



# House Tax Cut Plan Leaves PA Families Behind

## An Analysis of HB 2250

June 21, 2008

The House of Representatives is advancing a tax-cut bill, House Bill 2250, that shares much in common with the Senate Stimulus Plan. A select set of businesses are the primary beneficiaries, while working families are largely left out. The cuts are costly and could push the state into a deficit in the years ahead. While the House bill includes temporary tax changes that would have some benefit as economic stimulus, the bulk of the plan includes permanent tax changes popular with business associations, but of little value for most businesses or for the economy. The House should consider these factors before adopting the legislation:

**MOST TAX CUTS ARE PERMANENT:** Although the proposed change to the Job Creation Tax Credit is temporary, and the Youth Employment Incentive Tax Credit expires in 2012, the remainder of the bill's tax changes are permanent.

**THE TAX CUTS ARE COSTLY:** The total cost of the plan will be almost \$200 million in FY 2010–2011, further reducing tax revenue in an already slowing economy.

**THE TAX CUTS ARE BASED ON TRICKLE-DOWN ECONOMICS:** Pennsylvania families are largely left to fend for themselves in the face of higher prices and growing unemployment, with only a glimmer of hope that some of the tax benefits might reach them some day. 92% of tax benefits go to businesses while only 8% go to families.

**THE TAX CUTS ARE BAD POLICY:** Changing the sales apportionment factor actually increases taxes for some businesses, and there is no evidence it creates jobs. In fact, the evidence is strong that businesses pay little attention to state tax apportionment when making investment decisions. Increasing the deduction for Net Operating Losses helps only a small segment of business taxpayers. Policies that increase consumer and government spending are the most effective in generating economic activity in a recession, whereas tax cuts are costly and offer little bang for the buck.

The National Governors' Association reported on June 20<sup>th</sup> that revenue in 20 states is below estimates, and that the 14 states with higher than projected revenues are those that benefit from higher coal, food, or oil prices. Nationally, corporate tax collections, which fueled state surpluses over the last two years, are expected to decline by 5.5%. The Commonwealth of Pennsylvania would do well to defer tax cuts to another year.

## Major Provisions Of House Bill 2250

**INCREASE NET OPERATING LOSS CARRYFORWARD:** HB 2250 increases the NOL deduction limit from the current \$3 million or 12.5% of taxable income, to \$5 million or 15% of taxable income. The Senate plan would increase the limit more: to \$5 million or 20% of taxable income. Cost: \$42 million.

**EXPAND TAX FOREGIVENESS:** The House's plan includes a more modest expansion of tax forgiveness than the Senate plan does, and would target the expansion to families rather than individuals. HB 2250

would increase the income allowance for dependents from \$9,500 to \$10,500 per child—or from \$32,000 to \$34,000 for a family of four. The Senate plan includes an increase in income eligibility for individuals, married couples, and children; and after three years, eligibility for a family of four would increase to \$37,000. Cost: \$18 million.

**SALES FACTOR APPORTIONMENT:** Both House and Senate plans would continue the trend to higher weighting of the sales factor in apportioning corporate income. The House plan raises the sales factor to 80%, while the Senate plan raises it slightly more, to 85%. Cost: \$50 million.

**DEDUCTION FOR EQUIPMENT EXPENSING:** The House plan does not increase the equipment expensing limit, unlike the Senate plan.

**RESEARCH AND DEVELOPMENT TAX CREDIT:** The Research and Development Credit in HB 2250 is increased from \$40 million to \$75 million per year and makes the credits sellable—so companies can sell the credits to gain additional capital. Cost: \$35 million.

**JOB CREATION TAX CREDIT:** This existing credit is increased in HB 2250 from \$1,000 to \$3,000 for each job created before July 1, 2009. Cost: \$23 million.

**YOUTH EMPLOYMENT TAX CREDIT:** HB 2250 allows for employers participating in the program to receive sellable tax credits equal to 70% of the cost of employing young people ages 14 to 21. Cost: \$20 million.

**CAPITAL STOCK AND FRANCHISE TAX EXCLUSION:** Increased the amount corporations can exclude from this tax from \$150,000 to \$300,000. Cost: \$11 million.

