices, both globally and among the states, on where to place their investments and we want businesses to remain here, invest here and grow here.

Again, thank you for giving me the opportunity to present remarks on behalf of the PA Chamber. I am happy to answer any questions you may have at this time.