PENNSYLVANIA
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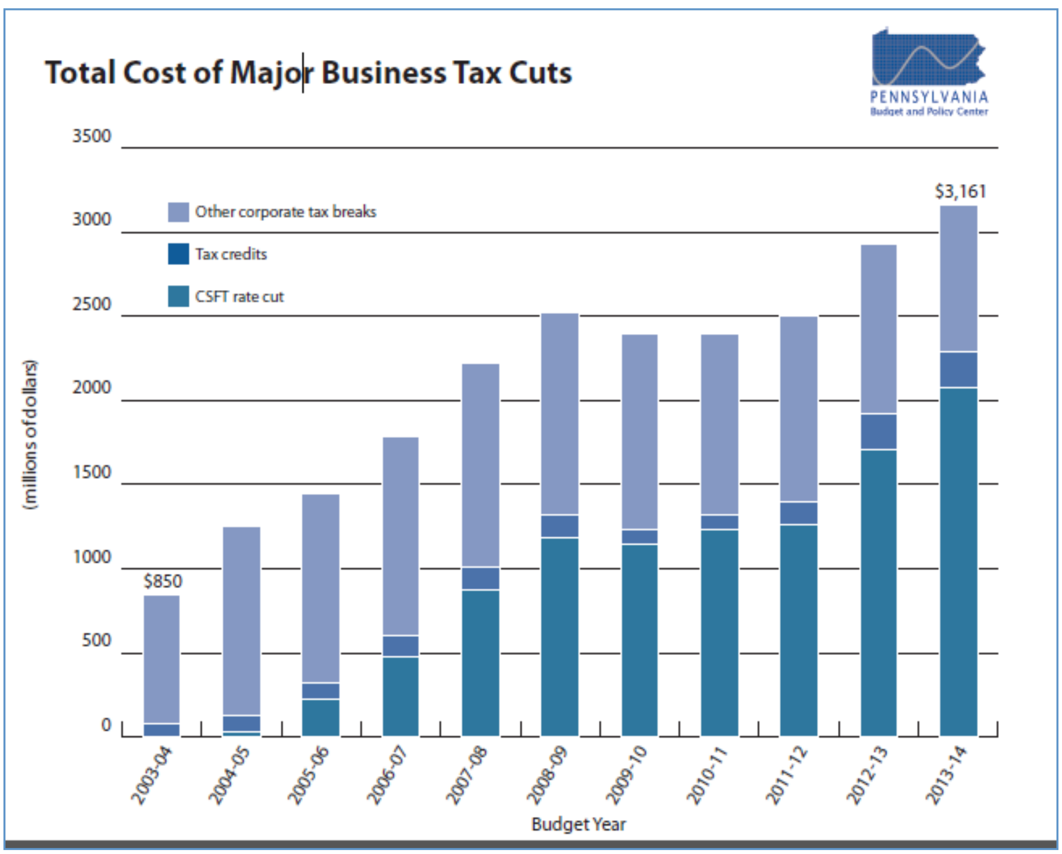
$3 Billion Bill for Corporate Tax Cuts in 2012-13

Reduced revenue does little for jobs, undermines schools and human services

Over the past decade, Pennsylvania has enacted numerous corporate tax cuts whose costs have skyrocketed. These tax cuts compete with state funding for schools, the state's colleges and universities, early childhood education, and human services. Laws to expand tax credit programs, change the way corporate taxes are assessed, reduce tax liabilities for merging mega banks, and eliminate the capital stock and franchise tax have drained a growing amount from the state treasury. The cost of these tax cuts has more than tripled since 2003-04 from $850 million to **just under $3.2 billion per year**.

Governor Corbett has proposed a new round of tax cuts beginning in 2015. These tax cuts will significantly reduce the state's ability to pay for basic services. Moreover, enacting a permanent phase down of business taxes puts profitable corporations first in line when future budgets are negotiated, diverting resources that are critical to children, to local governments, and to our economic prosperity.

Capital Stock and Franchise Tax Cut Costs Billions



The most costly change is the phase out of the capital stock and franchise tax (CSFT), a process that began in 1998 when the economy was humming and Bill Clinton was President. Between 2002 and 2012, the CSFT rate was cut from $7.24 per thousand to $0.89 per thousand of the value of capital stock in Pennsylvania, or $890 per $1 million in value. This rate cut was approved without any commitment from companies to hire more workers or open new facilities in Pennsylvania. In 2011-12, when the rate was higher, the average CSFT payment for 385,000 filers was $2,176 and the liability for 100,000 companies paying tax averaged $7,872.

The benefit of this change to Pennsylvania's economy is debatable. What cannot be questioned is the impact of these tax cuts on Pennsylvania's schools, colleges, and community programs, which now have to do more with less to provide critical services to our most vulnerable citizens.

Here is how the cuts add up in 2013-14:

Tax Cut/Incentive	2013-14 Cost ($ millions)
Corporate Net Income Tax (CNIT) Single Sales Factor	$260
CNIT Net Operating Loss (NOL) Carryforward	339
Capital Stock and Franchise Tax (CSFT) Breaks and Exemptions	201
Bank Shares Tax Goodwill Deduction	70
Job Creation Tax Credit	10
Research and Development Tax Credit	55
Promoting Employment Across Pennsylvania (PEP) Program	5
Educational Improvement/Educational Opportunity Scholarship Tax Credits	150
CSFT Rate Cut (from 2002 rate of 7.24 mills to current 0.89 mills)	2,072
Total Cost of Major Business Tax Cuts	**$3,162**

A Diminishing Pie

In his 2013-14 budget proposal, Governor Tom Corbett proposes a new series of tax cut measures labeled as "tax reform." While these changes, if enacted, have little impact on revenue available in 2013-14, they would have a significant impact on future collections and the ability of the state to raise enough revenue to provide critical services.

The largest piece of the Governor's plan is to phase down the corporate net income tax (CNIT) rate from 9.99% to 6.99% between 2015 and 2025. The Governor's proposal makes no attempt to close corporate tax loopholes, which allow some multi-state corporations to game our tax system and pay very little.

While the rate cut will be phased in over a decade (not unlike the phase-out of the capital stock and franchise tax – whose true cost only recently became apparent to state budget balancers), the cost will be immense. A 30% reduction in 2013-14 expected CNIT collections would cost $771 million.

Pennsylvania Needs Real Tax Reform

Governor Corbett's plan would cut taxes without closing tax loopholes that allow corporations to hide income earned in Pennsylvania. More than half the states with corporate income taxes (23) have enacted combined reporting to close these loopholes, and another 12 states have some form of an addback law that requires companies to add back interest, royalties and trademark expenses incurred with related companies. These proposals level the playing field for all businesses and make our tax system fairer.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families. Learn more: http://pennbpc.org.