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\$2 Billion in Business Tax Breaks Come at Expense of Schools, Communities

Next year, Pennsylvania will spend \$2.4 billion on business tax breaks. That amount has tripled over the last 10 years and does not count the hundreds of millions of dollars lost annually to corporate tax loopholes. Most of these tax breaks primarily benefit the largest corporations and come with no commitment to create jobs.

Investing in schools, colleges, hospitals and infrastructure strengthens Pennsylvania's economy and makes the state competitive with other states. If these investments become a lower priority than business tax cuts, we risk undermining our future economic growth.

More than two-thirds of the \$2.4 billion in corporate tax breaks come from changes to the capital stock and franchise tax (CSFT), including the ongoing phase out of the tax which is worth \$1.4 billion alone in 2012-13. Most of the remaining costs come from changes to the way the corporate net income tax (CNIT) is calculated, including placing more emphasis on a company's sales and less on property and payroll. The Pennsylvania House has approved a bill reducing the CNIT rate, further adding to the cost of business tax cuts in the years ahead.

Yearly Tax Benefit Received by Corporate Taxpayers Triples from 2003-04 to 2012-13

| (figures in \$ millions) | Then | Now |
|------------------------------------------------------------------|--------------|----------------|
| Tax Cut Provision | 2003-04 | 2012-13 |
| CNIT Weighting Sales Apportionment Factor (currently 90%) | \$58 | \$218 |
| CNIT Net Operating Loss Carryforward | 168 | 315 |
| CSFT Manufacturing Exemption | 297 | 134 |
| CSFT Single or Three-Factor Apportionment | 114 | 138 |
| CSFT Valuation Deduction (currently \$160,000) | 65 | 31 |
| CSFT Holding Company 10% Rule | 71 | 90 |
| Bank Goodwill Deduction | NA | 70 |
| Job Creation Tax Credit | 23 | 10 |
| Research & Development Tax Credit | 15 | 55 |
| Subtotal - Non-Rate Tax Reductions | \$810 | \$1,061 |
| CSFT Rate Cut (from 2002 rate of 7.24 mills) | \$0 | \$1,357 |
| TOTAL COST OF MAJOR BUSINESS TAX CUTS | \$810 | \$2,418 |

Source. Governor's Executive Budget, Tax Expenditures (various years); PBPC calculation of CSFT rate cut cost based on revenue receipts

Pennsylvania policymakers should be closing corporate tax loopholes and closely scrutinizing tax breaks, especially at a time when the state is making deep cuts to education, health care and investments in local communities.

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.