PA House of Representatives
Republican Policy Committee

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

Rep. Joshua D. Kail
Chairman

PA House Republican Policy Committee Hearing

"The Benefit of Republican Tax Cuts, the Detriment of Democrat Property Tax Hikes"

June 18, 2024, at 10 a.m.

Lower Salford Township Building
379 Main Street
Harleysville, PA 19438

10:00 a.m.	Welcome and Pledge of Allegiance
	Analyzing Tax Proposals Panel
10:10 a.m.	Andrew Holman *Policy Analyst, The Commonwealth Foundation*
10:15 a.m.	Dr. Frank Gallagher *Superintendent, Souderton School District*
10:20 a.m.	Questions for the Analyzing Tax Proposals Panel
	Real-World Impact Panel
10:50 a.m.	Hon. Chris Canavan *President, W.B. Homes & Supervisor, Lower Salford Township*
10:55 a.m.	Wendell Weaver *Vice President, Alderfer Glass, Co.*
11:00 a.m.	Hon. Keith Freed *Tax Collector, Franconia Township*
11:05 a.m.	Questions for the Real-World Impact Panel
11:35 a.m.	Closing Comments

Testifier Biographies

PA House of Representatives Policy Committee Hearing

"Historic Tax Cuts"

Andrew Holman
Policy Analyst, The Commonwealth Foundation

Andrew Holman is a Policy Analyst with the Commonwealth Foundation.

A Pennsylvania native, Andrew enjoys playing a part in creating a freer, more prosperous state for all Pennsylvanians.

Andrew graduated Magna Cum Laude from Temple University with a Bachelor of Arts in Political Science and a Criminal Justice minor. While at Temple, he was the President of the university's Young Americans for Freedom chapter.

Andrew joined Commonwealth Foundation in November of 2021 after interning with Americans for Fair Treatment and Gun Owners of America.

Dr. Frank Gallagher
Superintendent, Souderton School District

Frank currently serves as the Superintendent for the Souderton school district, where he directs the development of objectives and programs to meet the needs of students, staff and the community.

He also directs preparation and presentation of budgets and makes recommendations on revenue sources; addresses community and civic groups on education related issues; interprets policy and programs to staff, individuals and community groups and to government agencies.

Frank graduated from Pennsylvania State University with a Bachelor's degree in Education and holds a Master's in Educational Leadership and Administration from Gwynedd Mercy University, and a Doctor of Education in Educational Leadership and Administration from Arcadia University.

Christopher Canavan
President, W.B. Homes & Supervisor, Lower Salford Township

As President of W.B. Homes, Chris oversees the complex process of making sure a piece of land is the perfect location for every new W.B. neighborhood. In his 19+ years with the company, Chris has managed all aspects of land acquisition, development, environmental testing and neighborhood design.

In addition to his role at W.B. Homes, Chris serves as a supervisor for Lower Salford Township and has previously taught Graduate level courses at Villanova University.

Chris holds a Bachelor's degree in Political Science and a Master's in Public Administration from American University.

Wendell Weaver
Vice President, Alderfer Glass, Co.

Wendell currently serves as the Vice President for Alderfer Glass, Co.

Alderfer Glass was founded in 1961 by brothers Stan and Robert Alderfer. Originally located on Penn Avenue in Telford, PA, the business started and has remained as a family-owned flat glass shop serving the needs of communities throughout southeastern Pennsylvania.

Keith Freed
Tax Collector, Franconia Township

Keith Freed currently serves as the tax collector for Franconia Township.

Keith has previously served his township as a member of the board of supervisors from 2003 until 2014 and as chairman of the planning commission. He also has previously served as president of the Indian Valley Regional Planning Commission and president of Montgomery County Association of Township Officials.

Tax Reform in the Commonwealth

Pennsylvania House Republican Policy Committee

June 11, 2024

Thank you Chairman Kail, and thank you members of the committee for the opportunity to speak today.

Before diving into the specifics of tax policy and the tax reforms in SB 269 and HB 2388; I want to start with the larger vision—which is how we make Pennsylvania more competitive, and more attractive for businesses and families; and what public policies will ensure economic growth so that all Pennsylvanians can flourish.

These are not controversial aims, but are very much bipartisan. Indeed, Gov. Shapiro himself campaigned on the theme of wanting to make Pennsylvania “open for business”; and quipped during his budget address that he’s “tired of losing to Friggin’ Ohio.”

In terms of economics; I agree with the governor. I want to see Pennsylvania thrive, and be able to compete with Ohio, and other states. And with our resources, people, and geography, Pennsylvania should be among the leaders in economic competitiveness.

But we aren’t. And if we want to do so, we need to imitate those states that are. On the plus side, there’s a clear path to reverse this, including some priorities Gov. Shapiro campaigned on.

Specifically, this includes reducing our state’s regulatory burden, which has long been a deterrent to doing business in Pennsylvania. Pennsylvanian maintains more than 166,000 regulatory restrictions, the 12th highest in the nation. Research shows regulation reduction is associated with growth in state GDP and jobs.

Pennsylvania should look to policies to unleash our energy sector and lower energy costs—and avoid energy taxes and mandates to favored industries that will hamper energy production, threaten the reliability of our electric grid, and increase costs to homeowners and businesses.

And finally, there is the area of tax reform—where Pennsylvania is consistently a laggard, even as neighboring states are busy reducing their taxes. This is one of the key areas explaining why other states are growing and attracting jobs.

Economic trends

While Pennsylvania’s official unemployment rate has been near record lows for month, all is not well in the state economy.

The unemployment rate only counts those working and those actively looking for work. Pennsylvania’s Labor Force Participation rate remains 0.2% below January 2020, representing 21,000 additional adults not participating in the labor force.

Moreover, Pennsylvania's job growth has been slow and stagnant.

Pennsylvania finally returned to prepandemic employment levels in August 2023; but still has an anemic 1.0% job growth over four+ years from February 2020 to April 2024. In contrast, Utah and Idaho have been leading the way with more than ***11% job growth***. Florida, Texas, Nevada, Arizona, Montana, North Carolina, and South Carolina all have job growth of more than 7%. As shown in charts one and two; these states are leading the way, whereas high tax, high regulation states like New York, New Jersey, California, and unfortunately, Pennsylvania, are lagging.

Similarly, inflation has taken a bite out of Pennsylvanian's paychecks. As of April, the Consumer Price Index increased 3.4 percent over the prior 12 months; an **8.5 percent** in prices over the past two years, and in 19.3 percent increase under President Biden (since January 2021).

Inflation has the impact of reducing real wages. For Pennsylvania workers, while hourly wages have increased, average weekly hours dropped. The "average weekly wage" for all workers reached $1,078 in March 2024, representing a 12.7 percent increase from January 2021.

However, when adjusted for inflation, this represents a 5.5***% decline*** in real weekly earnings—or a **loss of more than $2,712** in buying power annually.

This impact is shown on chart 3.

Outmigration

As a result of an uncompetitive economy, Pennsylvania has suffered from outmigration for 12 of the past 13 years, as shown on chart 4. We've even lost population the last couple years.

Tens of thousands of residents are leaving for greener pastures in economically competitive, fiscally responsible states like North Carolina, Florida, and Texas almost every year.

That latest data from the United States Census Bureau shows Pennsylvania's population problems remain:

- Pennsylvania's population decreased by 10,000 from July 2022 to July 2023. Natural population decrease, when there are more deaths than births, and domestic migration (moves between states) drove this decrease.
- The 2023 population estimate represents a loss of 41,105 residents versus the official 2020 Census (April 2020).
- Pennsylvania lost 24,825 citizens from domestic migration. The state has lost population from domestic migration in 12 of the past 13 years.
    - Pennsylvania is losing residents to Florida, South Carolina, Georgia, Virginia and Texas, while gaining from only a handful of states, including New York, New Jersey, and California, as shown on chart 5.
    - In short, residents are leaving high tax states to move to low tax states, as highlighted on chart 6.
- Over the last decade, Pennsylvania lost approximately 270,000 residents to other states.

IRS Migration Data shows that in 2021, Pennsylvania lost 9,000 taxpayers (14,000 individuals) and **$1.9 billion in income** in net migration to other states.

- Pennsylvania ***gained*** the most on net from New York (more than $1 billion moved from NY to Pa. in the year), New Jersey, California, Maryland, and Massachusetts.
- Pennsylvania lost to Florida ($1.9 billion net outflow), South Carolina, North Carolina, Delaware, Texas, Colorado, Georgia, and Ohio.

Aging Population

Worse yet, that outmigration is concentrated in younger, working age adults. This brain drain is a threat to our fiscal and economic health. Pennsylvania does rank among the best states to retire (in part because of our treatment of retirement income)—but a growing senior population means more costs.

Pennsylvania unfortunately ranks 46th among the best states for employment, and a shrinking working age population means fewer taxpayers.

Pennsylvania, year over year, loses its working-age population to other states. Better jobs and pocketbook issues are the main drivers behind the "exodus."

According to the Independent Fiscal Office (IFO), Pennsylvania's working-age population will fall 2.6 percent between 2020 and 2025 and an additional 1.7 percent between 2025 and 2030, resulting in an adverse "dependency ratio" shift from 3.5 working adults per senior to 2.5 by 2030. This shift will have a drastic impact on state finances.

Fewer working-age adults means lower PIT collections, while expensive programs that serve seniors, like Long-Term Care, will grow. The IFO projects a 5.9 percent average annual growth rate for Long-Term Care, far outpacing the projected General Fund revenue average annual increase of 2.7 percent over the next five years, as shown on chart 7

Tax rankings

Before getting into the specifics of SB 269/HB 2388; I wanted to share some key numbers regarding Pennsylvania's tax rankings, via The Tax Foundation:

- State tax collections per capita: 22 ($4,140)
- State and local tax collections per capita: 19 ($6,264)
- State and local tax burden: 23 (10.3%)
- State individual income tax collections per capita: 29 ($1,340)
- State and local individual income tax collections per capita: 19 ($1,692)
- State corporate tax collections per capita: 14 ($386)
- State general sales tax collections per capita: 32 ($1,138)
- State and local property tax collections per capita: 25 ($1,681)

Importance of tax burden and income taxes

Last year, lawmakers passed an increase to property tax and rent rebate, which benefits senior citizens, with an estimated fiscal impact of $150 million to $170 million per year (from the Lottery Fund). While this was certainly a popular tax reform, it only leans into our economic woes.

The most important question facing you as lawmakers is this: How do we make our state more competitive and more attractive to *working age families and employers.*

As Jonathan Williams, Dr. Arthur B. Laffer, and Stephen Moore write in the *latest Rich States, Poor States* published by ALEC*:* “Generally speaking, states that spend less—especially on income transfer programs—and states that tax less—*particularly on productive activities such as working or investing*—experience higher growth rates than states that tax and spend more.”

Indeed, these economists, and many others, have found that overall tax burden, and in particular individual income tax rates, are closely linked to state economic growth and migration trends. In particular, eight states have no individual income tax; and have typically been among the fastest growing.

I’ll go a step further: reducing taxes on *all* businesses and families is far more conducive to state economic growth than targeted businesses incentives through grants, loans, or targeted tax breaks, and broader “economic development” spending. Giving every business owner and family opportunity to keep more of their money has been shown to be more effective and have a greater “multiplier” than government picking winners and losers.

Pennsylvania’s income tax—with a relatively low flat rate and few exemptions and deductions—is a strength. Still, counting local income taxes, our overall income tax collections are relatively high, and taxpayers would benefit from combining classes of income.

Since the pandemic, states have been pursuing tax cuts to become more economically competitive. Fourteen states have already reduced their individual income tax rate in 2024.

Pennsylvania hasn’t reduced its income tax since 1986. The commonwealth raised the personal income tax in 1991, under former governor Bob Casey, to 2.80 percent, and to 3.07 percent in 2003 under former governor Ed Rendell. Both tax increases contributed to Pennsylvania lagging the nation in income, job, and population growth in the decades that followed.

Proposed Tax Cuts

SB 269/HB 2388 proposes reducing the PIT from 3.07 percent to 2.8 percent beginning in January 2025.

This returns the PIT rate to where it was in 2003 before former Gov. Ed Rendell’s tax increase. According to the Tax Foundation, Pennsylvania’s PIT rate is the 12th lowest in the nation, including states with no PIT. Under this proposal, Pennsylvania would levy the 10th lowest rate.

SB 269/HB 2388 also proposes eliminating the GRT on electricity of 59 mills. This tax on electricity sales shows up as a surcharge on the consumer’s bill. Unlike the PIT, a portion of GRT revenues fund specific programs in the state budget.

This tax affects all families and businesses. Homeowners and renters pay a higher electricity bill because of the gross receipts tax. Businesses also pay more for energy usage though the gross receipts tax—typically passing along this tax incidence to consumers through higher prices or employees through lower wages.

These tax cuts would reduce state revenue by $1.3 billion in 2024–25 and save nearly $400 per family of four. A full year of these tax reductions would save results in a tax reduction of nearly $900 per family of four with state revenues declining by $3 billion.

We use "per family of four" (the savings per four residents of Pennsylvania) to illustrate the overall impact of these tax reductions. The impact will be felt in a variety of ways—including business passing through their tax savings to workers and consumers through lower prices, higher wages, and additional employment—not just the direct impact on a family or individual taxpayer.

Incidence of Tax Reduction

Having said that, I do want to address the specific incidence of these tax reductions on different types and sizes of households.

Using personal income tax statistics provided by the Pa. Department of Revenue for calendar year 2020 (the latest year available), adjusting for estimated increases for 2025 (the first year the tax reductions would take effect), and allocating gross receipts tax savings on an equal, per-household basis, yields the following results by type of filer, and for Households/families at the "median income".

Savings Under SB 269/HB 2388				
	Estimated 2025 Income	PIT Savings	GRT Savings Per HH	Combined Savings
Per PIT Filer	$91,742	$247.70	$232.16	$479.86
Per PIT Single Filer	$48,353	$130.55	$232.16	$362.71
Per PIT Joint Filer	$168,067	$453.78	$232.16	$685.94
HH at Median HH Income	$89,350	$241.25	$232.16	$473.41
Family at Median Family Income	$122,747	$331.42	$232.16	$563.58

Source: PA Department of Revenue, 2020 Personal Income Tax Statistics; Statistical Supplement to the Tax Compendium FY 2022-23; US Census Bureau, Population Estimates

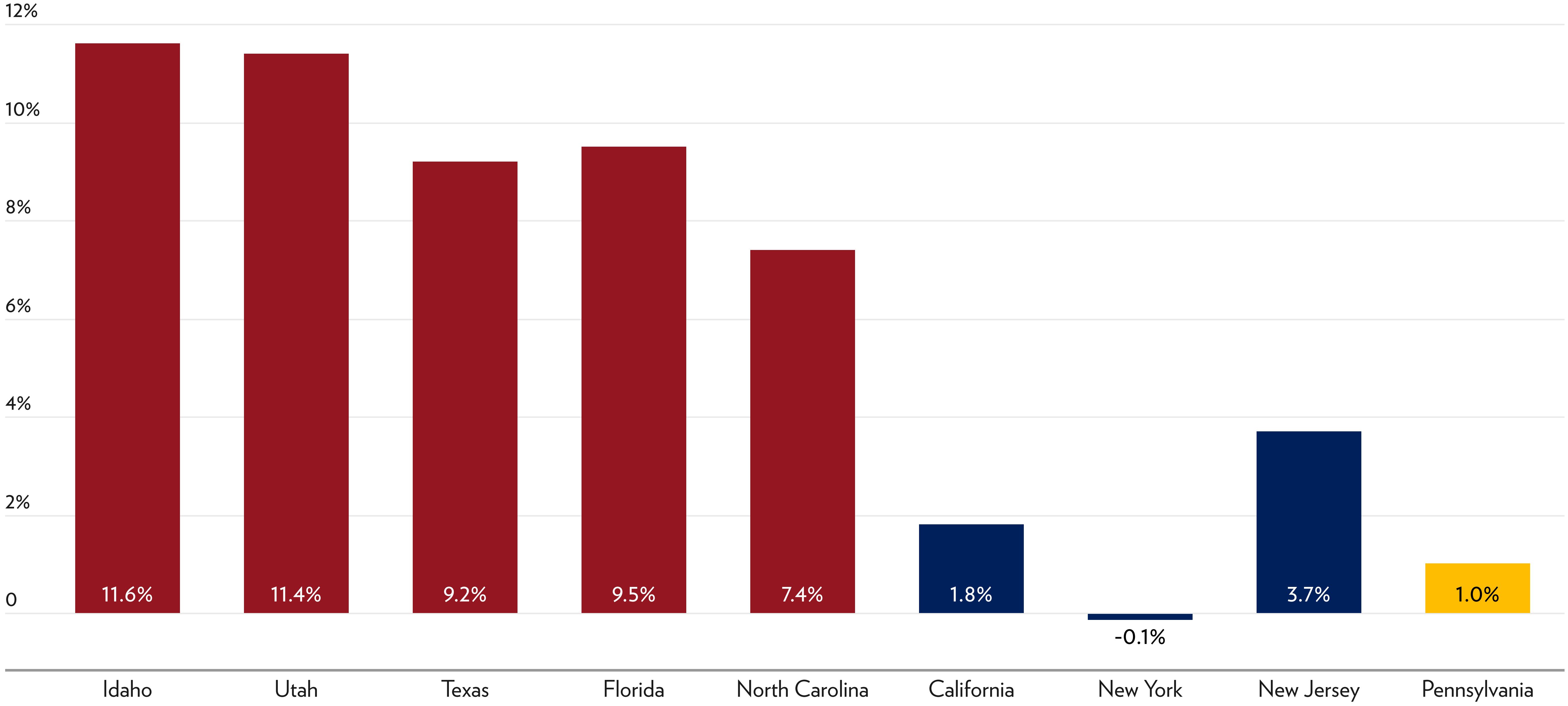
Notably, reducing the personal income tax benefits small businesses—which pay the personal rate rather than the corporate rate. These include sole proprietorships, partnerships and LLCs, family owned businesses, and S-corporations which pass through earnings.

Approximately 825,000 small business owners in Pennsylvania reported net profits in 2020 on their personal income tax returns. The total net profits reported was just over $50 billion—with the mean net profits for each small business owner equaling $61,677 in 2020.

In the attached documents, I also included a breakdown of the impact these cuts would have on a county-by-county basis. I look forward to any questions.

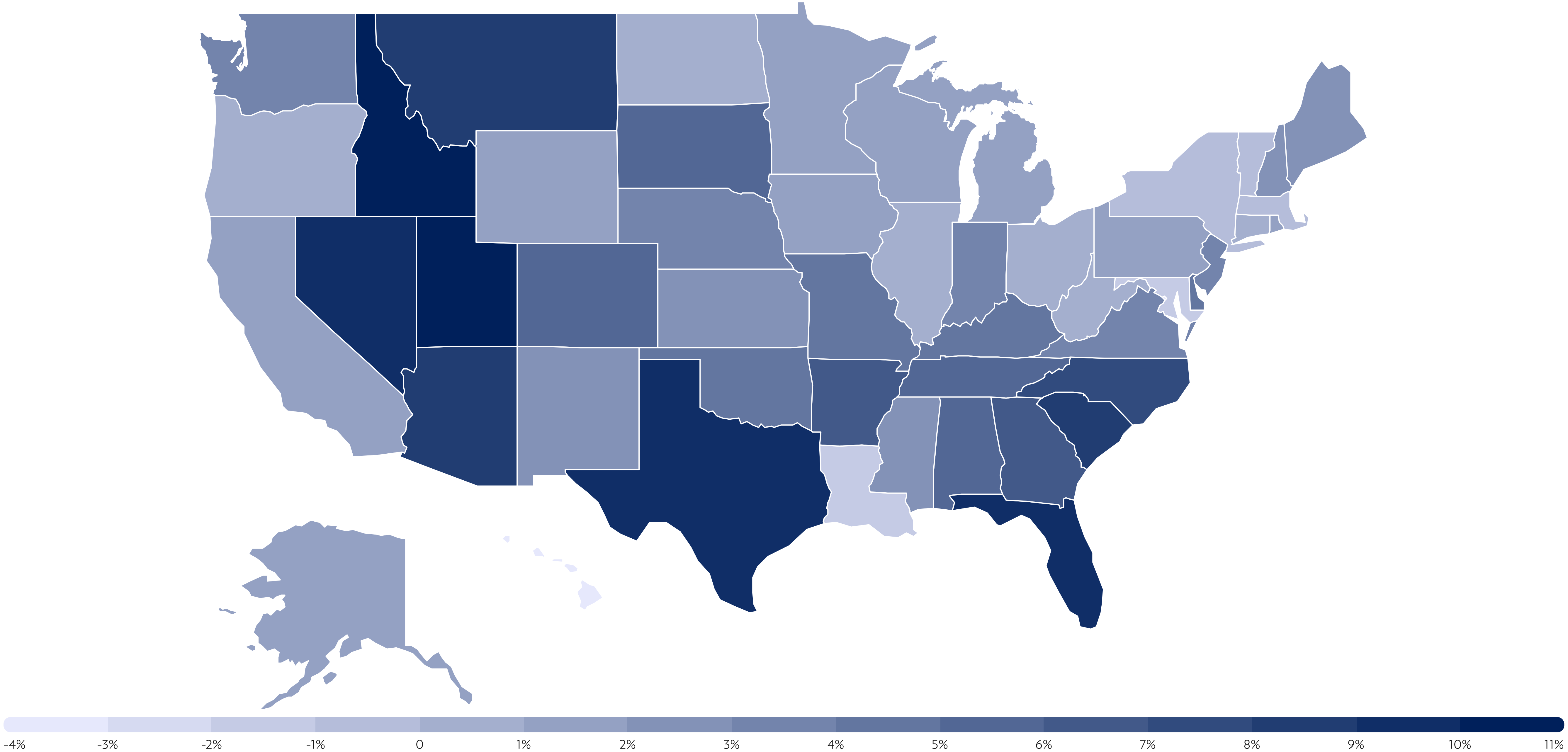
Payroll Job Growth by State

February 2020 to Apr 2024



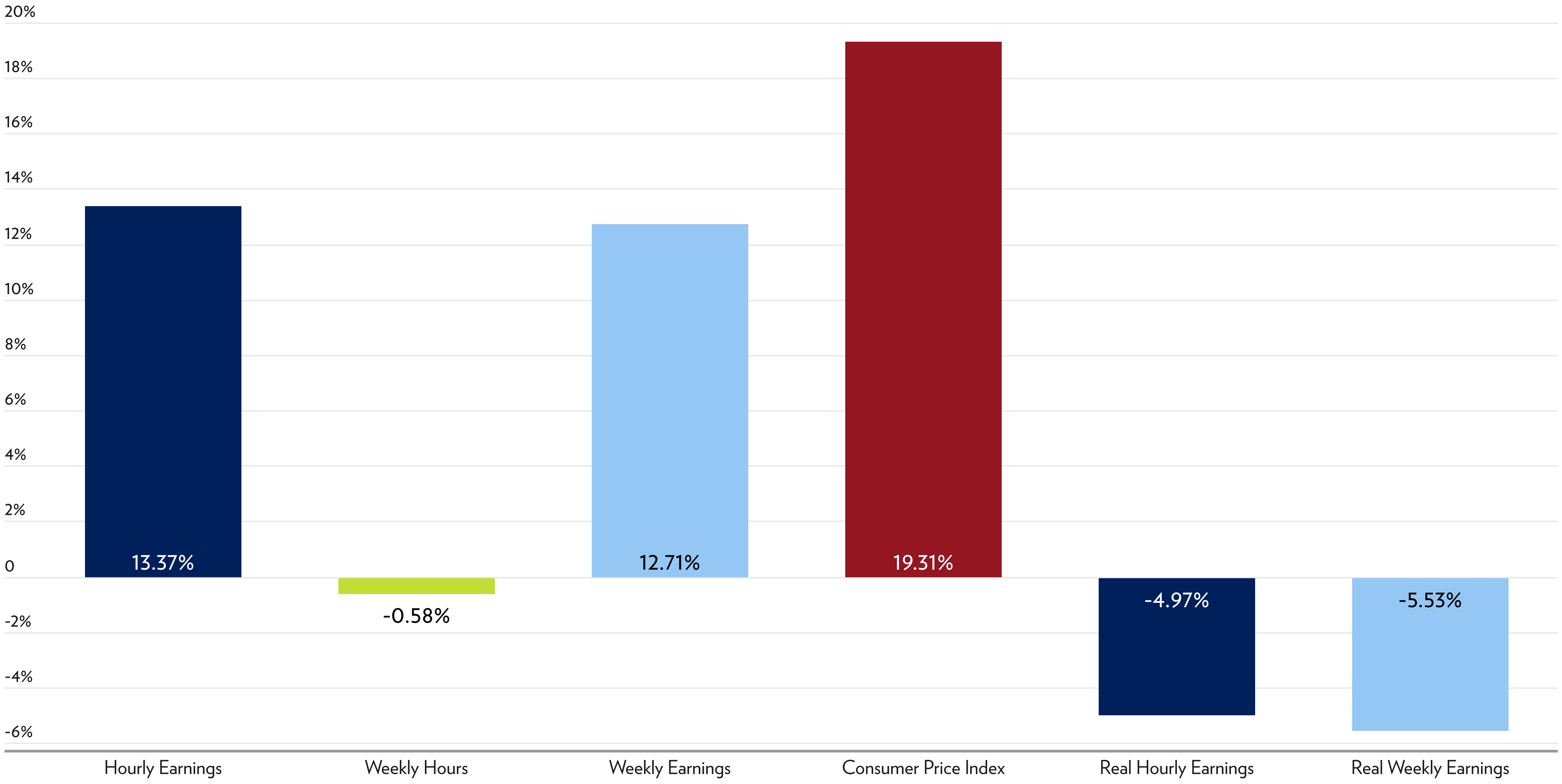
Source: Bureau of Labor Statistics, seasonally adjusted employment

JOB GROWTH/LOSS FEB 2020 - APR 2024



Source: Bureau of Labor Statistics

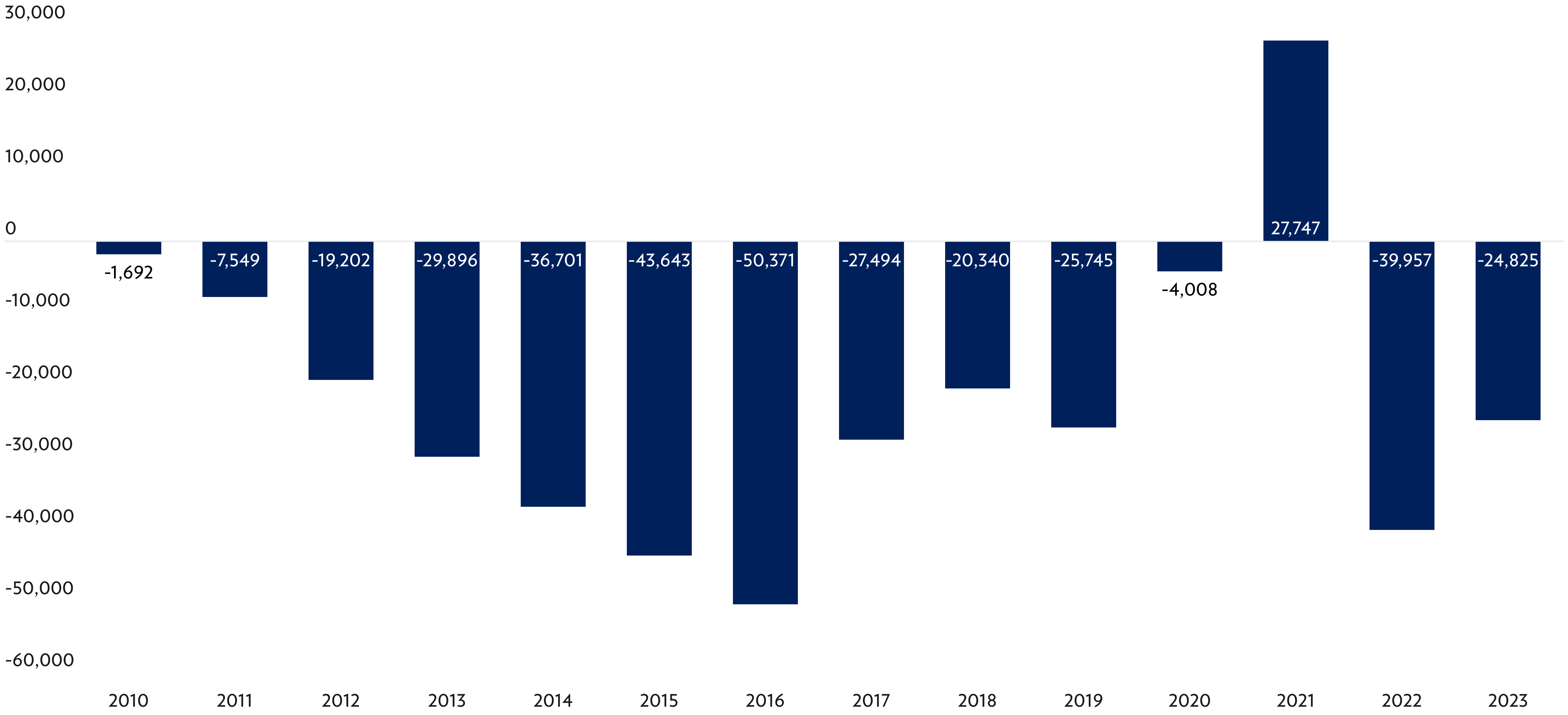
Impact of Inflation in Pa (Since January 2021)



Source: Bureau of Labor Statistics: https://www.bls.gov/news.release/realer.nr0.htm

Pennsylvania Domestic Migration Gain/Loss

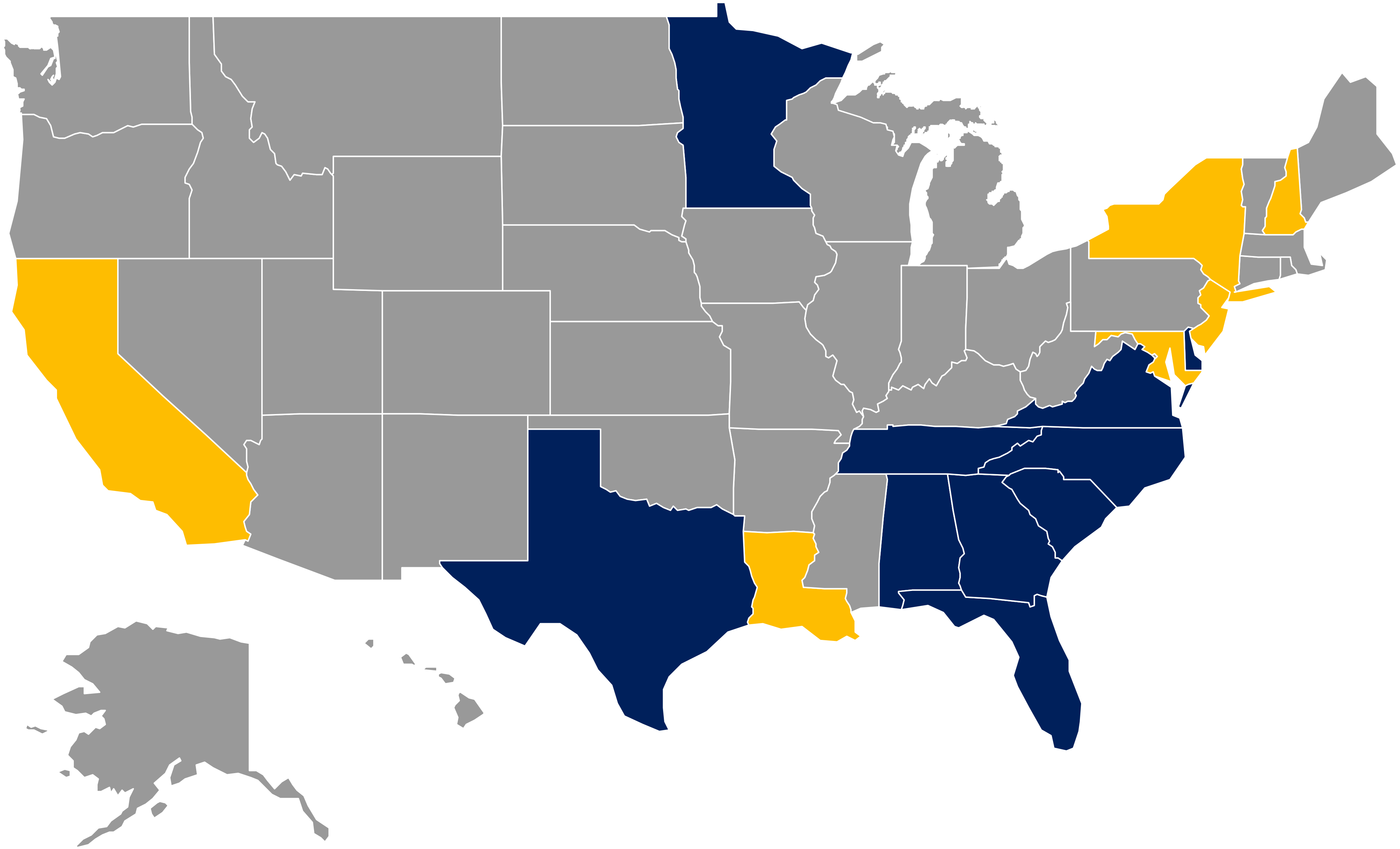
An out-migrating population does not bode well for the state's future.



Sources: United States Census Bureau, "Annual Population Estimates, Estimated Components of Resident Population Change, and Rates of the Components of Resident Population Change for the United States, States, the District of Columbia, and Puerto Rico: April 1, 2010 to July 1, 2020"; "Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2023,"

Where are Pennsylvanians Moving?

Pennsylvanians are voting with their feet and moving to lower tax states.

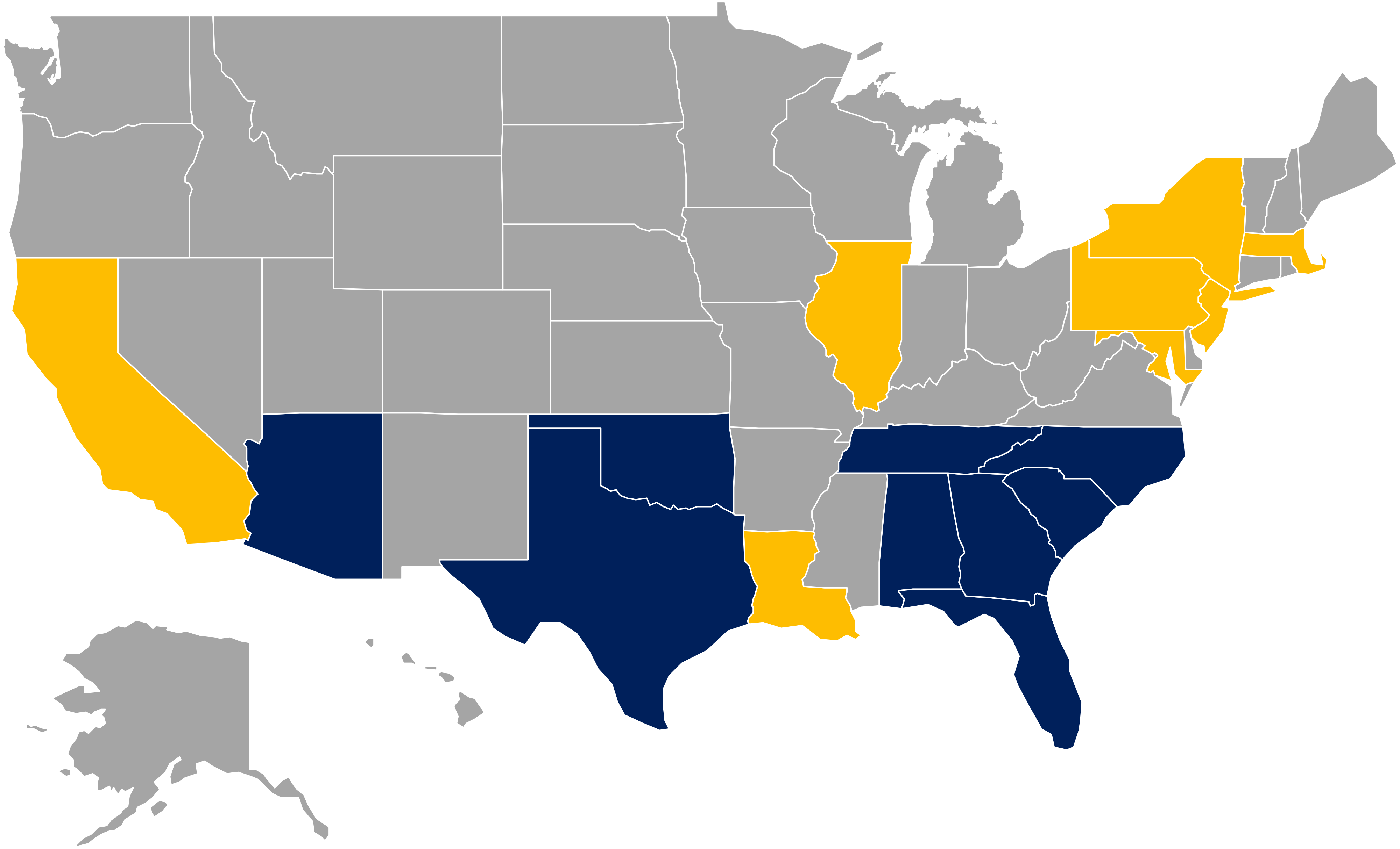


Modest Gain or Loss · Moving From PA · Moving to PA

Source: United States Census Bureau, "State-to-State Migration Flows," 2022, net inbound minus outbound

State-to-State Migration, July 2022 to July 2023

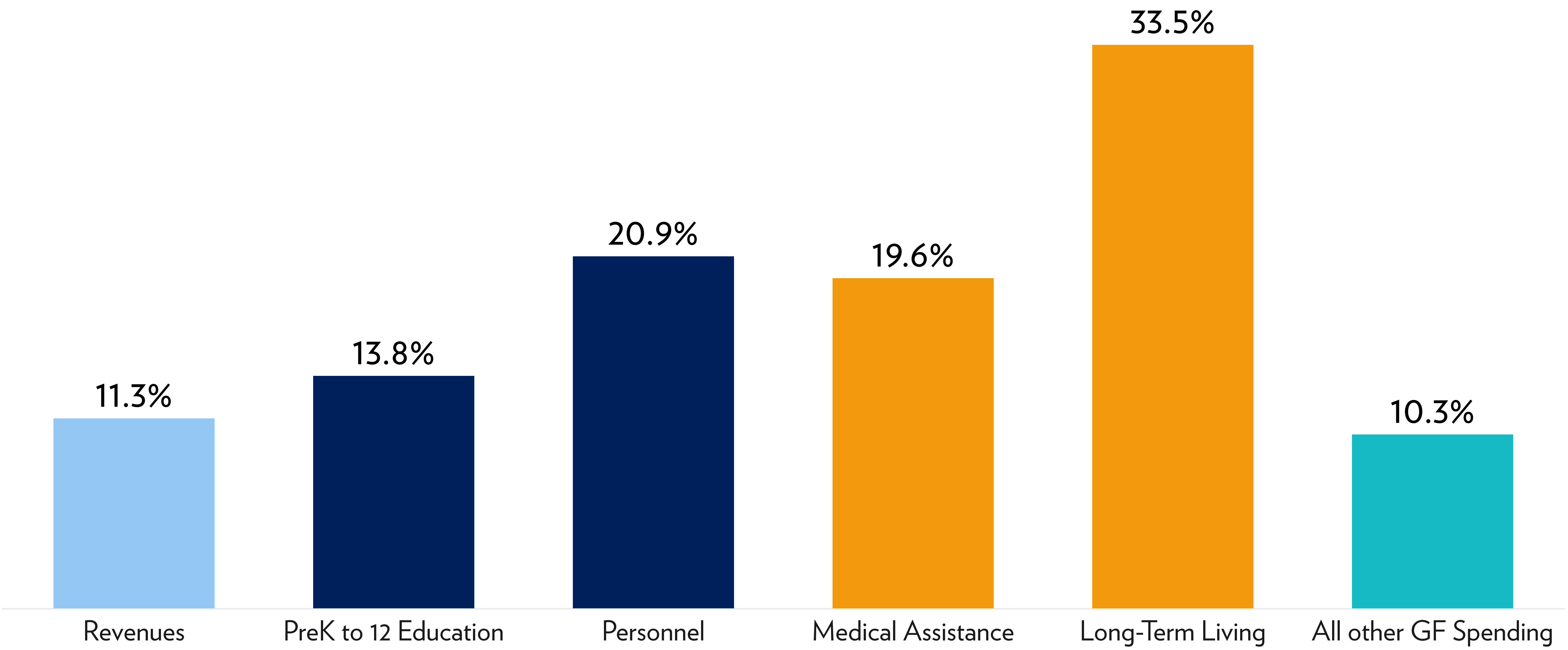
Pennsylvanians are voting with their feet and moving to lower tax states.



Source: United States Census Bureau, "State-to-State Migration Flows," 2022, net inbound minus outbound

Projected General Fund Revenue & Spending Growth

2023-24 to 2028-29



Source: IFO Five Year Economic and Budget Outlook

Savings Under SB 269/HB 2388

County	PIT Savings 2025	GRT Savings 2025	Combined Savings	Savings Per Household
ADAMS	$10,728,196	$9,265,041	$19,993,237	$500.98
ALLEGHENY	$166,218,719	$126,704,338	$292,923,057	$536.72
ARMSTRONG	$5,418,692	$6,431,761	$11,850,452	$427.75
BEAVER	$17,168,117	$16,649,819	$33,817,935	$471.55
BEDFORD	$3,807,885	$4,488,581	$8,296,467	$429.11
BERKS	$44,050,496	$37,160,690	$81,211,186	$507.36
BLAIR	$11,044,908	$11,669,290	$22,714,199	$451.90
BRADFORD	$5,182,421	$5,638,470	$10,820,891	$445.54
BUCKS	$118,109,978	$56,925,632	$175,035,610	$713.85
BUTLER	$27,051,542	$18,193,218	$45,244,760	$577.36
CAMBRIA	$10,178,551	$12,889,291	$23,067,842	$415.49
CAMERON	$274,540	$494,733	$769,273	$360.99
CARBON	$5,393,186	$6,108,594	$11,501,780	$437.13
CENTRE	$14,904,659	$13,426,741	$28,331,400	$489.87
CHESTER	$116,927,441	$46,004,593	$162,932,035	$822.23
CLARION	$2,799,274	$3,396,965	$6,196,239	$423.47
CLEARFIELD	$6,093,794	$7,242,231	$13,336,025	$427.51
CLINTON	$2,877,824	$3,394,179	$6,272,003	$429.00
COLUMBIA	$5,471,535	$5,970,459	$11,441,994	$444.92
CRAWFORD	$6,161,374	$7,713,516	$13,874,890	$417.60
CUMBERLAND	$34,074,664	$23,803,829	$57,878,493	$564.49
DAUPHIN	$30,576,875	$26,861,608	$57,438,483	$496.43
DELAWARE	$88,948,453	$49,740,744	$138,689,197	$647.32
ELK	$2,677,170	$3,133,928	$5,811,098	$430.48
ERIE	$23,999,163	$25,273,170	$49,272,332	$452.62
FAYETTE	$9,538,924	$12,559,160	$22,098,084	$408.49
FOREST	$277,138	$414,638	$691,776	$387.33
FRANKLIN	$14,882,605	$14,360,025	$29,242,629	$472.77
FULTON	$1,197,844	$1,390,638	$2,588,483	$432.13
GREENE	$2,968,991	$3,240,257	$6,209,248	$444.88
HUNTINGDON	$3,138,426	$3,618,910	$6,757,336	$433.50
INDIANA	$6,115,853	$7,527,788	$13,643,641	$420.78
JEFFERSON	$3,322,097	$4,119,679	$7,441,776	$419.37
JUNIATA	$1,968,805	$2,032,793	$4,001,598	$457.01
LACKAWANNA	$20,419,698	$20,248,299	$40,667,997	$466.29
LANCASTER	$64,890,353	$48,124,679	$113,015,031	$545.20
LAWRENCE	$7,063,027	$8,383,530	$15,446,557	$427.75
LEBANON	$14,115,096	$12,712,617	$26,827,713	$489.93
LEHIGH	$43,851,995	$32,914,484	$76,766,479	$541.47
LUZERNE	$28,355,437	$30,542,041	$58,897,478	$447.70
LYCOMING	$9,991,749	$10,564,209	$20,555,957	$451.74
MCKEAN	$3,133,136	$3,662,556	$6,795,693	$430.76

Savings Under SB 269/HB 2388

County	PIT Savings 2025	GRT Savings 2025	Combined Savings	Savings Per Household
MERCER	$8,714,289	$10,632,464	$19,346,752	$422.44
MIFFLIN	$3,516,499	$4,327,695	$7,844,194	$420.80
MONROE	$14,512,511	$13,745,729	$28,258,240	$477.27
MONTGOMERY	$182,226,717	$75,931,410	$258,158,128	$789.32
MONTOUR	$2,295,503	$1,735,628	$4,031,131	$539.21
NORTHAMPTON	$40,298,612	$27,675,329	$67,973,941	$570.21
NORTHUMBERLAND	$6,950,328	$8,675,587	$15,625,915	$418.15
PERRY	$4,209,356	$4,137,788	$8,347,143	$468.34
PHILADELPHIA	$131,378,471	$150,116,513	$281,494,984	$435.34
PIKE	$5,289,532	$5,421,168	$10,710,701	$458.68
POTTER	$1,199,649	$1,482,342	$2,681,991	$420.05
SCHUYLKILL	$12,161,479	$13,178,098	$25,339,577	$446.41
SNYDER	$3,280,229	$3,336,836	$6,617,065	$460.38
SOMERSET	$5,712,399	$6,699,441	$12,411,840	$430.12
SULLIVAN	$491,757	$556,720	$1,048,477	$437.23
SUSQUEHANNA	$3,870,492	$3,582,229	$7,452,721	$483.00
TIOGA	$3,068,394	$3,793,494	$6,861,888	$419.94
UNION	$4,060,485	$3,222,381	$7,282,866	$524.70
VENANGO	$3,659,515	$4,883,021	$8,542,536	$406.15
WARREN	$2,953,504	$3,730,811	$6,684,315	$415.95
WASHINGTON	$27,409,198	$19,972,260	$47,381,459	$550.77
WAYNE	$4,374,561	$4,499,029	$8,873,590	$457.90
WESTMORELAND	$38,352,562	$35,355,182	$73,707,744	$484.00
WYOMING	$2,506,067	$2,460,896	$4,966,963	$468.58
YORK	$49,794,907	$40,959,524	$90,754,431	$514.40

Source: PA Department of Revenue, 2020 Personal Income Tax Statistics; Statistical Supplement to the Tax Compendium FY 2022-23; US Census Bureau, Population Estimates

COMMONWEALTH FOUNDATION | FACT SHEET

Proposed Tax Cuts and the 2024 State Budget

Tax Relief Totals $900 per Family of Four

KEY POINTS

- A responsible budget in fiscal year (FY) 2024–25 must grapple with Pennsylvania's aging and shrinking workforce challenges through sound tax and regulatory reform.
- State Senate Republicans proposed two tax cuts to improve Pennsylvania's competitiveness.
  - Senate Bill (SB) 269 proposes a 9 percent reduction to the Personal Income Tax (PIT) rate beginning in January 2025.[1]
  - SB 269 also proposes eliminating the Gross Receipts Tax (GRT) on electricity. The surcharge on consumer electricity bills collected $1.16 billion in revenue this fiscal year.
- The tax cuts would save $400 per family of four in FY 2024-25 and increase to $900 per family of four in FY 2025-26.
- Tax cuts should pair with sound spending restraint to reduce Pennsylvania's structural deficit.

PENNSYLVANIA'S STRUCTURAL DEFICIT

- Shapiro's budget, as proposed, spends $3 billion more than revenues this year and creates a **structural deficit of more than $6 billion** by 2028.[2,3] His plan would illegally drain state reserves by the end of 2026, requiring massive spending cuts or tax hikes on working families.[4]
- In contrast, the proposed tax reductions would forgo $1.3 billion in revenues and address the demographic trends driving higher state spending.
  - Pennsylvania, year over year, loses its working-age population to other states. Better jobs and pocketbook issues are the main drivers behind the "exodus."[5]
  - According to the Independent Fiscal Office (IFO), Pennsylvania's working-age population will fall 2.6 percent between 2020 and 2025 and an additional 1.7 percent between 2025 and 2030, resulting in an adverse "dependency ratio" shift from 3.5 working adults per senior to 2.5 by 2030.[6] This shift will have a drastic impact on state finances.
  - Fewer working-age adults means lower PIT collections, while expensive programs that serve seniors, like Long-Term Care, will grow. The IFO projects a 5.9 percent average annual growth rate for Long-Term Care, far outpacing the projected General Fund revenue average annual increase of 2.7 percent over the next five years.[7]

PROPOSED TAX CUTS

- SB 269 proposes reducing the PIT from 3.07 percent to 2.8 percent beginning in January 2025.

- This returns the PIT rate to where it was in 2003 before former Gov. Ed Rendell's tax increase.[8]
- According to the Tax Foundation, Pennsylvania's PIT rate is the 12th lowest in the nation, including states with no PIT. Under this proposal, Pennsylvania would levy the 10th lowest rate.[9]
- Since the pandemic, states have been pursuing tax cuts to become more economically competitive. Fourteen states have already reduced their individual income tax rate in 2024.[10]
- Reducing the PIT benefits small businesses. Approximately 825,000 small business owners in Pennsylvania pay the PIT versus the Corporate Net Income Tax (CNIT).[11]

▪ SB 269 also proposes eliminating the GRT on electricity of 59 mills. This tax on electricity sales currently passes on to consumers as a surcharge. Unlike the PIT, a portion of GRT revenues fund specific programs in the state budget. The proposal transfers $6 million from the General Fund to the Alternative Fuels Incentive Fund to replace GRT revenue.

- The Alternative Fuels Incentive Fund provides grants for local governments and non-profits that want to transition to transportation options such as compressed natural gas, electric vehicles, hydrogen, ethanol, and other biofuels.[12]

▪ These tax cuts would reduce state revenue by $1.3 billion in 2024–25 and save the average family of four nearly $400. A full year of these tax reductions would save a family of four nearly $900, with state revenues declining by $3 billion.

Savings from Proposed Tax Cuts in SB 269

Item	2024-25		2025-26		2026-27	
State Tax Rate Changes	Total Revenue*	Per Family of Four	Total Revenue*	Per Family of Four	Total Revenue*	Per Family of Four
Reduce PIT to 2.8% January 2025	-$614,500	-$190	-$1,705,900	-$526	-$1,789,500	-$552
Eliminate GRT on Electricity Sales (59 mills) January 2025	-$658,100	-$203	-$1,207,100	-$373	-$1,229,000	-$379
Total	**-$1,272,600**	**-$393**	**-$2,913,000**	**-$899**	**-$3,018,500**	**-$931**

*Revenue in thousands of dollars.

Source: Senate Bill 269 fiscal note, https://www.legis.state.pa.us/WU01/LI/BI/SFN/2023/0/SB0269P1584.pdf.

MORE WAYS TO MAKE PENNSYLVANIA "OPEN TO BUSINESS"

▪ The proposed tax cuts would spur job creation and economic growth, but there are more tax reductions that Shapiro and Senate leaders support.

- The budget should accelerate the reduction of the CNIT. Moving Pennsylvania from one of the highest CNIT rates to among the lowest will improve the state's competitiveness. Pennsylvania must keep pace as tax reductions occur across the country. In 2024 alone, six states lowered the corporate tax rate.[13]

- The state can further improve by ending the startup penalty.[14] Pennsylvania is one of only two states that cap how much corporations can deduct in losses and where small businesses cannot deduct any losses. Enacting net operating loss reforms would encourage more business startups.[15]

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COMMONWEALTH FOUNDATION | FACT SHEET

Corporate Welfare in the 2024–25 Budget

SUMMARY

- Pennsylvania's economy is largely uncompetitive, with the state routinely losing businesses and residents to more economically competitive states like Florida, North Carolina, and Texas.
- Gov. Josh Shapiro's budget proposes $1.49 billion in corporate welfare spending.
- Corporate welfare programs do not improve the business climate, and most tax credits return less than 25 cents per dollar spent.
- Rather than ineffective targeted handouts, Pennsylvania's economic development strategy should focus on broad-based tax and regulatory reform.

THE PROBLEM

- Pennsylvania's economy consistently rates among the worst in the country. According to the 2023 ALEC-Laffer State Economic Competitiveness Index, Pennsylvania ranks 46th in economic performance.[1] WalletHub recently ranked Pennsylvania as the fifth-worst state to find a job.[2]
  - The uncompetitive economy drives Pennsylvanians away to economically competitive, low-tax states like Florida, North Carolina, and Texas, which saw significant population growth in 2023. Outmigration has hit the Keystone State hard, close to 65,000 have left over the last two years, according to the U.S. Census Bureau.[3]
  - Despite numerous tax credits and grant programs, Pennsylvania's antiquated regulatory and permitting regime forfeits business opportunities to other states. The state recently missed out on two major deals: U.S. Steel's decision to build a $3 billion mill and, for Coca-Cola, the new Fairlife milk processing plant, projected as the largest in the Northeast.[4]
  - While big investments make headlines, more than 45 percent of Pennsylvania employees work for small businesses that do not have the bandwidth to navigate the dozens of grant, loan, and tax credit programs managed by the Department of Community and Economic Development.[5]

CORPORATE WELFARE

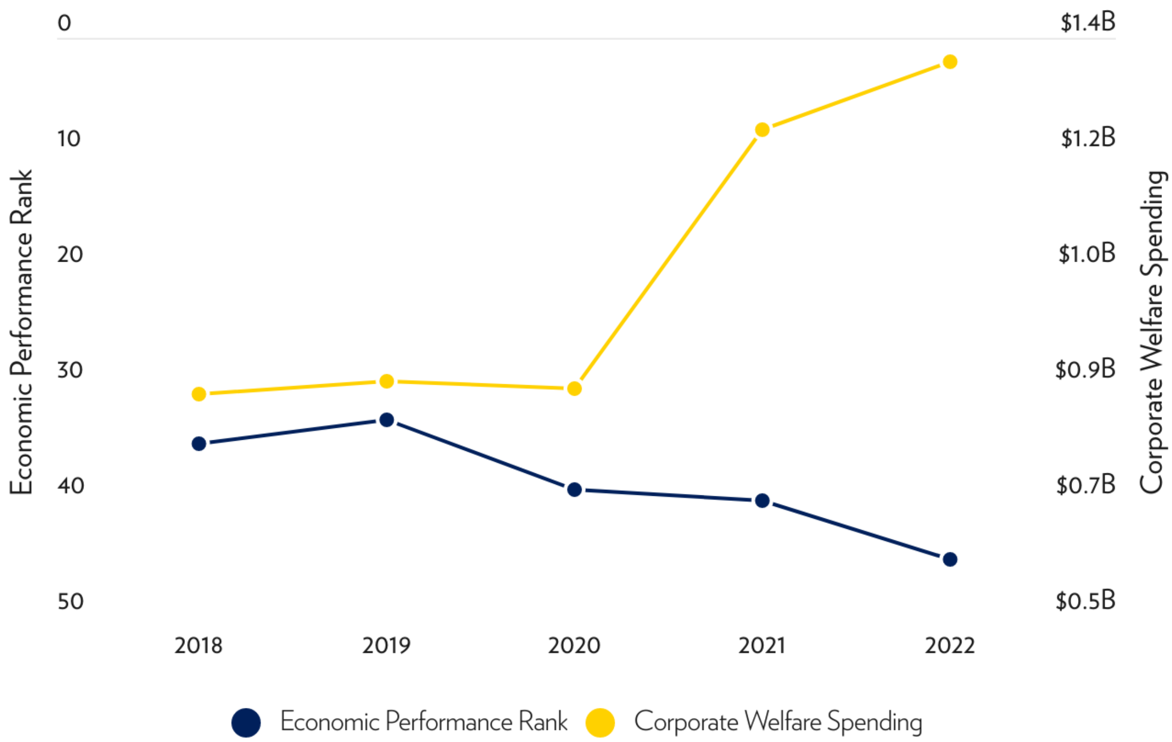
- Shapiro proposes a total of $1.49 billion in corporate welfare spending, or government funds directed at specific industries, down from $1.58 billion last year.[6] Of this, his 2024–25 budget plan allocates $892 million to programs, while it directs $600 million to tax credits. Though overall spending is down, Shapiro adds funding for several new corporate welfare programs with higher long-term costs.
  - The largest is the Pennsylvania Strategic Investments to Enhance Sites (PA SITES) Program, a business infrastructure development grant initiated in September 2023. Shapiro's budget proposes borrowing $500 million for the new program.

- PA SITES debt service is projected to cost $15.4 million in fiscal year (FY) 2024–25 and $45.2 million annually in the following fiscal years.

- The budget seeks $25 million in funding for the new Main Street Matters program, which aims to revitalize communities.
- Shapiro also wants to end the funding for Keystone Communities and decrease the funding for Keystone Opportunity Zones and the Redevelopment Capital Assistance Program.
  - Grants made through these corporate welfare programs have a record of failure. Recently, a Pittsburgh company's attempt at landing on the moon failed after receiving $4 million in state funds.[7]
  - In 2012, the state awarded one of the state's largest subsidy packages to Shell for the construction of a plastics plant. In May 2023, Shell agreed to pay nearly $10 million for violations of air emissions limits,[8] underlining expectations it will be the last of its kind due to economic, and regulatory forces.[9]
- Tax credits accounted for $600 million of corporate welfare spending, down from $634.1 million in FY 2023–24. This is mainly due to cuts in the Keystone Opportunity Zone tax credit program.
  - In October 2023, the Pennsylvania Independent Fiscal Office (IFO) released a comprehensive review of all state tax credit programs.[10] The review found that most tax credit programs had a net return on investment of less than 25 cents per dollar spent.

Corporate Welfare & Economic Performance

As corporate welfare spending increases, economic performance declines.



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SOLUTIONS

- To address Pennsylvania's uncompetitive business environment, lawmakers should enact broad-based reform to the state's corporate net income tax (CNIT) and net operating loss provisions.
  - Pennsylvania's 2024 CNIT is 8.49 percent (after a yearly prescribed half-point drop to reach 4.99 percent in 2031).[11] Eliminating all corporate welfare spending could provide for a revenue-neutral 3.19 percentage point CNIT reduction to 5.3 percent, the 19th lowest in the country.[12]

- Pennsylvania is one of two states with a cap on the amount of net operating loss businesses can claim in a year. Increasing the net operating loss carryover limit would protect startups and help cyclical businesses weather difficult times.[13]
- Pennsylvania is 22 percent more regulated than the average state. Reducing state regulations by 36 percent would yield a $9.2 billion increase in state GDP and create 180,000 new jobs.[14]

Corporate Welfare Programs and Tax Credits in the State Budget, 2024-25

Programs		Tax Credits
Agriculture Business and Workforce Development	Life Sciences Greenhouses	Airport Land Development Zones
Agricultural Excellence	Livestock Show	Brewer's Tax Credit
Agricultural Research	Machinery and Equipment Loan Fund	Computer Data Center Equipment Exemption*
Agricultural Promotion, Education and Exports	Marketing to Attract Business	Entertainment Production Tax Credit*
Alternative Fuels Funding	Marketing to Attract Tourists	Keystone Innovation Zone
Ben Franklin Tech Development Authority Transfer	Municipalities Financial Recovery Revolving Fund Transfer	Keystone Opportunity Zone
City Revitalization and Improvement Fund (State Tax Share)	Neighborhood Improvement Zone Fund (State Tax Share)	Local Resource Manufacturing Tax Credit
Commonwealth Financing Authority Debt Service	New Choices/New Options	Manufacturing Tax Credit
Council on the Arts	Open Dairy Show	Milk Processing Tax Credit
Food Marketing and Research	Partnerships for Regional Economic Performance	Neighborhood Assistance Tax Credit
Grants to the Arts	Pennsylvania First	Pennsylvania Resource Manufacturing Tax Credit
Hardwoods Research and Promotion	Pennsylvania Race Horse Development Fund	Regional Clean Hydrogen Hubs Tax Credit
Industry Partnerships	Redevelopment Assistance Capital Program Payments	Research and Development Tax Credit
Infrastructure and Facilities Improvement Grants	Tourism-Accredited Zoos	Resource Enhancement and Protection Tax Credit
Main Street Matters	Transfer to the Nutrient Management Fund	Semiconductor Manufacturing and Biomedical Manufacturing and Research Tax Credit
PA SITES	Office of International Business Development	Tax Credits for Beginning Farmers
	Youth Shows	Waterfront Development Tax Credit

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The Clear Advantage in Glass Products

Alderfer Glass was started back in 1961 by 2 brothers. Myself and my brother in law were 2nd generation and just recently my sons took over the business (3rd generation) We do auto glass, have 5 stores, residential glass and commercial glass with roughly 90 employees.

Employees and Retirees continue to suffer from the high cost of things since Covid.

As payroll has been pushed up for the high costs, the costs stay high or move higher

Need smart policies to reduce costs in so many areas.

As an employer:
Higher costs in payroll pushes up workman's comp
Labor is hard to find and paying more to bring on board
Workforce is aging

Health care continues to rise and be a burden on the employee and employer.

Our area has really high housing prices, inflation eats in to household incomes, Dual incomes in our area are almost a must.

Continuing stiffer regulations on building projects have driven up the costs for all.

Our area can be serviced by other suppliers north and west of us who do not have as large living costs and can operate for less.

The market has a lot of volatility and sales projections are hard to make

Major increase in electric costs and Utility costs since Covid

Insurance costs are continuing to go up Auto / Fleet, Property and Casualty, Workman's Comp

Fleet costs are much higher and gas prices are up significantly since 2019

We are feeling that infrastructure since Covid is less reliable, power outages, phone outages, long wait times.

Whether an individual or a business owner the prices for things are much higher now than they were 4 to 5 years ago. Relief is needed!

Wendell J Weaver