Pennsylvania Institute of Certified Public Accountants

(PICPA)

Testimony

to

Majority Policy Committee
Pennsylvania House of Representatives

February 24, 2021

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Good morning, Chairman Causer and members of the Majority Policy Committee of the Pennsylvania House of Representatives. My name is Jason Skrinak, and I am a certified public accountant (CPA). I am the founder of Pivot Strategic Consulting LLC here in Harrisburg. My firm provides state and local tax consulting across the country with a primary focus on Pennsylvania. Prior to starting my own firm, I was the state and local tax practice leader for a large regional CPA firm. I am here on behalf of the Pennsylvania Institute of Certified Public Accountants (PICPA) to discuss Gov. Tom Wolf's tax proposal and what it means for working families. I am also past chair and a current member of the PICPA State Taxation Committee.

The PICPA, founded in 1897, is the second-oldest and the fourth-largest CPA organization in the United States. Membership includes more than 20,000 practitioners in public accounting, industry, government, and education. Members provide auditing and accounting services to individuals, not-for-profit organizations, and employers of all sizes; advise clients on state, federal, and international tax matters; and prepare income and other tax returns for thousands of individuals and businesses throughout Pennsylvania. PICPA members are strategic partners and thought leaders in the area of tax policy and legislation.

The recently proposed budget is very important to my clients as they determine how to continue business operations during the uncertainty of COVID-19. As a state and local tax professional, I have had numerous conversations with clients regarding how to continue operations in Pennsylvania as well as whether to expand and/or relocate business operations to other states. In addition to the proposed budget's impact on my clients, the budget directly impacts how I also operate my business and how my family lives their daily life.

State and local tax greatly impacts my daily decisions as a small-business owner and has a direct impact on my family's decisions regarding education for my children. I believe all Pennsylvanians want to make our state a better place to run a business and raise a family, and as such I would like to share some general thoughts regarding the governor's proposed budget.

Pennsylvania's public health response to the COVID-19 pandemic, like most states, prioritized the well-being of its citizens. Unfortunately, the repercussions on businesses across Pennsylvania were devastating. Those who had to close for long stretches were required to make tough business decisions and, in some cases, individuals lost their jobs. The combined effect of reduced revenues among businesses and individuals losing jobs created a large overall decrease to the Pennsylvania tax revenue stream. The thought process behind increasing tax revenues is easy to understand, but the timing should be considered.

The proposed rate increase of Pennsylvania personal income tax not only affects employees but also most small business in Pennsylvania. Eighty percent of businesses in Pennsylvania are not subject to Pennsylvania's corporate net income tax; these businesses fall under the personal income tax regime and would be directly impacted by the proposed rate increase. As businesses and individuals recover from the pandemic-induced economic downturn, an increased personal income tax liability should not be another hurdle to navigate at this time. The following should be considered as well:

- The use of special tax forgiveness as a means of protecting lower income Pennsylvanians from the increased rate still results in lower income on a per-pay-period basis. The special tax forgiveness is only provided as a reduction or refund of tax when annual personal income tax returns are filed. Many Pennsylvanians live paycheck to paycheck, so the increased tax burden will be detrimental to many.

- Potential legal challenges on the basis that the special tax forgiveness program violates Pennsylvania's uniformity clause run the risk of reversing this program and could leave many who are intended to benefit with higher personal income taxes.

- As Pennsylvania seeks to attract and maintain business within its borders, the possibility of an increased tax burden could be a deciding factor for businesses to not consider Pennsylvania for relocation or expansion. It could also increase businesses leaving the state, as has occurred in other states, such as California.

Pennsylvania should investigate the current special tax forgiveness program and address the fact that the parameters used to calculate special tax forgiveness have not been addressed for years. Consideration should be given to benchmarking the special tax forgiveness parameters to get the program aligned with the Federal Poverty Level index.

Comparison of Current SP and Gov's Proposed SP Compared to 2021 Federal Poverty Levels (FPL)

		Governor's SP Proposal			2021 Federal Poverty Levels						
	Current Maximum SP	100% Tax Forgiveness	Break Even Income	Maximum Income Partial Forgiveness	100% FPL	133% FPL*	275% FPL	300% FPL	325% FPL	350% FPL	375% FPL
Single	$8,750	$15,000	$49,000	$64,000	$12,880	$17,130					$48,300
Single w/ 1 Dependent	$18,250	$25,000	$59,000	$74,500	$17,420	$23,169				$60,970	
Single w/ 2 Dependents	$27,750	$35,000	$69,000	$84,500	$21,960	$29,207			$71,370		
Single w/ 3 Dependents	$37,250	$45,000	$79,000	$94,500	$26,500	$35,245		$79,500			
Single w/ 4 Dependents	$46,750	$55,000	$89,000	$104,500	$31,040	$41,283	$85,360				
Married Filing Jointly	$15,250	$30,000	$64,000	$79,500	$17,420	$23,169					$65,325
Married w/ 1 Depednent	$24,750	$40,000	$74,000	$89,500	$21,960	$29,207				$76,860	
Married w/ 2 Dependents	$34,250	$50,000	$84,000	$99,500	$26,500	$35,245			$86,125		
Married w/ 3 Dependents	$43,750	$60,000	$94,000	$109,500	$31,040	$41,283		$93,120			
Married w/ 4 Dependents	$53,250	$70,000	$104,000	$119,500	$35,580	$47,321	$97,845				

* ACA Medicaid Expansion Maximum Eligibility

Source: Rep. Seth Grove (R-York)

The special tax forgiveness program should also remove beneficiaries for whom the program was not intended. For example, those individuals receiving large retirement benefits that are not taxable in Pennsylvania while also still receiving earned income that would be eligible for tax forgiveness are unsuspecting beneficiaries. This was never the intent of the program.

In addition to personal income tax issues, I would like to address the continued calls for combined reporting for corporate net income tax purposes. The PICPA is neutral on the proposal. The call for combined reporting continues, and one argument is that combined reporting would eliminate corporate tax planning to reduce tax payments in Pennsylvania.

The concern over tax plans that use inter-company transactions has already been partially addressed by legislation that provides for adding back inter-company transactions that were previously used to reduce a company's corporate net income tax liability. In fact, I can see how filing positions taken associated with combined reporting could reduce corporate net income tax by a company taking certain positions as to which entities should and should not be included in the "combined group." These filing positions would be expected to favor the taxpayers, and any disagreements as to what the combined group should consist of would have to be argued through Pennsylvania's administrative appeals process and ultimately through the court system. Tax cases take a considerable amount of time to be resolved, which would most likely result in reduced state tax revenue.

Another concern with combined reporting is the associated rate reduction for corporate net income tax purposes. Tax liability is determined through taking a tax base and multiplying it by a tax rate. Gov. Wolf's overarching objective in enacting combined reporting is to broaden the tax base with a corresponding corporate net income tax rate reduction. The proposed rate reduction will not be instantaneous and would be phased in over a period of time. The initial rate reduction would be minimal and graduate as time passes. A concern with a phased-in rate reduction is the potential risk associated with phasing down or eliminating the proposed rate reductions based on the current economic condition of Pennsylvania. A prime example of this occurred with the Pennsylvania phase-out of the capital stock/foreign franchise tax.

Lastly, while this hearing is focused on the governor's tax proposals, I would like to make you aware of a project that the PICPA is undertaking that provides a broader perspective on how to improve the Commonwealth's financial situation. The PICPA Fiscal Responsibility Task Force was created by the PICPA in 2010 to provide our state policymakers with technical assistance and strategic guidance as they formulate legislation and make public policy decisions on the issues affecting the citizens of the Commonwealth of Pennsylvania – much in the same manner CPAs advise their clients on a daily basis. The task force is finalizing its fourth report. The report might offer this committee with some public policy options for consideration.

Thank you again for the opportunity to appear before you today. I would be happy to answer questions.