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

"Historic Tax Cuts"

Thursday, June 20, 2024, at 1 p.m.

St. Francis University
Schwab Hall, Vista Room
132 Franciscan Way
Loretto, PA 15940

1:00 p.m.	Welcome and Pledge of Allegiance
1:10 p.m.	**Elizabeth Stelle** *Director of Policy Analysis, The Commonwealth Foundation*
1:15 p.m.	**Robert Sloan** *Owner, PJ's Tavern*
1:20 p.m.	**Ray Lenz** Citizen
1:25 p.m.	**Questions for the Testifiers**
1:55 p.m.	**Closing Comments**

Testifier Biographies

PA House of Representatives Policy Committee Hearing

"Historic Tax Cuts"

Elizabeth Stelle
Director of Policy Analysis, The Commonwealth Foundation

Elizabeth Stelle is the Director of Policy Analysis at the Commonwealth Foundation.

Elizabeth has researched and written on government reform, health care, welfare, energy, and government transparency. Her work has been featured in the Pittsburgh Post-Gazette, Patriot-News, Philadelphia Inquirer, and a variety of radio and television programs throughout the commonwealth. Elizabeth is a graduate of Grove City College where she earned a bachelor's degree in history.

A native of Ohio, Elizabeth makes her home in the Pittsburgh area with her husband and four children. She enjoys swimming, traveling to historic landmarks and exploring the moral foundations of capitalism.

Robert Sloan
Owner, PJ's Tavern

Robert Sloan owns PJ's Tavern, a family-owned establishment in Cresson, PA, founded in 1964 by Robert's uncle, PJ Sloan.

Ray Lenz
Citizen

Ray Lenz, a self-proclaimed 'common guy', is a retired special education teacher, a Korean War veteran, and a Past American Legion State Commander.

Tax Reform in the Commonwealth

Pennsylvania House Republican Policy Committee

June 20, 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 economic crisis facing Pennsylvania, especially western Pennsylvania.

Every county in western Pennsylvania except Washington and Butler reported a loss or stagnant population from 2022 to 2023. Cambria County was no exception with a population loss of 0.58 percent. A shrinking population means a shrinking economy, fewer job opportunities, and a heavier tax burden on remaining workers to support aging residents.

How do we reverse this tide? Bipartisan policies that, using Gov. Shapiro's words, communicate Pennsylvania is "open for business".

You may remember that Gov. Shapiro campaigned on cutting taxes and reducing our state's regulatory burden to attract jobs.

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.

And no industry is more regulated than energy. Pennsylvania needs to unleash our energy sector and lower energy costs with policies that prioritize affordability and reliability.

But today we are focused on good tax reform—states like Ohio are cutting their personal income tax, and New Jersey is reducing business taxes. Fourteen states cut personal income taxes and six states cut business taxes in 2024 alone. This is on top of dozens of tax reductions in 2022 and 2023. If Pennsylvania doesn't cut taxes, we will fall further behind.

And for residents here in Cambria County, the tax cuts laid out in SB 269/HB 2388 mean real opportunity. We've calculated the savings per household will reach $415.49. An overview of Pennsylvania's economic, migration, and demographic trends will show why this economic boost is so important.

Economic trends

While Pennsylvania's official unemployment rate has been near record lows for months, 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.

<u>Outmigration</u>

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 in the last couple of 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. 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 is more effective and have a greater “multiplier” than government picking winners and losers.

Pennsylvania’s income tax—with a low flat rate and few exemptions and deductions—is a strength. Still, counting local income taxes, our overall income tax collections are 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 has not 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.

<u>Proposed Tax Cuts</u>

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 is 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

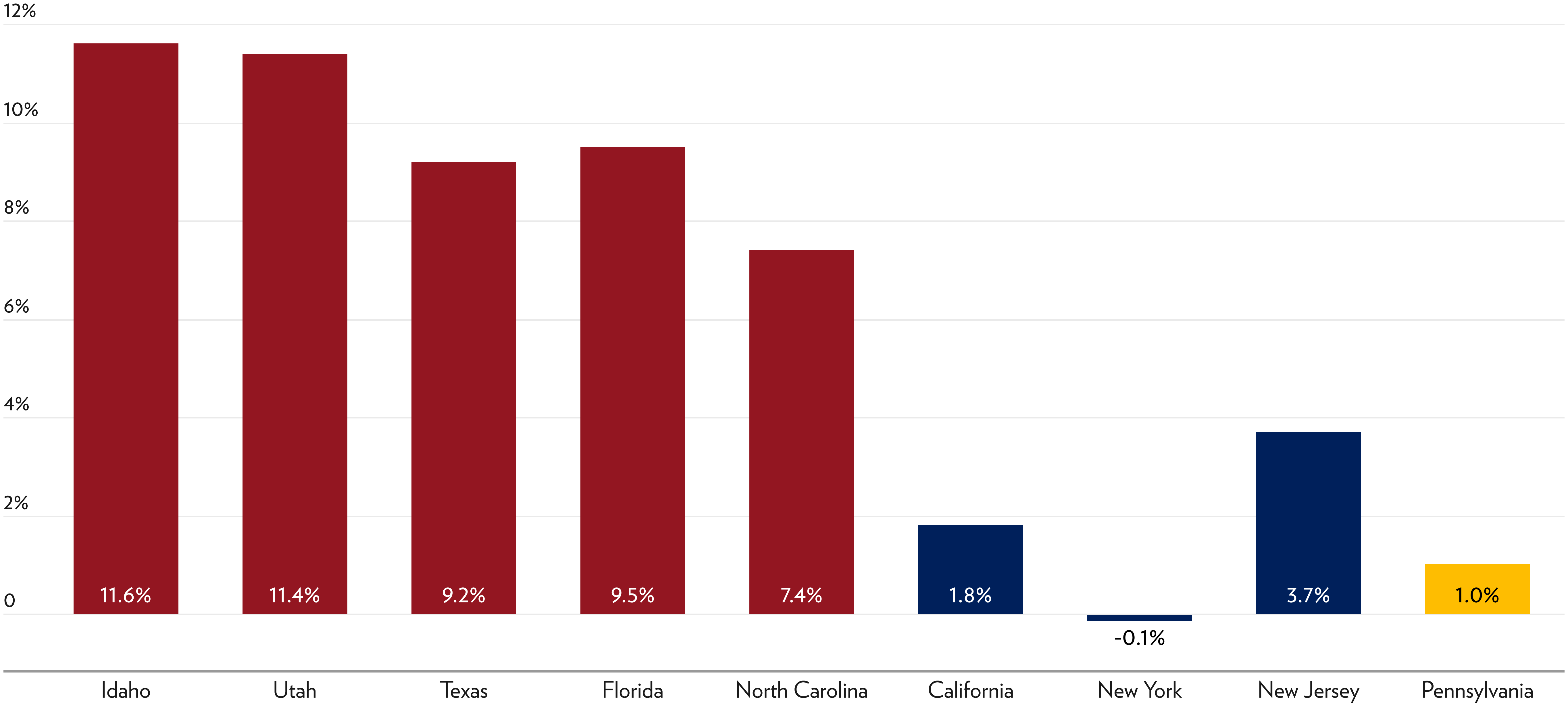
Notably, reducing the personal income tax benefits small businesses—which pay the personal rate rather than the corporate rate. These include sole proprietorships, partnerships and LLCs, family-owned businesses, and S-corporations which pass through earnings.

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.

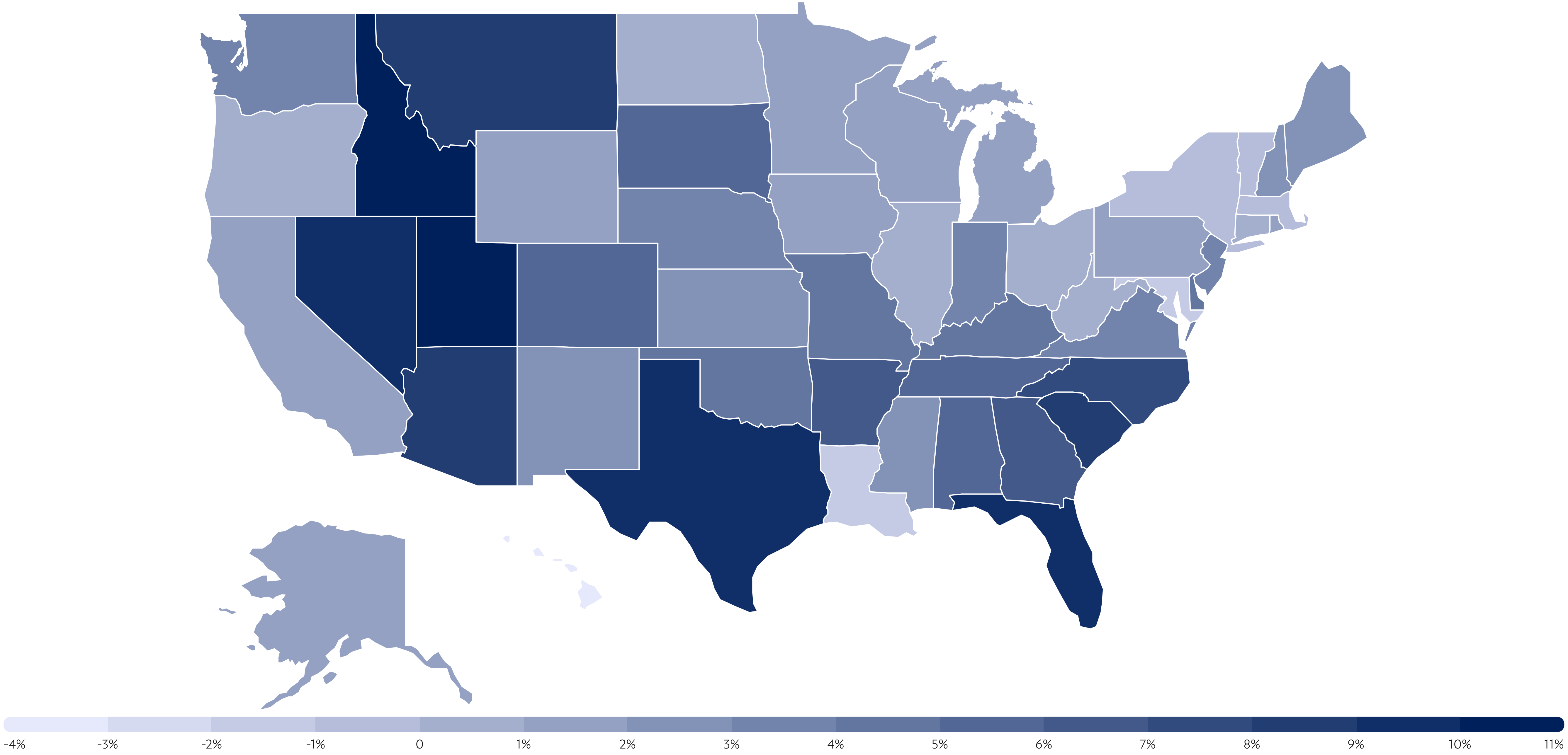
Payroll Job Growth by State

February 2020 to Apr 2024



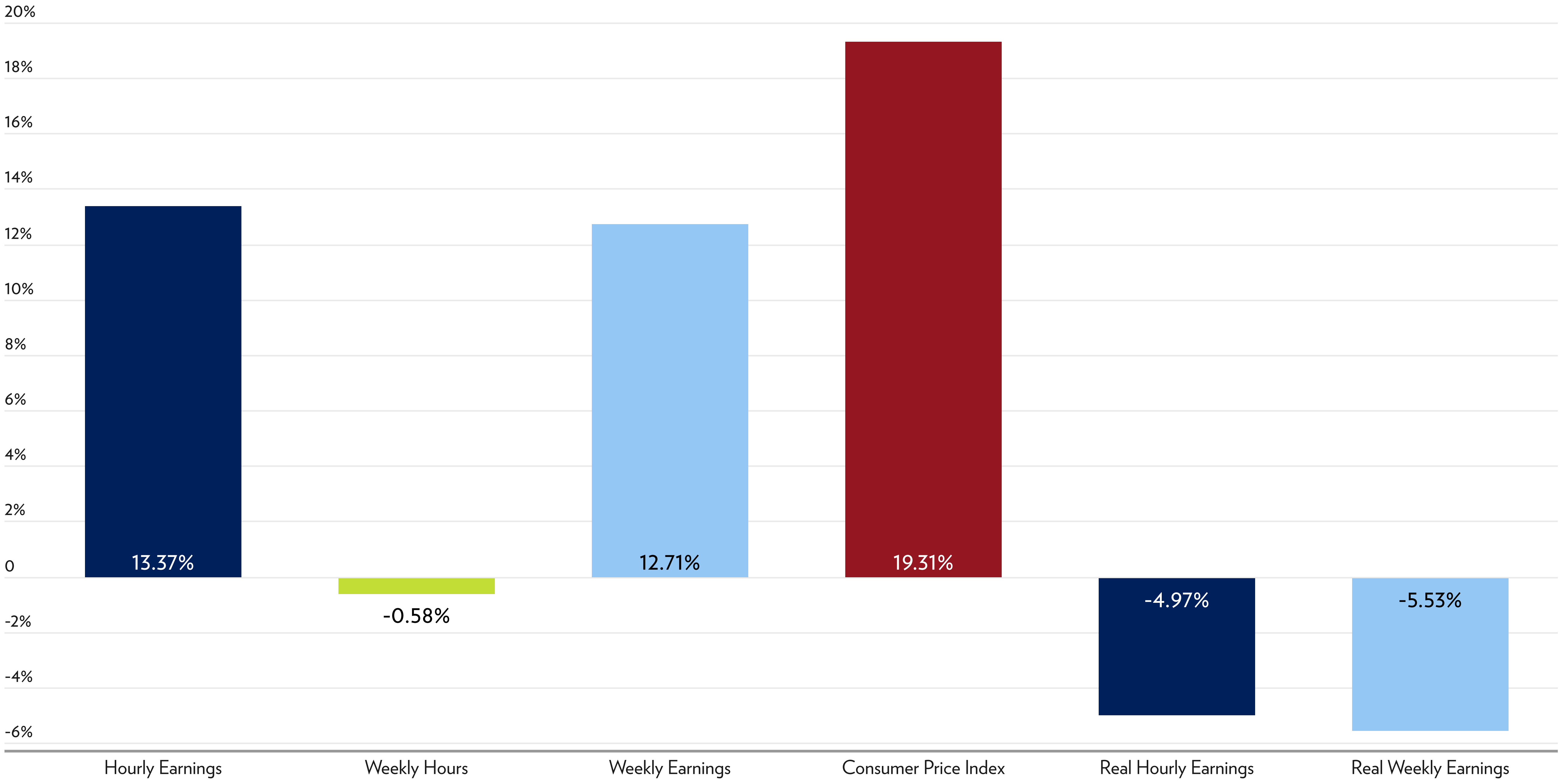
Source: Bureau of Labor Statistics, seasonally adjusted employment

JOB GROWTH/LOSS FEB 2020 - APR 2024



Source: Bureau of Labor Statistics

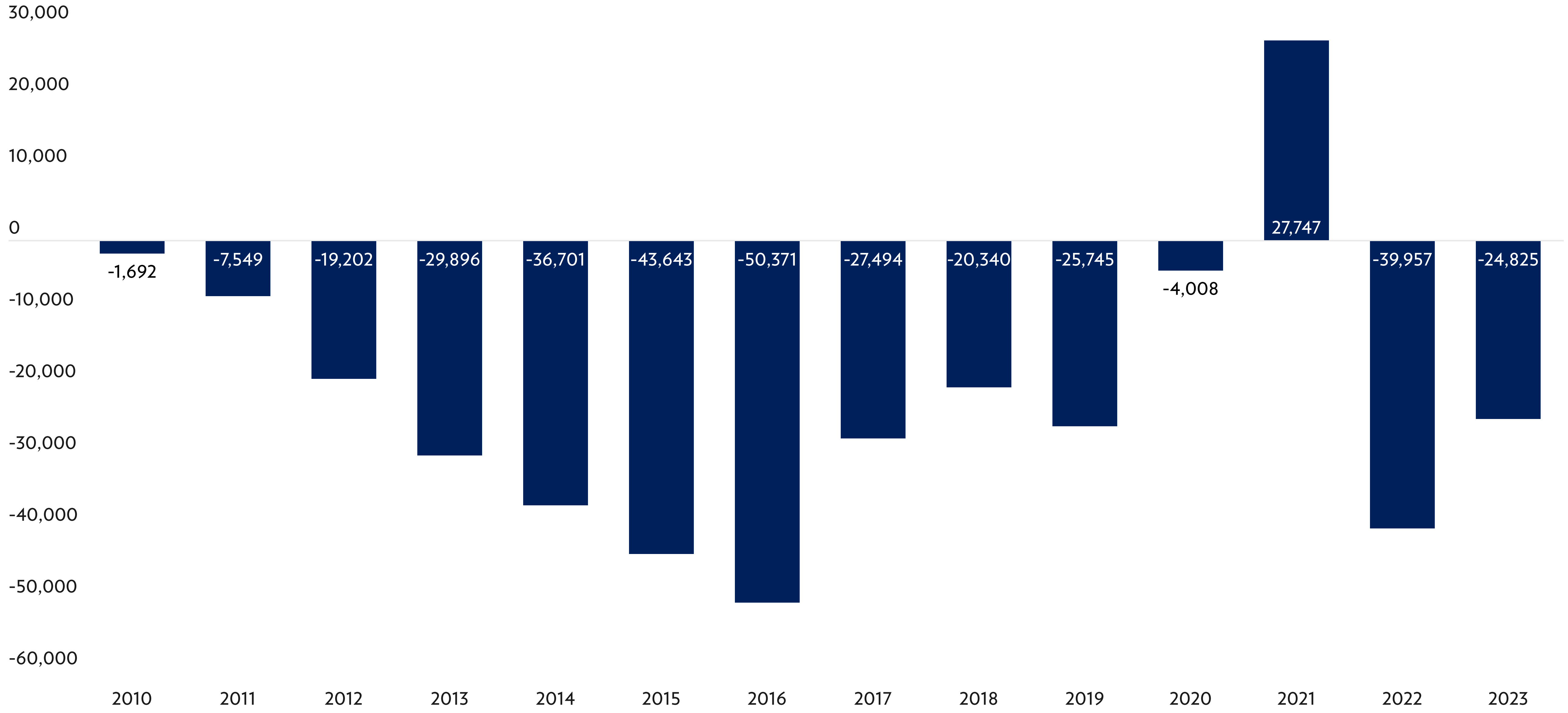
Impact of Inflation in Pa (Since January 2021)



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

Pennsylvania Domestic Migration Gain/Loss

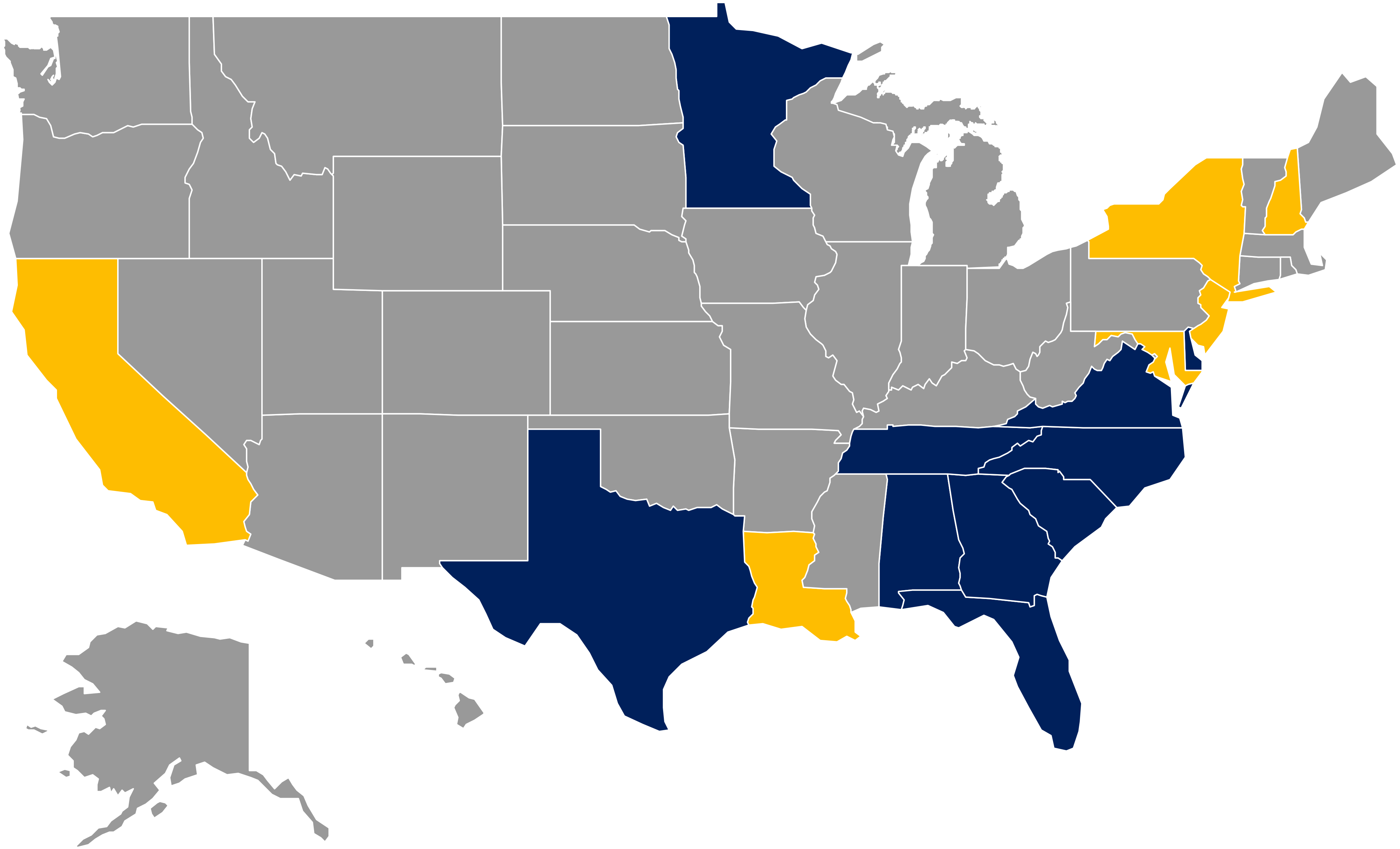
An out-migrating population does not bode well for the state's future.



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.

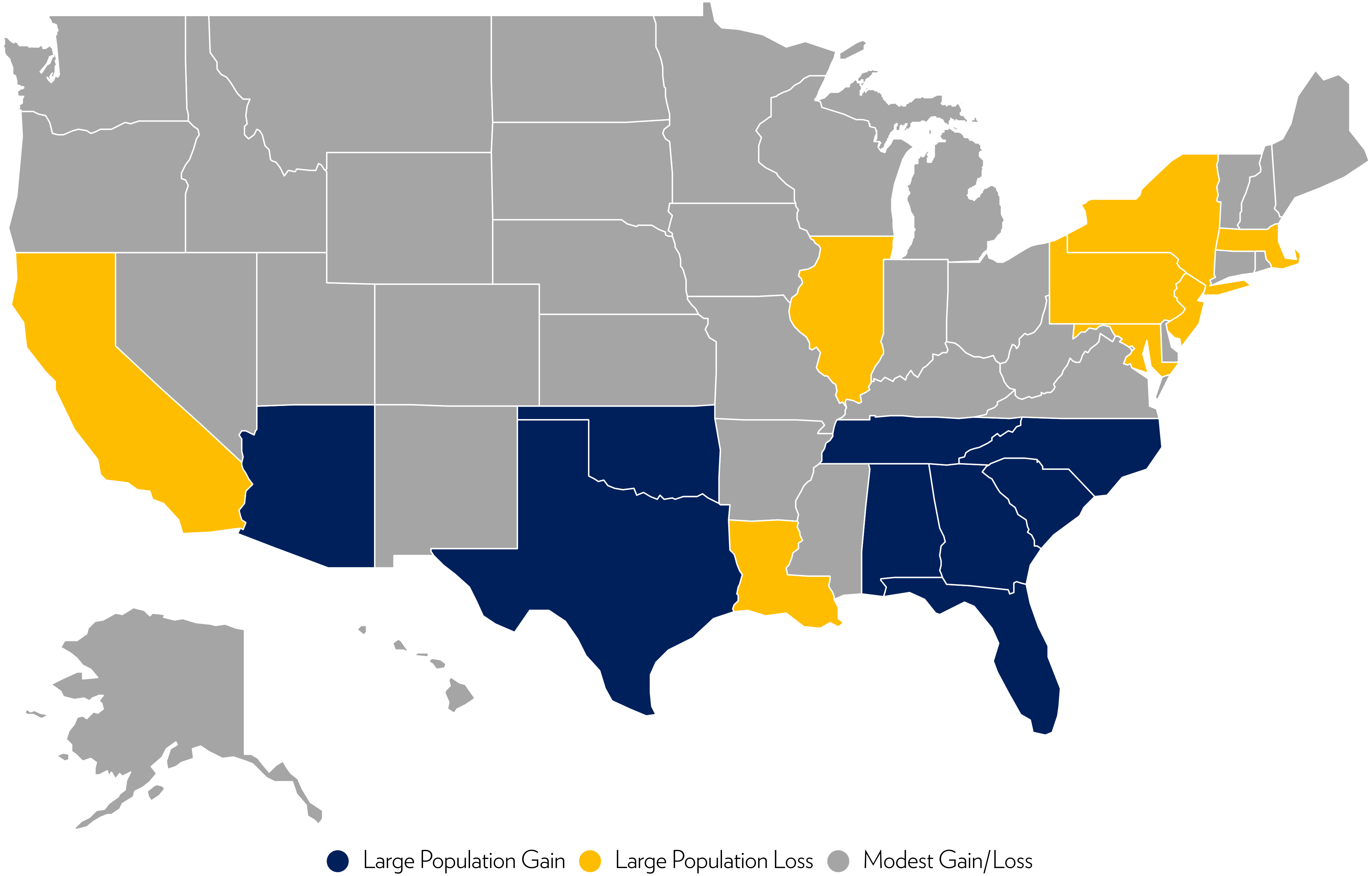


Modest Gain or Loss Moving From PA Moving to PA

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

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

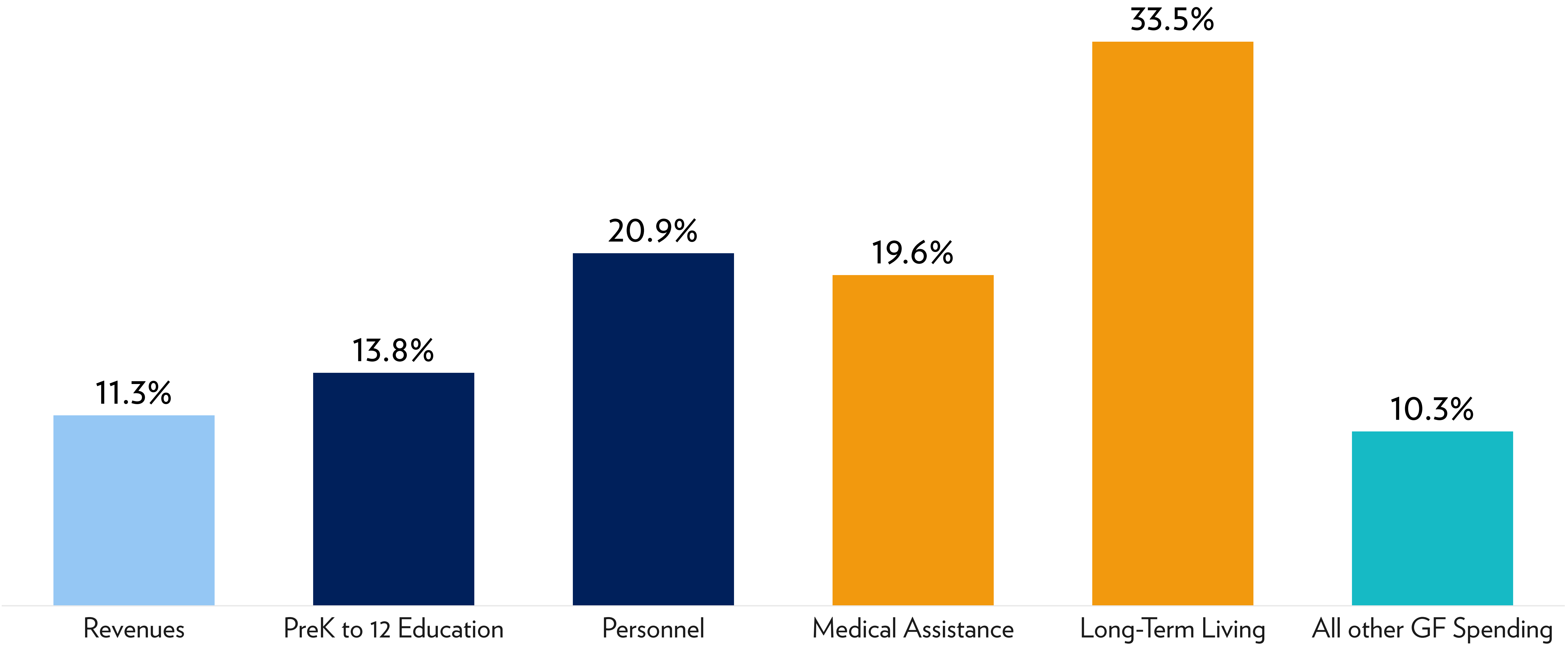
Pennsylvanians are voting with their feet and moving to lower tax states.



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

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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[10] States that have reduced PIT in 2024: Arkansas, Connecticut, Georgia, Indiana, Iowa, Kentucky, Mississippi, Missouri, Montana, Nebraska, New Hampshire (interest and dividends income only), North Carolina, Ohio, and South Carolina.
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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.

- o 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.

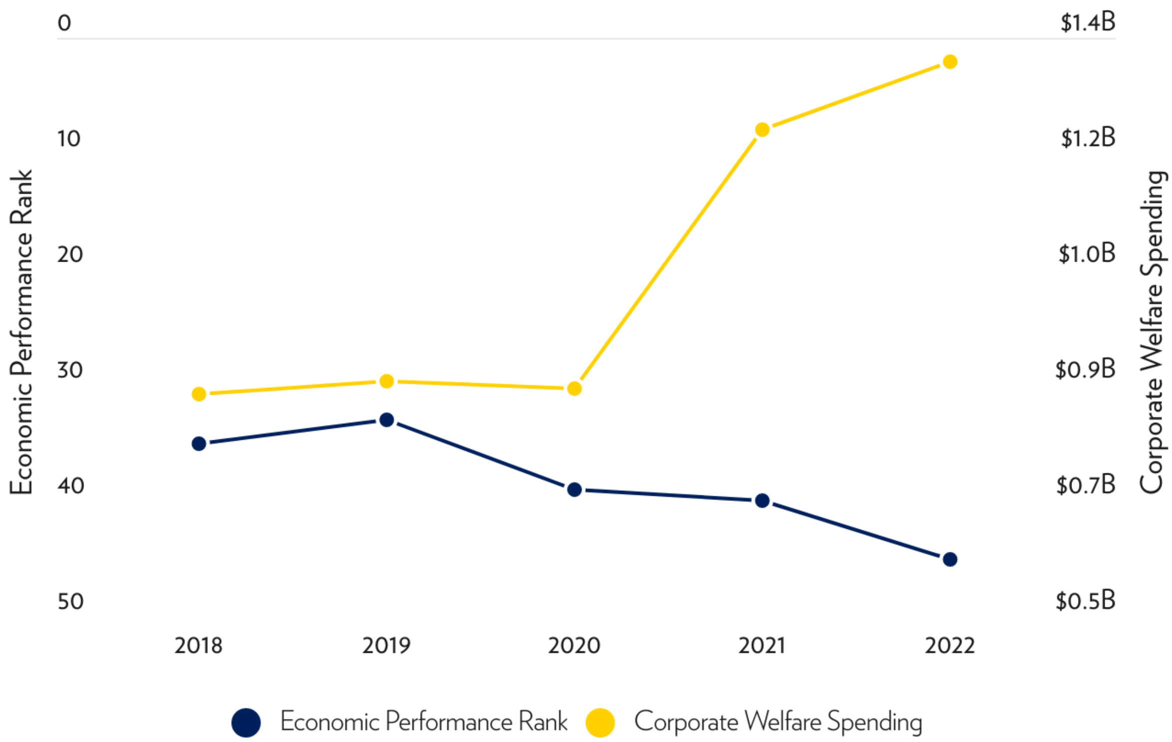
- The budget seeks $25 million in funding for the new Main Street Matters program, which aims to revitalize communities.

- Shapiro also wants to end the funding for Keystone Communities and decrease the funding for Keystone Opportunity Zones and the Redevelopment Capital Assistance Program.
  - o 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]
  - o 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.
  - o 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.



Economic Performance Ranking: Arthur B. Laffer, Stephen Moore, and Jonathan Miller, "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index," American Legislative Exchange Council, 2018-2022.
Corporate Welfare Spending: Pennsylvania Office of the Budget, "Governor's Executive Budget," Fiscal Years 2018-19 to 2022-23, https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Pages/default.aspx
Pennsylvania Office of the Budget, "Enacted Budget Line Item Appropriations," Fiscal Years 2018-2019 to 2022-23.

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

Sources: Office of the Budget, Commonwealth Budget, 2024-25, "Governor's Executive Budget," https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Documents/2024-25%20Budget%20Documents/Budget%20Book%202024-25%20-%20Web%20Version.2.pdf

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Robert Sloan
6/20/2024
Members of the Committee,

Thank you for giving me the opportunity to speak today and address this body with the critical concerns of Pennsylvania taxpayers.

I am here before you to advocate for the proposed tax reduction of the state income tax from 3.01% to 2.8%. This change, though it may appear modest at first glance, holds significant potential to the benefit not only families like mine but also businesses and their employees across our great Commonwealth.

Economic Growth and Competitiveness

Lowering the state income tax will have a positive ripple effect on Pennsylvania's economy. For Families like mine, this reduction translates to more disposable income. This means more money to invest in our children's education, home improvements and local businesses just to name a few. By putting more money back into the hands of our residents, we stimulate consumer spending, which drives economic growth and strengthens our communities.

From a business perspective, the tax cut will make Pennsylvania more attractive to potential investors and entrepreneurs. As a business owner, I know firsthand the impact taxes have on operational decisions. Lower taxes will allow us to reinvest in our companies, create more jobs, and foster innovation. In turn, this will draw more businesses to our state, enhancing our competitive edge and boosting overall economic prosperity.

Addressing Inflation and Financial Strain

It is essential to recognize the current economic challenges we face. The inflation that has surged under the Biden administration has placed a tremendous burden on families and businesses alike. The rising cost of goods and services is squeezing household budgets, making it harder for families to make ends meet. For businesses, the increased costs of supplies and operations are eroding profit margins and stifling growth. I am no economist, in fact I'm far from it. But I can tell you in my world a 40# box of chicken wings went from $82 a box in September of 2023 to $115 today, according to ChatGPT this is a 40.24% increase. Whether you want to call it price gouging or inflation it's $35 more a case and that fact remains. I would be happy to share invoices to validate this claim.

In this context, the proposed tax cut is more critical than ever. By reducing the state income tax, we can provide immediate relief to Pennsylvanians struggling with the impacts of inflation. More disposable income means families can better cope with rising prices, and businesses can alleviate some of the financial pressures they face, allowing them to continue to invest and grow despite the challenging economic environment.

Budget Impact and Revenue Projections

It is essential to address concerns regarding the state budget and revenue. While it's true that the tax cut will reduce the immediate revenue, the long-term benefits should not be overlooked. Increased consumer spending and business investments will generate more economic activity, which can help offset the initial decrease in revenue. Additionally, by attracting more businesses and residents, we will broaden our tax base, ensuring sustainable revenue for the future.

Equity and Fairness

It's also important to consider the equity of this tax reduction. For lower- and middle-income families, even a small reduction in the state income tax can make a significant difference. It means more financial freedom and less strain on household budgets. This tax relief can help families like mine provide better opportunities for our children and improve our quality of life. For my business and staff, the benefits are equally compelling. Lower taxes mean I can afford to give my employees raises, invest in their professional development, and enhance workplace benefits. This not only improves employee satisfaction retention but also boosts productivity and moral. When businesses thrive, their employees and families do too.

Conclusion

In conclusion, reducing the state income tax from 3.01% to 2.8% is a step towards a more prosperous Pennsylvania. It will empower families, stimulate economic growth, and make our state more attractive to businesses. I urge the committee to support this proposal, considering the long-term benefits and potential for a brighter future for all Pennsylvanians.

Thank you for your time and consideration.

PRINTER'S NO. 3250

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 2388 Session of 2024

INTRODUCED BY O'NEAL, KAIL, KAUFFMAN, COOK, STENDER, OWLETT, MARCELL, ROWE, KUTZ, STAMBAUGH, GLEIM, TOPPER, HAMM, ZIMMERMAN, BARTON, RAPP, SMITH, D'ORSIE, KRUPA, BOROWICZ, FINK, SCHEUREN, SCHLEGEL, STAATS, LEADBETER, E. NELSON, MIHALEK, SCHMITT, ECKER, MENTZER, WHITE, CUTLER, DELOZIER, DUNBAR, DIAMOND, R. MACKENZIE, RADER, RYNCAVAGE, ROAE, MERCURI, TOMLINSON, PICKETT, M. MACKENZIE, RIGBY, CAUSER, TWARDZIK, M. BROWN, ARMANINI, CABELL, HOGAN, WATRO, MARSHALL, WARNER, DAVANZO, FLICK, OLSOMMER, GROVE, COOPER, T. JONES, JOZWIAK, FRITZ, STEHR, MALONEY, MAJOR, KUZMA AND M. JONES, JUNE 5, 2024

REFERRED TO COMMITTEE ON FINANCE, JUNE 5, 2024

AN ACT

Amending the act of March 4, 1971 (P.L.6, No.2), entitled "An act relating to tax reform and State taxation by codifying and enumerating certain subjects of taxation and imposing taxes thereon; providing procedures for the payment, collection, administration and enforcement thereof; providing for tax credits in certain cases; conferring powers and imposing duties upon the Department of Revenue, certain employers, fiduciaries, individuals, persons, corporations and other entities; prescribing crimes, offenses and penalties," in personal income tax, further providing for imposition of tax; in gross receipts tax, further providing for imposition of tax, providing for transfers to Alternative Fuels Incentive Fund and further providing for establishment of revenue-neutral reconciliation; eliminating the tax imposed upon each dollar of the gross receipts received from the sales of electric energy; providing for the benefit of consumers and for a civil penalty; and making a repeal.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 302(a) and (b) of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971, amended December 14, 2023 (P.L.460, No.64), are amended to read:

Section 302. Imposition of Tax.--(a) Except as provided in subsection (c), every resident individual, estate or trust shall be subject to, and shall pay for the privilege of receiving each of the classes of income hereinafter enumerated in section 303, a tax upon each dollar of income received by that resident during that resident's taxable year at the rate of [three and seven hundredths] two and eight-tenths per cent.

(b) Except as provided in subsection (c), every nonresident individual, estate or trust shall be subject to, and shall pay for the privilege of receiving each of the classes of income hereinafter enumerated in section 303 from sources within this Commonwealth, a tax upon each dollar of income received by that nonresident during that nonresident's taxable year at the rate of [three and seven hundredths] two and eight-tenths per cent.

* * *

Section 2. Section 1101(b) and (h) of the act are amended and the section is amended by adding a subsection to read:

Section 1101. Imposition of Tax.--* * *

(a.2) Transfer to Alternative Fuels Incentive Fund.--Notwithstanding any other provision of law, beginning in fiscal year 2024-2025, and each fiscal year thereafter, six million dollars ($6,000,000) of the taxes received under subsection (a) shall be transferred to the Alternative Fuels Incentive Fund established under section 3 of the act of November 29, 2004 (P.L.1376, No.178), known as the Alternative Fuels Incentive Act. The transfer required under this subsection shall be made annually by May 31, 2025, and each May 31 thereafter.

(b) Electric Light, Waterpower and Hydro-electric Utilities.--

(1) Every electric light company, waterpower company and hydro-electric company now or hereafter incorporated or organized by or under any law of this Commonwealth, or now or hereafter organized or incorporated by any other state or by the United States or any foreign government and doing business in this Commonwealth, and every limited partnership, association, joint-stock association, copartnership, person or persons, engaged in electric light and power business, waterpower business and hydro-electric business in this Commonwealth, shall pay to the State Treasurer, through the Department of Revenue, a tax of forty-four mills upon each dollar of the gross receipts of the corporation, company or association, limited partnership, joint-stock association, copartnership, person or persons, received from:

[(1)] (i) the sales of electric energy within this State, except gross receipts derived from the sales for resale of electric energy to persons, partnerships, associations, corporations or political subdivisions subject to the tax imposed by this subsection upon gross receipts derived from such resale; and

[(2)] (ii) the sales of electric energy produced in Pennsylvania and made outside of Pennsylvania in a state that has taken action since December 21, 1977 which results in higher costs for electric energy produced in that state and sold in Pennsylvania unless the action that was taken after December 21, 1977 is rescinded according to the following apportionment formula: except for gross receipts derived from sales under [clause (1)] subclause (i), the gross receipts from all sales of electricity of the producer shall be apportioned to the Commonwealth of Pennsylvania by the ratio of the producer's operating and maintenance expenses in Pennsylvania and depreciation attributable to property in Pennsylvania to the producer's total operating and maintenance expenses and depreciation.

(2) This subsection shall expire for taxable years beginning after December 31, 2024.

* * *

(h) Benefits to Consumer.--

(1) For purposes of this article, the reduction in the taxes imposed under subsections (a) and (b) shall derive to the benefit of the consumer purchasing services from said utilities. Said benefit shall be provided in the form of a reduction in the State tax surcharge. Failure to pass through the reduction to the consumer shall subject the public utility to a civil penalty of at least one thousand dollars ($1,000), but not more than five thousand dollars ($5,000), and such additional relief as the court may deem appropriate.

(2) For purposes of this article, the elimination of the taxes imposed under subsection (b) shall derive to the benefit of the consumer purchasing electric energy. Said benefit shall be provided in the form of the elimination of or a reduction in the State tax surcharge. Failure to pass through the elimination or reduction to the consumer shall subject the entity to a civil penalty of at least one thousand dollars ($1,000), but not more than five thousand dollars ($5,000), and such additional relief as the court may deem appropriate.

* * *

Section 3. Section 1101.2 of the act is amended to read:

Section 1101.2. Establishment of Revenue-Neutral Reconciliation.--(a) Rate of Tax.--Notwithstanding the provisions of 66 Pa.C.S. § 2810(c)(1) (relating to revenue-neutral reconciliation), the rate of tax established under 66 Pa.C.S. § 2810(c)(2) for the period beginning January 1, 2002, shall continue in force without further adjustment for periods beginning January 1, 2003, and thereafter, and the Secretary of Revenue shall not deliver any further reports under 66 Pa.C.S. § 2810(c)(3).

(b) Expiration.--Subsection (a) shall expire for taxable years beginning after December 31, 2024.

Section 4. Repeals are as follows:

(1) The General Assembly declares that the repeal under paragraph (2) is necessary to effectuate the addition of section 1101(a.2) of the act.

(2) Section 6 of the act of November 29, 2004 (P.L.1376, No.178), known as the Alternative Fuels Incentive Act, is repealed.

Section 5. The addition of section 1101(a.2) of the act is a continuation of section 6 of the act of November 29, 2004 (P.L.1376, No.178), known as the Alternative Fuels Incentive Act. Except as provided in section 1101(a.2) of the act, all activities initiated under section 6 of the Alternative Fuels Incentive Act shall continue and remain in full force and effect and may be completed under section 1101(a.2) of the act. Orders, regulations, rules and decisions which were made under section 6 of the Alternative Fuels Incentive Act and which are in effect on the effective date of section 4 of this act shall remain in full force and effect until revoked, vacated or modified under section 1101(a.2) of the act. Contracts, obligations and collective bargaining agreements entered into under section 6 of the Alternative Fuels Incentive Act are not affected nor impaired by the repeal of section 6 of the Alternative Fuels Incentive Act.

Section 6. This act shall apply as follows:

(1) The amendment of section 302(a) and (b) of the act shall apply to taxable years beginning after December 31, 2024.

(2) The amendment of section 1101(b) of the act shall apply to gross receipts derived from transactions occurring after December 31, 2024.

(3) The amendment of section 1101.2 of the act shall apply to gross receipts derived from transactions occurring after December 31, 2024.

Section 7. The following shall apply:

(1) The amendment of sections 1101(b) and 1101.2 of the act and paragraph (2) are intended to eliminate the tax imposed upon each dollar of the gross receipts received from the sales of electric energy for taxable years beginning after December 31, 2024, and shall not be construed to relieve any taxpayer from the tax imposed under section 1101(b) or 66 Pa.C.S. § 2810, for taxable years beginning before January 1, 2025.

(2) Notwithstanding any other provision of law, for taxable years beginning after December 31, 2024, a tax shall not be imposed under 66 Pa.C.S. § 2810 upon each dollar of the gross receipts received from the sales of electric energy. The elimination of the taxes imposed under 66 Pa.C.S. § 2810 upon each dollar of the gross receipts received from the sales of electric energy shall derive to the benefit of the consumer purchasing services from said entities. The benefit shall be provided in the form of the elimination of

or a reduction in the State tax surcharge. Failure to pass through the elimination or reduction to the consumer shall subject the entity to a civil penalty of at least $1,000, but not more than $5,000, and additional relief as the court may deem appropriate.

Section 8. This act shall take effect as follows:

(1) The addition of section 1101(a.2) of the act shall take effect July 1, 2024.

(2) Sections 4 and 5 of this act shall take effect July 1, 2024.

(3) The remainder of this act shall take effect immediately.