



Tax Reform in the Commonwealth
Pennsylvania House Republican Policy Committee
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Chairman Rowe and members of the committee,

Thank you for the opportunity to speak today and discuss policies to increase commerce and cut costs for our businesses and all hardworking Pennsylvanians. I'd also like to thank Representative Ecker and the Adams County Economic Alliance for hosting today's important discussion.

Before I get into policy specifics, I think it's important to step back and consider what the vision for Pennsylvania is. We all want to see a Commonwealth with a robust, dynamic economy—one that leads the nation in job creation, business growth, and quality of life. But to get there, we need to make serious, targeted policy changes that enhance our competitiveness and ensure small businesses can thrive.

That is why today I want to share with you all the urgent need for tax reform and how we can compete with other states by allowing small businesses to carry over their losses, repealing the accelerated sales tax, lowering the state's personal income tax, and accelerating the timeline on the corporate net income tax rate reduction.

A more prosperous Pennsylvania is achievable through these reforms; however, the state must act soon. Tax reform is urgent due to interstate competition, outmigration, and our aging population.

Interstate Competition/Economic Trends

Other states are aggressively working to improve their tax and business climates. If we stand still, we fall behind.

The American Legislative Exchange Council's Rich States Poor States [Index](#) found that Pennsylvania ranks 44th in economic competitiveness. This metric is backward-looking, analyzing Pennsylvania's past economic competitiveness compared to the rest of the country. The index also ranked Pennsylvania 36th in economic outlook, which is a forward-looking metric, showing how attractive our state is to future business.

According to [data](#) from the Tax Foundation, Pennsylvania ranks 28th in the nation in per capita state and local tax burden. The data also shows that 10.6% of an average Pennsylvanian's income goes to paying state and local taxes. The Tax Foundation also [found](#) that Pennsylvania ranks 34th in tax competitiveness and 38th in corporate and individual income tax competitiveness. It's important to note that we rank poorly in individual income tax competitiveness due to local income tax burdens. I'd also like to add that our competitiveness is held back by its restrictive regulatory environment. Research shows that Pennsylvania is the 12th most regulated state in the nation, with [over](#) 164,000 regulations on the books.

Based on these rankings and studies, you can clearly see Pennsylvania is stuck in the middle of the pack in terms of overall competitiveness. We see similar troubling signs when we look at our employment rate and job growth.

As of March 2025, Pennsylvania's unemployment rate is 3.8%, however, this does not tell the full story. Pennsylvania's March 2025 seasonally adjusted Labor force participation rate was 61.6%, which is still below the pre-pandemic rate of 63% in January 2020.

Over the 5-year period from Feb 2020 to March 2025, the state experienced anemic 2.2% job growth. Over the same period, other economically competitive states saw significant growth. Most notably, North Carolina saw 9.5% growth, Texas saw 10.3%, and FL saw 10.5% growth.

Outmigration

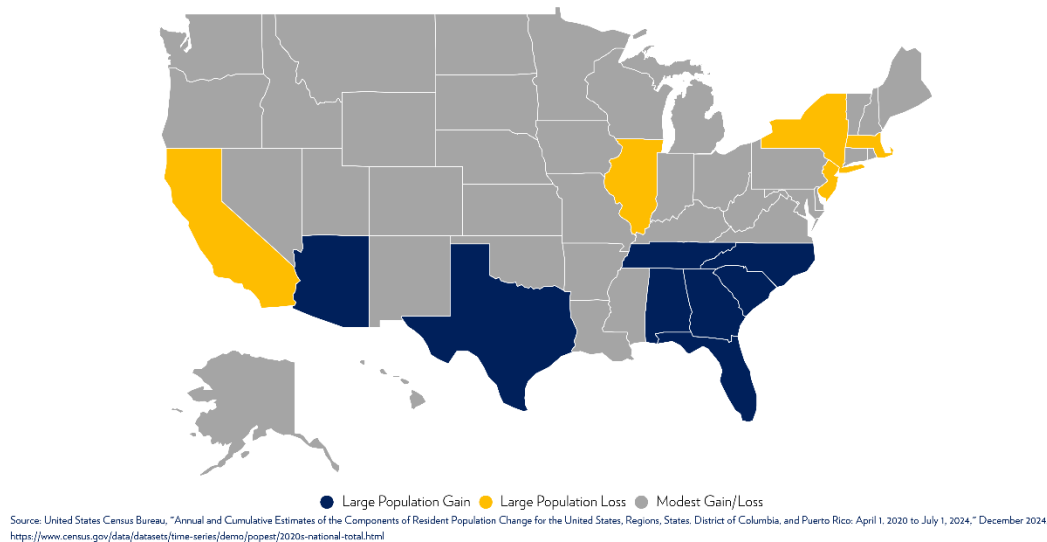
As a result of Pennsylvania's poor tax environment and business climate, residents are fleeing the state in search of better economic opportunities. Census data shows Pennsylvania has seen net population loss from state-to-state migration in 14 of the past 15 years.

Since 2020, Pennsylvania has been a bottom-ten growth state, among the ranks of New York, Illinois, and California. Since 2020, Pennsylvania has lost 49,031 residents from domestic outmigration. Conversely, Florida and Texas gained a combined 1.6 million residents from domestic migration during the same period.

When asked why they'd consider leaving the Keystone State, Pennsylvanians list the state's high cost of living and taxes as their top-two reasons, according to [polling](#). Nationwide census data shows Americans are consistently moving from high tax states to low tax states in search of better economic opportunities and lower cost of living

Where are Americans Moving?

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



Aging Population

If the outmigration wasn't already bad enough, Pennsylvania's population is aging.

Pennsylvania is the 8th oldest state by [median age](#). Young, working-age residents are the ones leaving for other states, while Pennsylvania [attracts](#) retirees because it does not tax retirement income. Pennsylvania's dependency ratio, this is the number of workers per retiree, is 2.7. This is lower than the national average of 3.0. The IFO [forecasts](#) Pennsylvania's dependency ratio will decrease to 2.4 workers per retiree in 2030, compared to 3.5 in 2015.

Our population is getting older, our tax base is shrinking, and the need for social services is growing. These trends, in addition to reckless spending place Pennsylvania in a dangerous fiscal position.

State Budget Implications/State Spending

Pennsylvania is currently spending \$3.5 billion more than annual revenue. Governor Shapiro's Fiscal Year 2026–27 budget would increase the gap between spending and revenue to \$4.8 billion. To put it simply, state spending growth has far outpaced inflation, population growth, and economic growth. This rapid spending growth is the cause of our budget deficit. To fit the \$4.8 billion bill lawmakers would have to drain the Rainy-Day fund or increase taxes. Our research estimates taxes would have to increase by \$1,900 per family of four to cover Shapiro's spending binge. A tax increase would hurt our families and small businesses in Pennsylvania, sending Pennsylvania down the path of states like Illinois and California.

This almost uncontrollable spending is concerning; however, it is a perfect example of how controlling spending goes hand in hand with good tax policy. The Taxpayer Protection Act (TPA) for example would create a fiscal guardrail by limiting state spending growth to the average rate of inflation plus population growth or personal income growth. If Harrisburg had enacted TPA in 2019, taxpayers would have saved \$23.5 billion over the past six years, roughly \$7,267 per family of four. Moreover, Pennsylvania would have a \$2.8 billion surplus in fiscal year (FY) 2024–25.

The Taxpayer Protection Act is a precursor to solid tax policy, controlling costs for Pennsylvania taxpayers, leading to genuine, sustainable economic growth. The TPA is modeled after Colorado's Taxpayer Bill of Right, which limited the growth of state spending, allowing for tax rebates and rate reductions, and unleashing their private sector economy.

There are several other tax reform policies we would recommend to make Pennsylvania more competitive and attractive for families and businesses:

Small Business NOL

First, we would recommend the General Assembly pass legislation to allow small businesses to carry over their losses. HB 217, sponsored by Rep. Kutz, would extend this tax advantage to small businesses.

The cap on NOL carry over is called a startup penalty—as businesses frequently lose money in the first few years before they become profitable.

As a part of last year's state budget, Pennsylvania began to improve the NOL cap for corporations that pay CNIT, raising the prior 40% deduction cap for corporations by 10% annually until it reaches 80% in 2029. While this is a step in the right direction, small businesses, which pay the personal income tax (PIT) should be allowed to utilize this tax advantage.

HB 217 would allow businesses that pay personal income tax rather than corporate net income tax to use net loss deductions. Specifically, it would allow small business owners to deduct net losses from other classes of income. For example, if a business owner sells personal items to cover the cost of payroll, they could deduct the business losses from the taxes incurred from selling those personal items. If an individual runs a business as a side hustle, they could deduct any business losses from the taxes owed on the compensation at their full-time job.

Currently, 82% of Pennsylvania businesses pay personal income tax rather than corporate net income tax. These businesses, also known as pass-through entities, include LLCs, sole proprietorships, S-corporations, and partnerships. The recent reforms to the NOL cap for corporations don't impact most businesses in Pennsylvania. Allowing small businesses to carry over their losses promotes a fairer tax system. Unlike larger corporations, small businesses typically lack the capital to absorb losses.

Furthermore, entrepreneurs would have more certainty to take risks and grow their businesses here in Pennsylvania. According to survey research conducted by the National Federation of Independent Business, small businesses optimism declined by 3.3 points in March 2025, falling below the 51-year average.

Repealing the Accelerated Sales Tax

Another policy solution we would recommend is for legislature to repeal the Accelerated Sales Tax forced upon businesses in Pennsylvania. HB 1316 introduced by Rep. Mike Jones would achieve this goal. Repealing the AST would alleviate unnecessary financial strains on small businesses and support long-term economic growth.

The Accelerated Sales Tax requires businesses to remit taxes **before** sales are completed, creating artificial cash flow shortages. This policy is especially harmful to small and mid-sized businesses who are most vulnerable to liquidity disruptions. Often, the prepayments do not match their cash flow, and the sales tax collected from month-to-month can vary heavily. Rather than prepaying based on prior sales tax collections that may not match the current state of the business, small businesses should remit what is actually collected.

The 2024 NFIB Tax [Survey](#) found that small business owners continue to struggle with tax complexities and the associated paperwork requirements, with 90 percent of small businesses using tax preparers. Tax policies like AST contribute to these complexities, adding unnecessary bureaucracy for small businesses. For example, if a small business makes a prepayment that is larger than its actual collections, they are not automatically credited by the state. They must apply for a refund which can take up to 120 days. This unnecessary burden disproportionately affects small businesses who may not be able to wait for a refund.

Pennsylvania is also [one of only 12 states](#) with prepayment requirements. The others are Arkansas, Florida, Georgia, Illinois, Massachusetts, Michigan, New York, North Carolina, Ohio, Oklahoma, and Texas. Eliminating the prepayment requirement would align us with most of the country and improve the business climate.

Repealing the AST would deliver immediate financial relief and make PA more attractive to businesses of all sizes but especially help our small businesses.

Lowering the PIT

The Commonwealth Foundation also recommends that the legislature lower the State Personal Income Tax rate from 3.07% to 2.8%. Lowering the PIT benefits both individuals as well as most of PA's small businesses.

Pennsylvania has not cut its personal income tax rate since 1986, nearly 40 years ago. Pennsylvanians report that cost-of-living and inflation are the top issues they're facing.

In addition to the benefits for families, cutting the personal income tax rate would have a great impact for the approximately [82 percent](#) of Pennsylvania businesses pay the Personal Income Tax rate rather than the CNIT. Businesses paying PIT include partnerships, S corporations, and LLCs that aren't federally taxed as corporations.

Pennsylvania could offset the cost of a PIT reduction by eliminating corporate welfare spending. Governor Shapiro's budget proposes spending \$1.6 billion on corporate welfare tax credits and grant programs. These programs have poor return on investment, suffer from bureaucratic roadblocks, and allow the government to pick winners and losers. If the state eliminated all corporate welfare spending, the cost savings could be used to cut the PIT to 2.81 percent.

A PIT cut helps working families and small businesses. This very straightforward policy would have a high impact on everyone across the state and help Pennsylvania attract more families and businesses from states like New York with higher, less competitive rates.

Accelerate the Corporate Net Income Tax Reduction.

Speeding up the reduction of our CNIT rate would be a great way to strengthen our overall competitive edge and allow for long-term economic stability and growth.

Pennsylvania's Corporate Net Income Tax (CNIT) rate is currently phased by 0.5 percent annually. If reductions continue as scheduled, the rate will reach 4.99 percent in 2031. This has been a topic of conversation in the legislature and even Gov. Shapiro has repeatedly called for cuts in the CNIT rate.

The Senate Finance Committee recently passed [a bill](#) to accelerate this reduction, dropping CNIT to 4% by 2026. This reduction will yield tremendous benefits. Even a one-percentage-point decrease will put \$223 back in the average worker's annual wages and encourage 18,000 people to move to Pennsylvania, according to [one report](#). If this cut were enacted it would instantly make Pennsylvania more competitive, putting Pennsylvania's in a tie for the 3rd lowest CNIT in the nation.

Accelerating the cut would signal to businesses that PA is serious about opening up for business. It would support the great businesses that already call PA home and invite new ones to come here and grow.

Lowering the CNIT would broaden the tax base, increase economic activity, and state revenues. Now that doesn't mean the state should spend more. With responsible management, the increased revenue would allow us to address the structural deficit that exists.

The data is clear: We're falling behind. But the good news is, we know what works. By expanding NOL carryovers, repealing AST, cutting the personal income tax, and accelerating CNI reductions, we can make Pennsylvania a magnet for talent, investment, and innovation.

These reforms aren't just good tax policy—they're essential steps toward building a more vibrant, prosperous Commonwealth.

Thank you for your time, and I welcome any questions.