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PA House of Representatives  
Republican Policy Committee

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414, Main Capitol Building  
Harrisburg, PA 17120  
(717) 260-6144

**Rep. Joshua D. Kail**  
Chairman

**PA House Republican Policy Committee Hearing**

**“Job-Creating Tax Reform”**

**April 11, 2024, at 1 p.m.**

**Columbia Montour Chamber of Commerce**  
**160 W 6<sup>th</sup> Street**  
**Bloomsburg, PA 17815**

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| 1:00 p.m. | Welcome and Pledge of Allegiance  |
| 1:10 p.m. | <b>Neal Leshner</b><br><i>Director of Government Affairs, Pennsylvania Chamber of Business and Industry</i> |
| 1:15 p.m. | <b>Chris Berleth</b><br><i>President, Columbia Montour Chamber of Commerce</i>                              |
| 1:20 p.m. | <b>Carl Marrara</b><br><i>Executive Director, Pennsylvania Manufacturers' Association</i>                   |
| 1:25 p.m. | <b>Steven Hall</b><br><i>State Tax Manager, Arconic</i>   |
| 1:30 p.m. | <b>Questions for the Testifiers</b>   |
| 2:00 p.m. | <b>Closing Comments</b>   |



## Testifier Biographies

### PA House of Representatives Policy Committee Hearing *"Job-Creating Tax Reform"*



#### **Neal Leshner**

#### **Director of Government Affairs, Pennsylvania Chamber of Business and Industry**

Neal Leshner joined the PA Chamber as a Government Affairs Director in October of 2022.

Prior to joining the PA Chamber, Neal served in senior leadership positions with the state House of Representatives, including serving as Chief of Staff to the Speaker of the House and as the Director of Policy and Communications for the Appropriations Committee Chairman.

He also has executive branch experience, serving as the Legislative Director for the Governor's Budget Office under the Corbett Administration. Neal also worked for the National Federation of Independent Business (NFIB) as their Legislative Director.

Neal has lived his whole life in central Pennsylvania and graduated from Susquehanna University in 2008 with a bachelor's degree in Political Science.

#### **Chris Berleth**

#### **President, Columbia Montour Chamber of Commerce**

After joining the Columbia Montour Chamber in August of 2022 as Vice President, Chris Berleth has served as President since February 2023.

Previously, Chris was with the Greater Susquehanna Valley Chamber in Shamokin Dam for six years as Executive Director of Membership and Leadership.

In his role with the Columbia Montour Chamber, Chris has provided leadership in delivering a high return on investment to members through the development and coordination of communications, programs, and events of the Chamber and its Foundation.

He is an Eagle Scout and a 2015 graduate of Leadership Susquehanna Valley, and holds a B.A. in Political Science and French from Gettysburg College.





**Carl Marrara**  
**Executive Director, Pennsylvania Manufacturers'**  
**Association**

Carl A. Marrara is the Executive Director of the Pennsylvania Manufacturers' Association (PMA), the statewide business organization representing the interests of manufacturers in Pennsylvania's public policy process since 1909.

Carl oversees the government affairs, external communications, and political strategy of the association. In addition, he acts as a writer, producer, and reporter for PMA Perspective, a weekly half-hour news program on Pennsylvania business, government, and politics; and as an editor of the PMA Bulletin, a premier in-depth analysis of current issues facing Pennsylvania's businesses.

As the chief lobbyist for the association, he focuses on legislative advocacy, bill tracking, and grassroots activation. He maintains the PMA partnership with the Business Industry PAC in Washington, DC by deploying the "Pennsylvania Prosperity Project;" a toolkit for employers to engage their employees in voter registration and legislative issue education. To better advocate pro-growth policies, Carl focuses on building coalitions with allied stakeholders such as regional manufacturing associations, trade groups, and national think tanks. He also directs the strategy of PMA PAC, the affiliated political action committee of PMA.

With a tenure of more than a decade at PMA, Carl graduated with a Bachelor of Arts in Political Science from Elizabethtown College in 2009, and obtained a Master of Arts in Public Policy from New England College in 2012, where he now serves as a part-time lecturer. As a life-long Pennsylvanian hailing from Danville, Carl now calls Mechanicsburg home with his wife and two daughters.

**Steven Hall**  
**State Tax Manager, Arconic**

Steven Hall currently serves as the State Tax Manager for Arconic.

Arconic is a leading provider of aluminum sheet, plate and extrusions, as well as innovative architectural products, that advance the automotive, aerospace, commercial transportation, industrial, packaging and building and construction markets.

The company is headquartered in Pittsburgh, PA.



**ARCONIC**



Testimony

Submitted on behalf of the  
Pennsylvania Chamber of Business and Industry

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**Public Hearing on Business Tax Reform**

Before the:  
**Pennsylvania House Republican Policy Committee**

Presented by:

Neal Leshner  
Director, Government Affairs

417 Walnut Street  
Harrisburg, PA 17101-1902  
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Chairman Kail and members of the Policy Committee, my name is Neal Leshner and I am a Director of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify today regarding Pennsylvania's uncompetitive business tax climate.

Pennsylvania's uniquely harsh business tax and regulatory climate is stifling economic growth. WalletHub<sup>1</sup> recently identified Pennsylvania as the fifth worst state in the entire country in which to find a job. Three separate analyses recently found Pennsylvania among the bottom third of states nationwide for key economic indicators: U.S. News and World Report<sup>2</sup> ranks our economy 38th overall; SimplifyLLC<sup>3</sup> ranks us 37th for small business taxes; and the Tax Foundation<sup>4</sup> ranks the Commonwealth 31st in its overall state business tax climate index. Perhaps most strikingly, the Kauffman Foundation<sup>5</sup> found that Pennsylvania has the lowest rate of new entrepreneurs out of all 50 states.

As a corollary, businesses and people are fleeing Pennsylvania, and they are taking good-paying jobs with them. Axios<sup>6</sup> first reported in 2022 that more people

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<sup>1</sup> <https://wallethub.com/edu/best-states-for-jobs/35641>

<sup>2</sup> <https://www.usnews.com/news/best-states/pennsylvania>

<sup>3</sup> <https://www.simplifyllc.com/best-and-worst-states-for-small-business-taxes/>

<sup>4</sup> <https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/>

<sup>5</sup> <https://indicators.kauffman.org/indicator/rate-of-new-entrepreneurs>

<sup>6</sup> <https://www.axios.com/local/philadelphia/2022/07/12/pennsylvania-migration-loss>

were leaving Pennsylvania than moving in. Last year, the Bureau of Labor Statistics<sup>7</sup> reported that Pennsylvania was among the top five states for businesses leaving. Home Bay<sup>8</sup> identified Pennsylvania as having the fourth-highest rate of outbound migration in the first half of 2023, and recent studies from U-Haul<sup>9</sup> and United Van Lines<sup>10</sup> both indicate that employment opportunities are driving this worsening exodus of residents from Pennsylvania.

### **Build on bipartisan efforts and accelerate the reduction in the CNI**

Last session, lawmakers came together in a bipartisan manner to advance significant tax reform (Act 53), including reducing the state's second highest in the nation corporate net income (CNI) tax rate of 9.99 percent and enacting various improvements targeted to small businesses. These measures will make our state more competitive, incentivizing investment and job growth, and create additional economic opportunities in the Keystone State. The PA Chamber appreciates these critical reforms, and we thank the General Assembly for its overwhelmingly bipartisan support for the 2022 tax code, with 88 percent of lawmakers voting for the bill.

Once the phasedown is complete and Pennsylvania reaches a 4.99 percent CNI tax rate, a Tax Foundation analysis projects Pennsylvania's ranking for corporate tax

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<sup>7</sup> <https://www.bls.gov/opub/mlr/2023/article/firm-migrations-in-the-united-states-magnitude-and-trends.htm>

<sup>8</sup> <https://homebay.com/where-should-i-move-2023/>

<sup>9</sup> <https://www.prnewswire.com/news-releases/u-haul-migration-trends-texas-florida-top-growth-states-again-in-2023-302024334.html>

<sup>10</sup> <https://www.unitedvanlines.com/newsroom/movers-study-2023>

structure competitiveness will go from 44<sup>th</sup> in the country to 27<sup>th</sup>. In terms of overall competitiveness, Pennsylvania will have improved from 31<sup>st</sup> place to 17<sup>th</sup>, and we will have gone from the 2<sup>nd</sup> highest CNI tax rate in the nation to the 8<sup>th</sup> lowest, based on current rates.

While Act 53 represented a historic overhaul of the corporate tax structure, we know that other states are moving forward on pro-business reforms as well. We are in perpetual competition with other states. Since 2021, ten other states have used their revenue surpluses to make additional reductions in corporate taxes.

A lower CNI rate will not only generate more overall investment; studies show broad economic gains across the board when the CNI is reduced, including higher GDP, higher wages, greater home values and increased job creation by businesses of all sizes. A study<sup>11</sup> by the Senate that compared states with the highest corporate income tax rates to the states with lowest tax rates found that states with the lowest tax rates experienced 10 percent higher growth in state revenues from 2000 to 2020 compared to high tax rate states. It also found that decreasing the CNI rate will contribute to increases in the state's population, increased worker wages, and higher home values.

North Carolina is an illustrative example of a state that took an uncompetitive tax climate and turned it into one of the best. Since 2013, North Carolina's corporate

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<sup>11</sup> <sup>11</sup> <https://www.senatoraument.com/wp-content/uploads/sites/69/2021/06/CNI-research.pdf>

income tax rate dropped from 6.9 percent to 2.5 percent – the lowest rate in the nation. After lawmakers saw the benefits of reducing tax rates, North Carolina is now on track to phase out their corporate net income tax entirely in the coming years. North Carolina has gone from 44th in the Tax Foundation’s Business Tax Climate to 9th.

Before 2020, while a majority of states were consistently grappling with budget shortfalls, North Carolina was consistently averaging budget surpluses of \$400 million.<sup>12</sup> Last year, North Carolina ended the year with a \$3 billion-plus budget surplus, three times as much as Pennsylvania.<sup>13</sup> “At a time when companies are clamoring for workers while trying to navigate a treacherous economy, no state is meeting their needs more effectively than North Carolina,” says CNBC<sup>14</sup>, who ranked the state as the best state to do business for the past two years in a row.

The PA Chamber supports bipartisan efforts to accelerate the CNI phase down in order to maximize the benefits of tax reform and keep pace with other states. While Act 53 represents historic opportunity, it will also take until 2031 until the full benefits are realized. Can Pennsylvania really afford to wait?

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<sup>12</sup> [North Carolina Set to Post Another Large Budget Surplus | Tax Foundation](#)

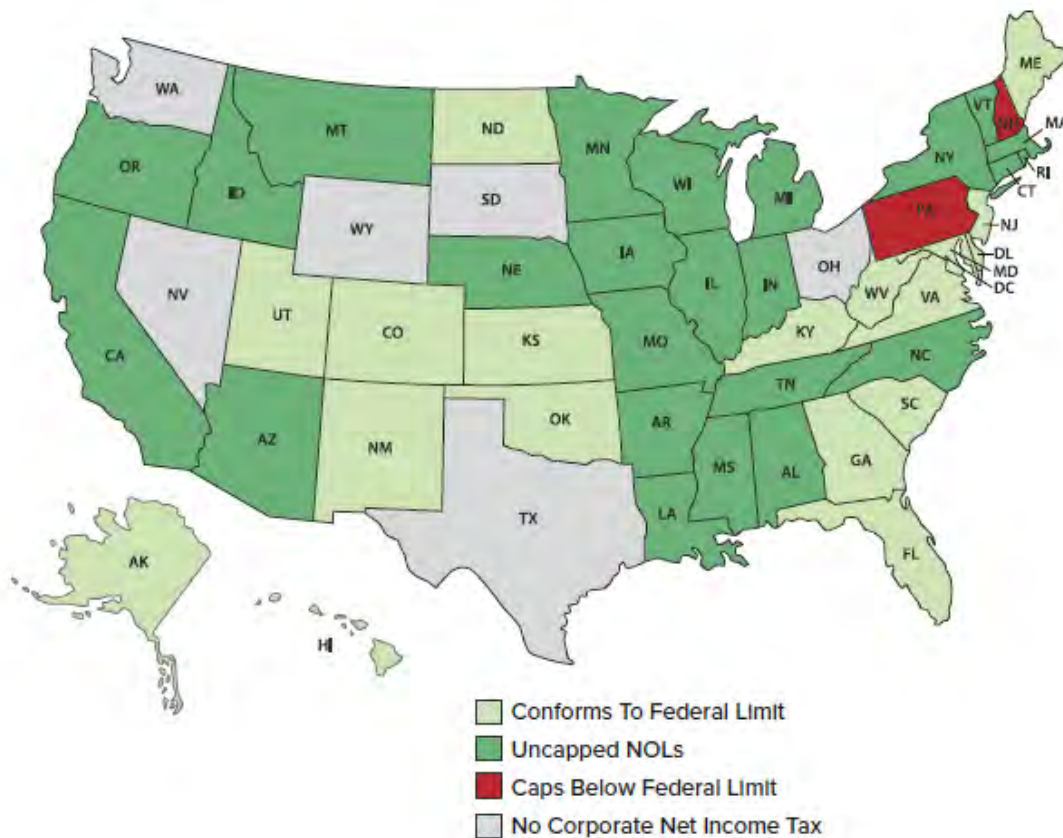
<sup>13</sup> <https://www.osbm.nc.gov/news/press-releases/2023/08/07/north-carolina-ends-fiscal-year-335-billion-revenue-3-billion-above-budget>

<sup>14</sup> <https://www.cnbc.com/2023/07/11/north-carolina-is-top-state-for-business-led-by-workforce-economy-.html>



## End Pennsylvania's penalty on start-up businesses

Pennsylvania is an extreme outlier when it comes to treatment of Net Operating Losses (NOL). We are currently one of only two states that cap NOL deductions below the federal limit of 80 percent of taxable income. There are 20 states that align with the federal rules, while 24 states have no deduction cap at all.



NOL carryforward is a tax provision that allows businesses having losses in a taxable year to carry those losses forward and deduct them from future years' profits. The ability to carry forward losses particularly impacts two types of businesses, both of which are critical to our economy. Start-up firms, including those in technology or bioscience, often experience significant losses in early years that could be reinvested

by reducing future tax liabilities if they ultimately become profitable. Employers that operate in cyclical businesses, such as manufacturers in the commodity markets like metals, chemicals or pulp and paper where profits and losses can fluctuate in wide swings are also impacted.

Consider a hypothetical start-up company that has a choice to do business in Pennsylvania or in another state that has the same tax rates as Pennsylvania. In its first year of operation (2023), the company had significant start-up costs and recorded a \$50 million loss. Once the business started generating sales, they earn a \$75 million profit in 2024.

Under Pennsylvania's uncompetitive NOL rules, the company is limited to reducing their tax liability in 2024 by 40 percent of their taxable income. Unable to deduct the full amount of losses carried forward from the previous year, they end of paying an effective tax rate of 15.28 percent. In the other state, they are able to fully deduct their losses and end up paying the true tax rate of 8.49 percent. If you had the option between two states to start a company, would you choose Pennsylvania where you would pay an effective tax rate that is 80 percent higher?

\$ Millions	Pennsylvania with 40% Cap	Uncapped State
2023 Taxable Income	(\$50.00)	(\$50.00)
8.99% CNI Rate	\$0.00	\$0.00
2024 Taxable Income	\$75.00	\$75.00
NOL Deduction	(\$30.00)	(\$50.00)
Taxable Income After NOL	\$45.00	\$25.00
8.49% CNI Rate	\$3.82	\$2.12
Total Net Income (2 Yrs)	\$25.00	\$25.00
Total Tax (2 Yrs)	\$3.82	\$2.12
<b>2 Yr Effective Tax Rate</b>	<b>15.28%</b>	<b>8.49%</b>



NOL allowances promote a fair tax system by reducing additional tax burdens on entrepreneurial risk, cyclical businesses, or those more susceptible to economic downturns. Pennsylvania is a national outlier in its harsh treatment of losses and fixing this flaw will promote future growth, provide more stability as businesses make long term investment and hiring decisions and make Pennsylvania more attractive to employers and entrepreneurs.

### **Avoid Punitive Tax Provisions**

Unfortunately, some policy makers are still pushing measures that would take us in the wrong direction and make Pennsylvania less competitive. Last year, the

house passed a comprehensive tax code bill along party lines that also included combined reporting and other provisions, which have torpedoed meaningful tax reform for years and which the Council on State Taxation (COST) has said would make Pennsylvania's corporate net income tax one of the most punitive and aggressive in the country. Tying combined reporting to pro-growth tax reform is counterproductive.

### **Support Small Business Tax Reforms**

When discussing the business tax climate, we must understand that not all businesses are organized or taxed the same. Recent census data<sup>15</sup> shows that 71% of C-corporations in Pennsylvania have less than 20 employees. Corporate tax reform is small business tax reform!

We also know that that the majority of small businesses are organized as pass-through entities (S-corporations, partnerships and sole proprietors) which pay the state's Personal Income Tax (PIT) on business profits. The same census data shows that there are nearly 180,000 such small businesses in Pennsylvania who employ over 2.2 million people. Alarming, one proposal,<sup>16</sup> which the House Finance Committee conducted a hearing on earlier this year, seeks to increase the tax rate on these small businesses from 3.07 percent to 12 percent. Imposing a four-fold tax increase on

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<sup>15</sup> [https://www2.census.gov/programs-surveys/susb/tables/2020/us\\_state\\_naicssector\\_lfo\\_2020.xlsx](https://www2.census.gov/programs-surveys/susb/tables/2020/us_state_naicssector_lfo_2020.xlsx).

<sup>16</sup> <https://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2023&sInd=0&body=H&type=B&bn=1773>

small businesses would accelerate this mass exodus of businesses and workers from our state. Especially at a time when employers are still struggling with inflation, workforce shortages, and supply chain disruptions, this proposal is tragically shortsighted.

There are things that policy makers could do to improve our tax climate for small businesses. The first would be to repeal the accelerated sales tax requirement in Pennsylvania. Implemented originally in the early 2000s as a one-time budgetary gimmick, requires businesses that collect more than \$25,000 in sales tax in the third quarter of the previous year to make monthly pre-payments equal to 50 percent of their expected sales tax collections. To simplify compliance and ease paperwork burdens on small businesses, the accelerated sales tax pre-payment requirement should be repealed. Repealing this requirement would allow small businesses to simply remit collected sales tax revenues in accordance with their filing period.

To promote fairness, Pennsylvania should also allow small businesses to carry forward net operating losses. While our treatment of NOLs for corporate taxpayers is particularly punitive, pass-through entities don't even have this ability to recover losses at all.

And lastly, to promote investment, output and job creation, Pennsylvania should allow full expensing of eligible equipment and property in the year the investment was made, known as bonus depreciation. Section 168(k) of the federal Tax Cuts and Jobs Act allowed for 100 percent expensing, which was gradually phased

down to 80 percent in 2023. The PA Chamber supports legislation that would implement bonus depreciation at the state level, either at 100 percent expensing or a designated percentage of the federal provision.

## **Conclusion**

Policy makers should build on recent bipartisan reforms and continue to reform the Commonwealth's tax structure with pro-growth initiatives that will make the Commonwealth more competitive without adding new hurdles on job creators.

Our state has the potential to be an economic powerhouse. We have world-class academic institutions and health care systems, abundant resources like energy and fresh water, groundbreaking innovation, and manufacturing hubs, close proximity to major population centers, and a talented workforce that is second to none. While our uncompetitive tax structure has historically held us back, pro-growth reforms will help unleash private-sector job creation and enable us to realize this potential.

Thank you again for the opportunity to testify and I am happy to answer any questions.

Christopher H. Berleth, President  
Columbia Montour Chamber of Commerce  
Testimony to the PA House Republican Policy Committee  
April 11, 2024

Regarding “Pro-Business Tax Reform”

On behalf of the more than 430 members of the Columbia Montour Chamber of Commerce, our Board of Directors and staff, welcome to the Chamber, and thank you for the opportunity to provide testimony to this Committee and the Pennsylvania Legislature on the contributions of businesses in Columbia County to the community, and the importance of a strong business climate in Pennsylvania with regards to tax reform.

The mission of the Columbia Montour Chamber of Commerce is to represent local employers in supporting vibrant, sustainable communities in Columbia and Montour Counties. To meet this mission, we focus our efforts on five key areas of impact to our members, which include advocacy, benefits programs, business connections, employee development, and strengthening our communities. These focus areas are rooted in our members’ critical feedback and drive all that we do, from the workshops we host, and the efforts we make in workforce, talent, and leadership development, to the partnerships we form to promote economic development, address regional issues. Above all, feedback from our members drives the position statements we make.

Since first presented with the opportunity to testify today, our team has worked diligently to solicit feedback from our members, including those most engaged with the Chamber through committees, task forces, and boards on the topic of taxes and tax reform. It is my privilege then to share with you today the insight given to us by our members, in the hope that you may glean a stronger understanding of the barriers which are preventing their growth, and the opportunities they seek to grow.

**Our People**

There is a running joke among those who are transplants to central Pennsylvania about how difficult it is to break in to the culture here. I’ve been a resident of Pennsylvania since 2007, and of Columbia County since 2012. That means that by Columbia County standards, I’ll be considered a local in about fifty more years.

Please don’t misinterpret this light-hearted joke as an indicator that we’re an unwelcoming community. In fact, quite the opposite. The people of Columbia and Montour Counties, and especially families with limited resources, entrepreneurs and small businesses with very tight profit margins, and workers who have put in twelve-hour days are among some of the most hospitable and welcoming people you’ll ever meet.

Rather, let me say that our community is made up of “hearty” or “sturdy” people. People who put their nose to the grindstone and don’t have time to waste. These people are “straight-forward” and “no-nonsense”, and impatient with empty promises. These traits make soliciting feedback from our members difficult, especially on the subject of tax reform. The rising cynicism tied to the extremely high cost of doing business in PA tempts our community to view

meaningful tax reform as a lost cause, especially by the order of magnitude that tax reform must happen in order to have lasting impact for existing businesses.

On behalf of the Columbia Montour Chamber of Commerce, I applaud this committee for considering pro-business tax reform and urge you to note that the time for wholesale change is now.

The tax code is wearisome, and Pennsylvanians are tired. Tax filing is complex, and we seek simplicity. We're looking to move more quickly, and having trouble with red tape. We're tired of losing to our neighbors, and especially Ohio. (Look no further than the Penn State vs. OSU rivalry for an outward manifestation of that frustration.) Pennsylvanians are tired of excessive taxation, especially taxes that appear to be hidden costs, and we take exception to the lack of clarity in what those taxes fund.

### **Survey of Member Businesses and the Taxes They Pay**

To be clear, businesses in this region are directly paying the following taxes:

1. Personal Income Tax at 3.07%, which can be a significant burden for small business owners who often rely on their businesses as their primary source of income.
2. Corporate Net Income Tax, imposed at 8.99%, one of the highest in the nation.
3. Sales and Use Tax at 6%, plus additional local taxes, which increase the cost of goods and services for small businesses, and making it harder to compete with larger corporations or businesses in other states.
4. Unemployment Compensation Tax, where employers spend exorbitant amounts of money in businesses and industries where turnover is high, or work is seasonal.
5. Property Taxes, levied at the local level, which can increase the overhead costs of small businesses owning or leasing commercial property.
6. Compliance and Filing Requirements, especially where multiple tax types and industry filing requirements such as licensing (think restaurants and food manufacturing) increase the administrative burden and compliance costs for small businesses with limited resources.
7. Capital Stock/Foreign Franchise Taxes, levied by Pennsylvania on domestic and foreign corporations, which can be a financial burden for businesses seeking to expand or relocate to the state.

Indirectly, businesses pay fuel taxes, utility taxes, vehicle registration fees, excise taxes, realty transfer taxes, and business privilege/mercantile taxes.

According to one Chamber member, a business consultant who works directly with small businesses on the development of their business plans, "The culmination of this tax burden makes it darn hard for a business to be successful in a rural area. The biggest takeaway that I can implore is that most businesses have to hire professionals to manage the paying of all these taxes on their behalf, if they attempt to manage all this on their own, there's no time left to run their businesses."



### **Predictability, Consistency, and Ability to Plan Ahead**

One key local leader in economic development is Lauren Bryson, Executive Director of FOCUS Central PA, an organization that serves as a critical resource to businesses who would relocate or expand here. Lauren shared, “Businesses are looking for predictability and consistency, with no surprises. They want the ability to project and clarify upfront on what an investment project’s tax commitments will be. They want tax policies that reward upfront risk and capital investment.”

Lauren’s comments reflect the consensus of opinions from local business leaders – small businesses provide their customers with itemized estimates, menus and invoices/bills. How might we encourage the Commonwealth to simplify the tax code so that consistency, predictability, and projection of true costs are possible?

One local credit union leader shared, “We hear all the time that there is a lot of “red tape” to do business in PA. Regulations are costing business owners real dollars, which they ultimately pass on to the consumer.” The Chamber contends that hidden costs and red tape most certainly contribute to price increases which always pass to the consumer in the end. Licensing is a tax.

### **No Room for Radical Ideas & Surprises**

Unfortunately, government action at both the state and federal level have also created a sense of uncertainty that has plagued our region on the expense side of the budget. In recent years, Central PA has heard radical ideas that would drastically impact business costs as unpredictable parts of the state’s budget. Ideas such as the tolling of bridges on Interstate 80, past proposals to tax drivers a per-mile fee in lieu of a gas tax (which would drastically increase costs for commercial transportation and workers’ commutes), and the proposals to radically increase the minimum salary threshold for overtime compensation, are the types of policies that give our members pause, especially without the predictability of a slow-rollout, and an on-time budget.

Last year, rural businesses were excited to learn about the hopes for broadband expansion and the PA Broadband Redevelopment Authority’s goals to offer “broadband for all”. Unfortunately, they were surprised and disheartened to learn that long before this development would come to pass, their ability to use existing technologies, namely the phone system and PA tele-file, would be cut off as the Department of Revenue proposed the end of tele-file by December 31, 2023. Thankfully, advocates communicated the need for changes to this policy, and an extension was offered to all who currently use it, especially and including rural businesses, the plain community, and farmers.

We urge the PA legislature to work toward a balanced, on-time budget, but we also urge you to take steps to improve communication, and align goals across government. Let’s not eliminate phone access until we have broadband for all.

### **Businesses are Doing Their Part**

#### **EITC**

Businesses in Columbia County are especially grateful for the Education Improvement Tax Credit program. EITC has had a major impact in the community, and the Columbia Montour Chamber is proud to play a part in that impact.

As an Education Improvement Organization (EIO), the Foundation of the Columbia Montour Chamber of Commerce serves as a provider of programs that supplement our school districts' curriculum, with a focus on workforce initiatives. To accomplish this work with a limited staff, the Foundation of the Chamber partners with community organizations such as the Central Susquehanna Intermediate Unit, Innovative Manufacturers' Council, Community Giving Foundation, Columbia-Montour BSA, and the Bloomsburg University Foundation. Over the past three years alone, an estimated 20 businesses have directed EITC contributions of more than \$215,000 to student programs in theater, entrepreneurship, career exploration, financial literacy, and STEM. By the end of 2024, we expect that one of these businesses will have contributed more than \$400,000 to enhance school districts' theater programs specifically.

Simply put, EITC is a wildly successful program, which enrolled businesses love.

Unfortunately, the limitations on the program are significant. Businesses hoping to apply for EITC credits find the program impossible to get into because the credits are insufficient compared to demand, and unless your business is one of the very first to apply on July 1 when credits open, it's unlikely you'll get in.

We strongly encourage the legislature to expand EITC credits, as was done this year. However, we caution you about an unintended consequence. In the effort to quell these funds from being used to promote private education, the legislature recently reduced the administration fee able to be taken by scholarship organizations and EIO's by half, from 20% to 10%. This action disincentivizes organizations like the Chamber from being able to offer programs with already tight margins, and we hope not to see a reduction in the programming that we may offer, as administrative costs are already high for small organizations.

### **WedNET PA**

Businesses in Columbia County especially have made excellent use of the WedNET program, offering reimbursement for qualified employee training programs. In a partnership with Commonwealth University – Bloomsburg, the Chamber created, at the behest of local manufacturers, a program to train first-time supervisors and managers. This was critical locally, as the workforce need was overwhelming during the pandemic. Annually, local businesses are sending more than 50 employees through the Chamber's program, let alone the other compelling programs offered by organizations across the region like the IMC, NEPIRC, and more.

### **The Elephants in the Room**

If, as I testified moments ago, there is no room for radical ideas and surprises, then what Pennsylvanians are calling for is a tax model which address critical issues that are both barriers to the workforce and growth. Make no mistake, we're not advocating for new incentive programs to attract businesses to the region, but a simplified tax policy and a reduction in the overall tax burden on business.

### **Funding for Schools, Childcare, Transportation, and Housing**

Pennsylvania's funding for school districts was ruled unconstitutional. We strongly urge the legislature to consider building a tax model that no longer forces local public-school districts to compete for funding, and which values education in the trades. Funding for local vocational

technical schools cannot be tied primarily to the ability of sending school districts to fund their programs and project expansions. So long as this is the case, we cannot seriously improve local education in the trades. When the Columbia Montour Vocational Technical School's initial expansion plan was developed, the commitment by local school districts exceeded \$60 million. As the plan developed, the commitment decreased, while costs skyrocketed. For a community that knows that we export our best resource (our students), not enough is being done to guarantee the best career pathways begin in our school districts, and that issue is tied to funding. Worse yet, taxpayers who would love to fund education have no idea which taxes go to support such expenses.

### **Expanding the Tax Base**

#### **Childcare & Transportation**

Of the barriers to employment in the region that limit the workforce, we join many counties who continue to struggle with childcare access and affordability, as well as transportation for workers. A childcare desert, central PA seeks help urgently. We do not offer a solution, but know that the subsidies for childcare are by and large in need of review. We need stability in childcare facilities, and believe that in part, the government has a role to play.

We also seek solutions to incentive expansion of transportation options for workers, that they may easily get to and from work. We're grateful for the StopHopper pilot program, and recently secured local match dollars to keep this program going. Thank you for your efforts to fund this pilot.

#### **Housing**

Making the region attractive to workers and businesses is critically important. Currently, the region suffers from the ability to offer sufficient temporary and long-term housing. Local manufacturers have indicated that they are relying on new workers in high-paying, family-sustaining wage careers, to improve their companies. The wait to find temporary housing, as well as the commute for some, are barriers to longevity in key roles. Additionally, the housing market's shortages, tied to supply costs and inflation, are a tremendous concern for businesses seeking to grow, develop, and expand.

These three issues, when improved even slightly, have the potential to drive up the region's participation rate, and engage more of the potential workforce.

#### **Starting Points**

In our outreach to members, there were two particular taxes that were of particular concern to members, which I must share are better discussed by our friends at the PA Chamber of Business & Industry.

The Columbia Montour Chamber and its members request that the \$10,000 SALT cap, which unfairly almost every small business owner, be addressed. Of the 41 states that assess a personal income tax, 36 have mechanisms to assist small businesses – Pennsylvania is not one of these. We urge you to take action.

We also strongly endorse the bi-partisan effort to accelerate the reduction of the Corporate Net Income Tax, on which Pennsylvania is outflanked by Ohio (5.1%), West Virginia (6.5%), and New York (6.5%).

**Closing Remarks**

Thank you for the opportunity to give insight to the committee on the state of business and taxes in Columbia and Montour Counties. We hope that your efforts today generate positive discussion to broaden the tax base, provide stability to existing businesses and prospective businesses to the region, offer insight into the priorities of our businesses and the region, and express our gratitude for the programs that are working.

Thank you for your efforts to make Pennsylvania a wonderful place to live, work, and call home.



## HOUSE REPUBLICAN POLICY COMMITTEE: PENNSYLVANIA'S BUSINESS TAX CLIMATE

Carl A. Marrara, Executive Director



### PA BUSINESS TAX CLIMATE

According to the study *Total State and Local Taxes FY2019* by the Council on State Taxation, Pennsylvania's businesses accounted for 38.8% of state tax revenue, 47 % of local tax revenue, combining for 41.9% of total state and local tax revenue. While this does put Pennsylvania almost at the average in all three measures, there are major disparities on which sectors of the business community shoulder the burden of these percentages and thus, could be cause for concern when attempting to attract or retain certain types of economic development within our commonwealth.

According to the same study, Pennsylvania's business tax treatment of property taxes, sales taxes, and licenses/other taxes were below the national average; however, the business tax treatment of corporate income, excise, and unemployment insurance were all above the national average.

The growth percentage of business taxes paid increased by 7.8% from FY 21-22, however, the national average was 13.7%, indicating sluggish growth compared to other states. Only 7 other states and the District of Columbia saw less growth in the past year.

Espacially on paper, published tax rates matter and greatly influence site selectors when the next major plant, warehouse, office or headquarters is being considered. Overall, we have one of the least competitive corporate tax environments in the country. The Commonwealth was ranked 41st out of 50 states in the recently released Tax Foundation's Corporate Tax Rank; only nine states were listed as having a worse corporate tax environment. The two most glaring shortcomings in regard to Pennsylvania's corporate taxes are: the highest flat-rate in the nation 8.99% (to be reduced to 4.99% in 2031) corporate net Income tax rate; and, a 40% cap on net operating loss.

# 8.99%

CURRENT  
CORPORATE  
NET INCOME  
TAX RATE

# 40%

CURRENT NET  
OPERATING  
LOSS  
CARRYFORWARD  
LIMIT

# 3.07%

CURRENT  
PERSONAL  
INCOME TAX  
RATE

# COMPETITIVENESS & BENCHMARKING

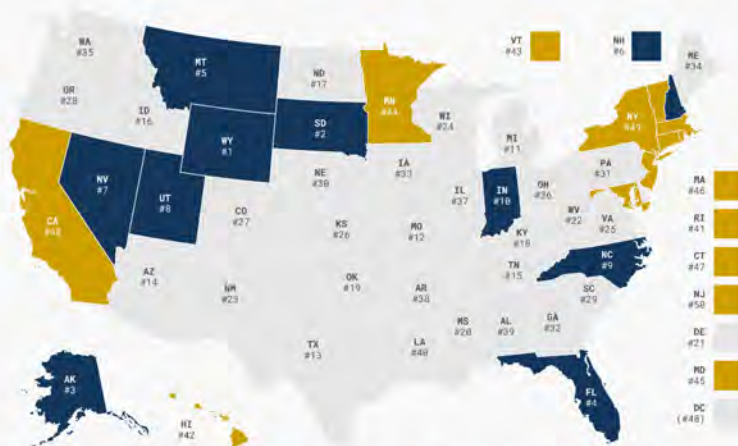
In the recently released *2024 State Business Tax Climate Index*, published by the Tax Foundation, Pennsylvania ranked just behind the national average of overall rankings at 31st. Alarming, however, PA received the ranking of 41st regarding corporate taxes, causing concerns.

Tax changes at the federal level, mainly due to the Tax Cuts and Jobs Act of 2017, make it the smart business decision for American corporations to repatriate their overseas operations and invest in American headquarters and operations. However, in Pennsylvania, with the highest flat-rate Corporate Net Income Tax of 8.99%, that investment is often directed to our competitor states. Business investment peaked in quarter two of 2019, and given the ongoing uncertainty of business taxes at the federal level, some repatriation has tapered. States do continue to compete for the investment that is occurring, and thus, tax reform at the state level is as important as it's ever been.

Gone are the days when being just slightly more competitive than New York, New Jersey, or other Northeast/Mid-Atlantic states was acceptable. Pennsylvania is competing for corporate investment with high-performing states such as Florida, North Carolina, Indiana, and Utah.

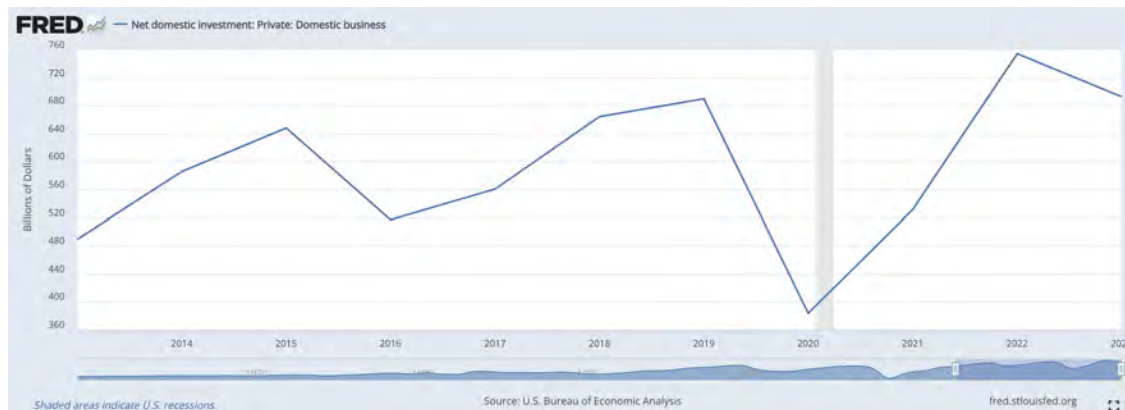
Pennsylvania		
	Rank	Score
Overall Rank	31 (+2)	5.01
Corporate Taxes	41 (+1)	4.35
Individual Taxes	23 (-3)	5.09
Sales Taxes	16 (-1)	5.14
Property Taxes	14 (+1)	5.51
Unemp. Insur. Taxes	21 (+1)	5.11

## 2024 State Business Tax Climate Index



## Neighboring States

- #21 Delaware
- #22 West Virginia
- #31 Pennsylvania
- #36 Ohio
- #45 Maryland
- #49 New York
- #50 New Jersey





# COMPETITIVENESS & BENCHMARKING

## continued...

The annual publication by the American Legislative Exchange Council, *Rich States Poor States*," provides regular and consistent benchmarking between states competing for business investment. Now in its 16th edition, this study looks both at current competitiveness as well as an outlook for future economic performance based on growth and migration patterns.

Pennsylvania's rankings have stagnated in the high-30s and low-40s, respectively, for the last decade. Our commonwealth does rank well in the areas of sales tax, progressive income tax, and public employees per population. However, Pennsylvania is at the bottom of the 50 states in areas such as corporate tax rates, estate/inheritance taxes, and worker compensation costs.

35<sup>th</sup>

### Economic Outlook Rank

Pennsylvania is currently ranked **35<sup>th</sup>** in the United States for its economic outlook. This is a forward-looking forecast based on the state's standing (equal-weighted average) in 15 important state policy variables. Data reflect state and local rates and revenues and any effect of federal deductibility.

### Current Economic Outlook (2023)

From the 2023 edition of *Rich States, Poor States*. These values are the most recent available at the time of publication.

POLICY	VALUE	RANK
<b>Top Marginal Personal Income Tax Rate</b>	6.86%	37 <sup>th</sup>
<b>Top Marginal Corporate Income Tax Rate</b>	15.82%	49 <sup>th</sup>
<b>Personal Income Tax Progressivity</b> (change in tax liability per \$1,000 of income)	\$0.00	2 <sup>nd</sup>
<b>Property Tax Burden</b> (per \$1,000 of personal income)	\$27.95	25 <sup>th</sup>
<b>Sales Tax Burden</b> (per \$1,000 of personal income)	\$16.51	10 <sup>th</sup>
<b>Remaining Tax Burden</b> (per \$1,000 of personal income)	\$21.94	43 <sup>rd</sup>
<b>Estate / Inheritance Tax Levied?</b>	Yes	50 <sup>th</sup>
<b>Recently Legislated Tax Changes</b>	-\$0.24	20 <sup>th</sup>
<b>Debt Service as a Share of Tax Revenue</b>	6.55%	33 <sup>rd</sup>
<b>Public Employees Per 10,000 of Population</b> (full-time equivalent)	418.2	5 <sup>th</sup>
<b>State Liability System Survey</b> (tort litigation treatment, judicial impartiality, etc.)	66.6	39 <sup>th</sup>
<b>State Minimum Wage</b> (federal floor is \$7.25)	\$7.25	1 <sup>st</sup>
<b>Average Workers' Compensation Costs</b> (per \$100 of payroll)	\$1.27	24 <sup>th</sup>
<b>Right-to-Work State?</b> (option to join or support a union)	No	50 <sup>th</sup>
<b>Tax Expenditure Limits</b>	0	32 <sup>nd</sup>

46<sup>th</sup>

### Economic Performance Rank

Pennsylvania is currently ranked **46<sup>th</sup>** in the United States for its economic performance. This rank is a backward-looking measure based on the state's performance (equal-weighted average) in three important performance variables shown below. These variables are highly influenced by state policy.

OVERVIEW (2023) CHARTS (2023)

### Overview (2023 Edition)

METRIC	VALUE	RANK
<b>Cumulative GDP Growth, 2011 - 2021</b>	35.16%	38 <sup>th</sup>
<b>Cumulative Domestic Migration, 2012 - 2021</b>	-246,699	45 <sup>th</sup>
<b>Non-Farm Employment Growth, 2011 - 2021</b>	2.07%	43 <sup>rd</sup>

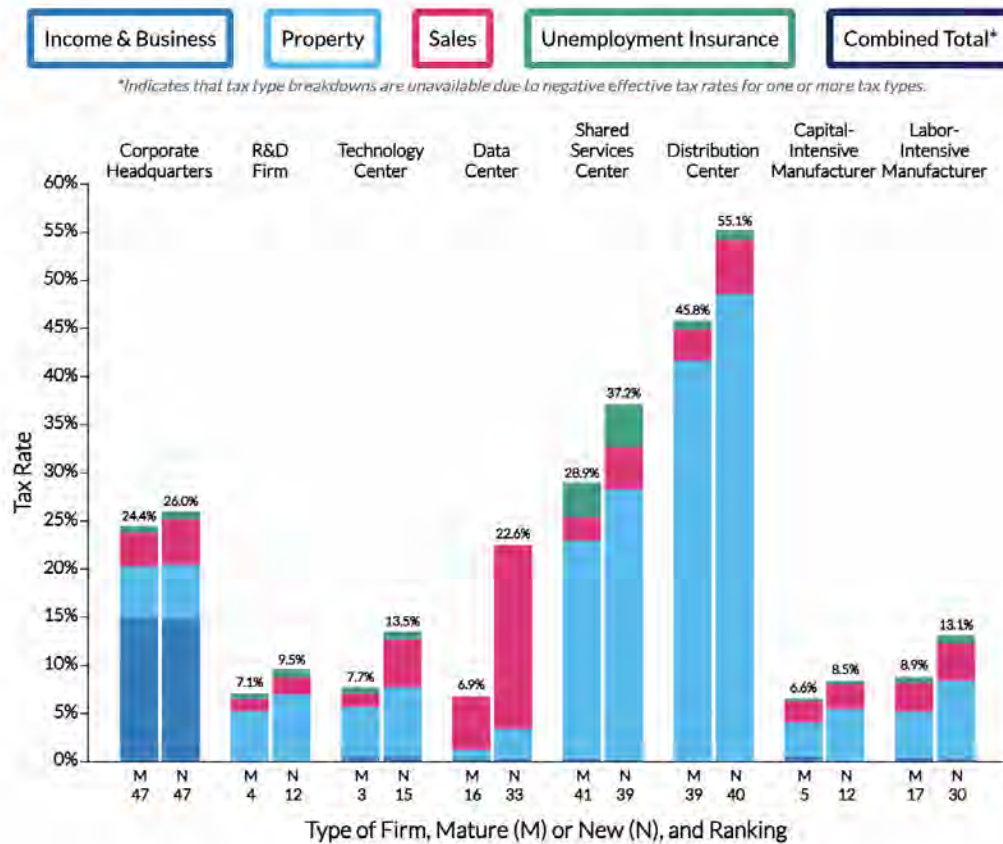
Migration Patterns:  
Pennsylvania

	Year	Inbound	Outbound
	2023	37%	63%
	2022	42%	58%
	2021	46%	54%
	2020	48%	52%
	2019	44%	56%
	2018	45%	55%
	2017	44%	56%
	2016	45%	55%
	2015	41%	59%
	2014	43%	57%
	2013	44%	56%
	2012	46%	54%

Unsurprisingly, many of the high-performing states in the economic outlook rankings also rank highly on economic performance as they see in-migration and overall GDP growth. This is identified in the *Rich States, Poor States* graphic above, but is also solidified by the Atlas Van Lines *2020 Migration Patterns*, showing that Pennsylvania has had outward migration, every year, in the past decade. Compare this to the high-performing states identified on page 2, and the same study shows in-migration in all of these states.

# BUSINESS TAX COLLECTION

## Graph of Effective Tax Rates in Pennsylvania



In a 2021 study by the Tax Foundation titled *Location Matters 2021: The State Tax Costs of Doing Business*, it was found that Pennsylvania ranked highly in the average actual state/local tax burden in some industries, but ranked far behind the curve in others. Most disappointing was the ranking of 47th for both new and mature corporate headquarters. The study summarized:

**"Both the new and mature corporate headquarters, however, experience the highest income tax burdens in the nation for firms of their type, due to the state's high 9.99 (now at 8.99%) percent tax on all corporate income. The effective income tax rate on the mature corporate headquarters is nearly three times the national median. The corporate headquarters and technology operations are also subject to locally-imposed gross receipts taxes, called business privilege and mercantile taxes."**

The study did conclude that Pennsylvania's tax treatment of manufacturing facilities and existing technology centers and research and development firms was far better than the national average. However, one of the main reasons for this could be construed as layers of tax compliance complexity and it's been our experience that this can vary greatly from firm to firm.

Most recently, the Independent Fiscal Office published revenue performance through March 2024. Collections for Corporate Net Income Taxes were down slightly below the estimate for the month of March, but actual revenue has surpassed estimates by \$86M in the current fiscal year. This is a positive sign as the rate was lowered to 8.99% in this current fiscal year.

FY 2023-24 Revenue Performance Through March						
	March Collections			FY Collections		
	Actual	Estimate	\$ Diff	Actual	Estimate	\$ Diff
General Fund	\$6,280	\$5,982	\$298	\$32,799	\$32,515	\$284
Corporate Net Income	686	716	-30	3,677	3,591	86



# TAX POLICY RECOMMENDATIONS

## SUPPORT THE PRIORITIES OF COMPETE PA



Accelerate the lowering of the Corporate Net Income tax (CNI). We strongly believe that a reduction of this highly uncompetitive rate will result in greatly enhanced economic growth, which will generate an increase in state tax revenue.



The cap on the usage of Net Operating Losses (NOLs) should be fully lifted. Pennsylvania is one of only two states that caps the amount of NOLs a company can offset against its current corporate net income. Additionally, the coalition supports removing the time limitation a business may carry forward a net operating loss.



Oppose Mandatory Unitary Combined Reporting (MUCR), as the policy will make Pennsylvania less competitive and have a broad range of negative consequences on the commonwealth's economic climate. MUCR has proven to be litigious in other states and creates much uncertainty for businesses.



## SUPPORT THE "SMALL BUSINESS TAX PACKAGE"

- HB 701 (Kutz)/ SB 662 (J. Ward) authorizes net operating loss for Small Businesses.
- HB 1404 (Topper) repeals Accelerated Sales Tax Prepayments.
- HB 166 (R. Mackenzie) Pennsylvania Families Tax Relief Bill package; includes reduction of personal income tax rate.
- And, more... SB: 75, 76, 77, 346, 659, 660.



## OTHER PRIORITIES

Oppose new, additional taxes on business inputs, such as on energy or other essential inputs and commodities, resulting in tax pyramiding.

- Examples: Severance taxes, carbon taxes, excise taxes, gross receipts taxes, cap-and-tax programs, etc.



Oppose House Bill 1773 (Rabb), which would quadruple the S-corp (small business tax rate) from 3.07% to 12%.



Support the Taxpayer Protection Act to control state government spending and ensure that government does not grow at a rate higher than the private sector.

# Arconic's Pennsylvania Tax Priorities

April 11, 2024



## Arconic at a Glance

*A global leader in aluminum sheet, plate and extrusions, as well as innovative architectural building products*

### 3 Business Segments



Rolled Products



Building and Construction Systems



Extrusions

**\$9.0B**

2022 Revenue



**~11.5k**

Employees Globally



**17**

Countries



**20**

Major Manufacturing Locations\*

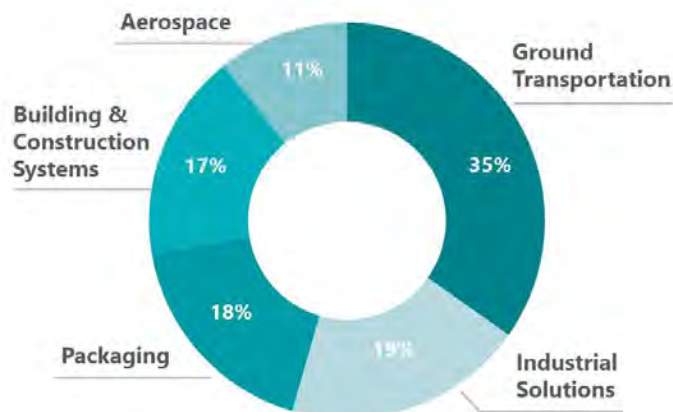


\*Excludes service centers.

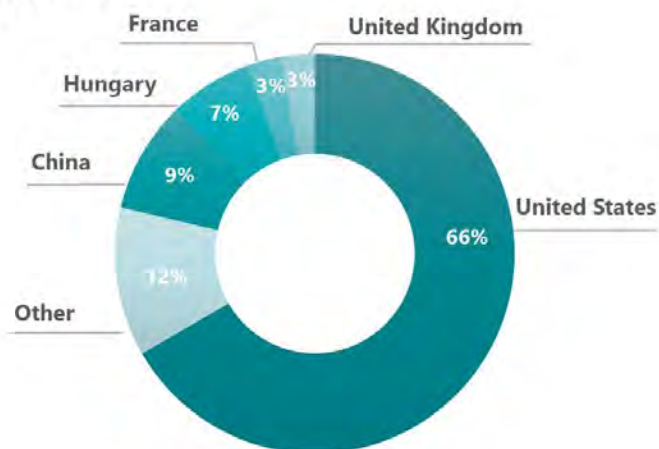
# Market and Regional Focus

2022 Sales: \$9.0 billion

## BY MARKET



## BY COUNTRY



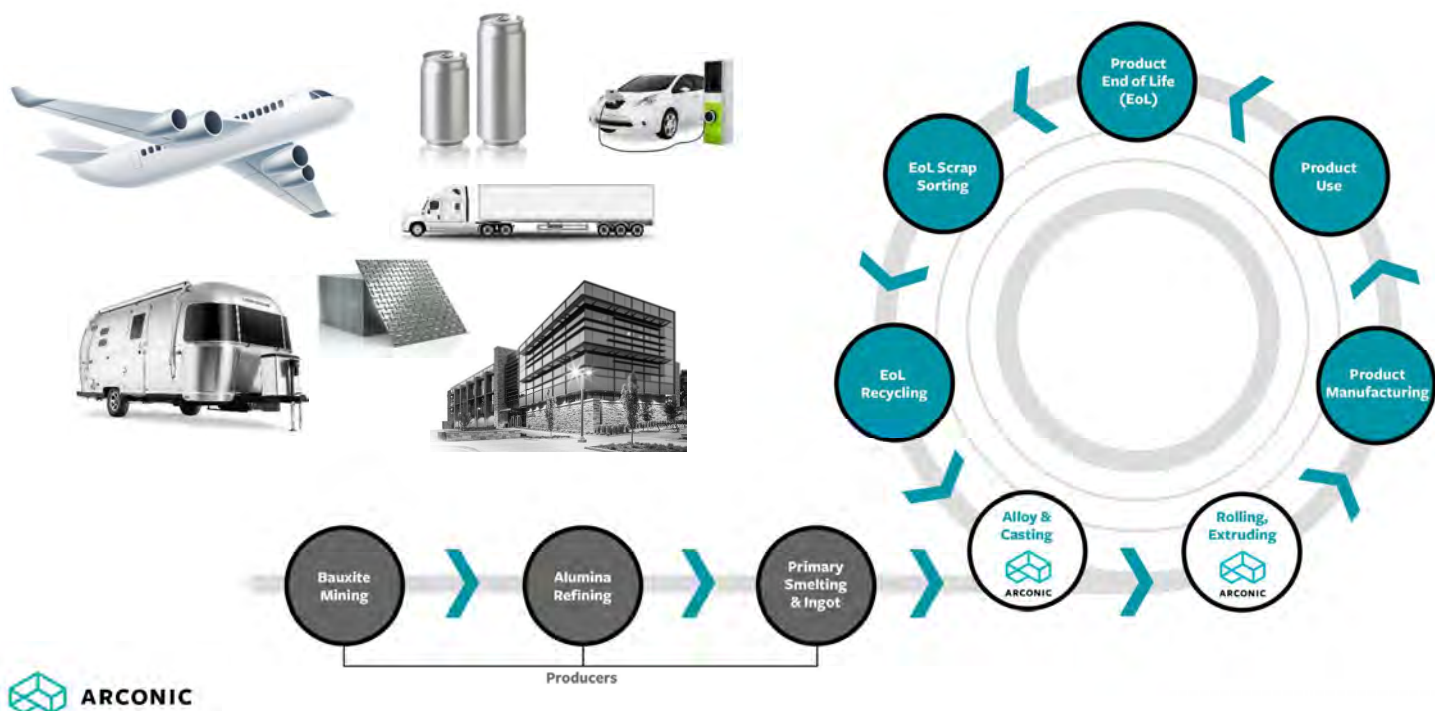
# Arconic at a Glance

*A global leader in aluminum sheet, plate and extrusions, as well as innovative architectural building products*





# Arconic's Role in the Aluminum Value Chain



## Kawneer Bloomsburg – Serving Our Customers Since 1965



Operations	Equipment/Process	Customers
<ul style="list-style-type: none"> <li>■ <b>Primary NA SEF (Storefront/entrances)</b></li> <li>■ Internal supplier to Service Centers</li> <li>■ ~33 acres with 7.5 acres under roof</li> <li>■ ~350 manufacturing employees</li> <li>■ ~450 total employees</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Extrusion – 1 press</b></li> <li>■ <b>Finishing – paint, anodizing</b></li> <li>■ Thermal                             <ul style="list-style-type: none"> <li>■ P&amp;D and Insulpour</li> </ul> </li> <li>■ Automated and Custom Door Lines                             <ul style="list-style-type: none"> <li>■ ~90k units/year</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ General contractors (Glazing)</li> <li>■ Hospitals</li> <li>■ Schools</li> <li>■ Commercial</li> <li>■ Retail</li> </ul>

## **PRIORITY #1 – CNI Rate Reduction**

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PA H.B. 1342 was enacted on July 8, 2022

- Immediate 1% reduction for 2023, followed by .5% reduction per year through 2031.
- Final CNI rate of 4.99% will not be reached until 2031.

Current PA CNI tax rate is 8.49%

This is one of the top 10 highest rates in the nation.

- |                |       |
|----------------|-------|
| ○ Minnesota    | 9.80% |
| ○ Illinois     | 9.50% |
| ○ Alaska       | 9.40% |
| ○ New Jersey   | 9.00% |
| ○ Maine        | 8.93% |
| ○ California   | 8.84% |
| ○ Delaware     | 8.70% |
| ○ Vermont      | 8.50% |
| ○ Pennsylvania | 8.49% |
| ○ Maryland     | 8.25% |



Pennsylvania Policy Hearing / April 11, 2024/Steve Hall

## **PRIORITY #2 – NOL Reform**

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- Currently, PA NOL utilization is capped at 40% of taxable income.
  - This is the lowest utilization % in the nation.
    - Louisiana 72%
    - Minnesota 70%
    - Connecticut 50%
    - Pennsylvania 40%
- The majority of states either conform to the federal limitation (80%) or have no limitation on NOL utilization.



Pennsylvania Policy Hearing / April 11, 2024/Steve Hall

## PRIORITY #3 – Interest Limitation Decoupling

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- Pennsylvania currently conforms the federal limitation on the deductibility of business interest.
- Federal tax reform in 2018 limits the deductibility of business interest expense, commonly referred to as 163(j).
  - This interest limitation was intended to offset the allowance of 100% bonus depreciation.
- Pennsylvania has never allowed any type of federal bonus depreciation.
- As it currently stands, a business is limited in both its interest and capital acquisition deductions.

## SUMMARY

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- CNI Rate and NOL Reforms
  - Currently Pennsylvania taxes the highest % of income at one of the highest tax rates in the nation.
  - Legislation to accelerate the CNI rate reduction and/or increase NOL utilization is needed.
- Business Interest Reform
  - Currently businesses are limited in the deductibility of their capital acquisitions (bonus depreciation) **and** business interest expense.
  - Legislation is needed to decouple from the federal interest limitation.



**ARCONIC**