

Corporate Net Income Tax Data 2019



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This research brief provides tabulations of corporate net income tax (CNIT) returns filed for tax year (TY) 2019 with the Pennsylvania Department of Revenue. That tax year was the final year prior to an historic surge in corporate profits that coincided with the COVID-19 pandemic, supply chain disruptions and extensive federal stimulus programs. Data from the U.S. Bureau of Economic Analysis show that U.S. corporate non-financial domestic profits increased by 50% from CY 2019 to CY 2022. Therefore, tax return data for more recent tax years will differ from the data displayed in this document. It is also noted that these data reflect the corporate tax rate of 9.99%, before Act 53 of 2022 reduced the tax rate to 8.99% for TY 2023 and phased-in lower rates to 4.99% by TY 2031.

The **first table** separates tax returns into six groups based on tax liability for TY 2019. (Tax liability is prior to any applicable tax credits that may be applied separately.) For the 92,665 tax returns included in the CNIT database:

- There were 52,887 returns (57.1% of total returns) that reported no tax liability.
- Somewhat more than one quarter of returns (26.5%) reported tax liability, but under \$5,000.
- There were 969 returns (1.0%) that reported tax liability greater than \$500,000. Those returns reported \$2.13 billion (71.3%) of total tax liability. This high degree of concentration is a common feature of state and federal CNIT systems.
- Taxable income (i.e., positive income) apportioned to Pennsylvania totaled \$34.21 billion. Firms claimed \$4.26 billion of net operating loss (NOL) deductions to reduce taxable income by 12.5%. NOLs are unused tax losses carried forward from prior tax years that can be used to offset current year taxable income, but NOLs cannot offset more than 40% of taxable income. NOLs cannot be carried back in time to offset tax liability from prior tax years.

Pennsylvania Corporate Net Income Tax Liability for TY 2019

	No Liability	1 - 5,000	5,001 - 50,000	50,001 - 500,000	500,001 - 2,500,000	2,500,001 or more	Total
Tax Returns							
Number	52,887	24,598	9,953	4,258	784	185	92,665
Share of Total	57.1%	26.5%	10.7%	4.6%	0.8%	0.2%	100.0%
Taxable Income and Liability							
PA Taxable Income	\$0	\$357	\$2,066	\$7,480	\$9,465	\$14,844	\$34,213
NOLs Claimed	\$0	\$73	\$316	\$929	\$1,325	\$1,619	\$4,261
Tax Income Offset	0.0%	20.5%	15.3%	12.4%	14.0%	10.9%	12.5%
Tax Liability	\$0	\$28	\$175	\$654	\$813	\$1,321	\$2,992
Share of Total	0.0%	0.9%	5.8%	21.9%	27.2%	44.2%	100.0%

Note: Millions of dollars.

Source: Tax returns filed with the Pennsylvania Department of Revenue. Calculations by IFO.

The **second table** provides insights into the two factors that motivate the results for the “No Liability” column in the first table. The table separates all tax returns into six groups based on the value of the 100% sales apportionment factor used to apportion national profits to Pennsylvania. The top portion of the table displays data for returns that reported zero or positive income after application of the sales apportionment factor and prior to any deduction for NOLs. Those data show that:

- There were 20,182 returns (first row, first column) that reported no Pennsylvania taxable income after application of the sales apportionment factor (but some returns reported small amounts of allocated non-business income). That group includes returns that (1) reported no taxable income to be apportioned and/or (2) reported positive or negative net income, but a zero sales apportionment factor.
- Returns that reported Pennsylvania taxable income and an apportionment factor less than 5% reported \$1.43 billion (47.7% of total) of tax liability and \$1.74 billion (40.7%) of NOLs claimed.
- Pennsylvania-only firms have a 100% sales apportionment factor. Those returns reported \$4.03 billion (11.8%) of taxable income, \$749 million (17.6%) of NOLs claimed and \$328 million (10.9%) of tax liability. (Note: these figures exclude returns that reported a sales factor of 1.0, but zero income. Those returns are included in the first column.)
- There were 32,694 returns that reported negative income (after apportionment) of \$23.5 billion (bottom of table). Those apportioned losses can be carried forward to offset future tax liability.
- Overall, of the 57.1% of returns not reporting tax liability, roughly 38% (20,182) was attributable to a lack of nexus in the state or no net income and 62% (32,694) was attributable to tax losses.

Corporate Tax Returns by Sales Apportionment Factor							
	0.0%	>0.0% to 5.0%	>5.0% to 10.0%	>10.0% to 50.0%	>50.0% to 99.9%	100.0%	Total
Net Income >= 0							
Number Returns	20,182	15,377	3,726	3,346	1,459	15,881	59,971
PA Taxable Income	\$43	\$16,010	\$7,265	\$4,507	\$2,360	\$4,028	\$34,213
NOLs Claimed	\$5	\$1,736	\$876	\$504	\$391	\$749	\$4,261
Income Offset	10.8%	10.8%	12.1%	11.2%	16.6%	18.6%	12.5%
Tax Liability	\$4	\$1,426	\$638	\$400	\$197	\$328	\$2,992
Share of Total							
Number Returns	33.7%	25.6%	6.2%	5.6%	2.4%	26.5%	100.0%
PA Taxable Income	0.1%	46.8%	21.2%	13.2%	6.9%	11.8%	100.0%
NOLs Claimed	0.1%	40.7%	20.6%	11.8%	9.2%	17.6%	100.0%
Tax Liability	0.1%	47.7%	21.3%	13.4%	6.6%	10.9%	100.0%
Net Income < 0							
Number Returns	219	9,353	2,446	2,325	993	17,358	32,694
PA Loss Income	-\$29	-\$5,476	-\$3,159	-\$5,454	-\$3,075	-\$6,291	-\$23,485
Note: Millions of dollars. Some firms have a zero sales apportionment factor but allocate non-business income to the state and generate tax liability. Those returns are included in the first column. The zero sales factor column also includes returns that reported zero income to be apportioned and no tax liability. The 100% column includes PA only returns that report non-zero income.							
Source: Tax returns filed with the Pennsylvania Department of Revenue. Calculations by IFO.							

The **third table** displays tax liability based on the sector reported by the firm that reflects its primary business activities. Despite this characterization, many firms have substantial business operations that cross multiple sectors, but data are not available to facilitate apportionment across those sectors. Notable results include:

- Based on tax liability, manufacturing is the largest sector, reporting \$732 million (24.5%) of tax liability. For that sector, NOLs offset 10.6% of taxable income.
- Wholesalers (durable and non-durable goods) reported \$239 million (8.0%) of tax liability. It is noted that there is significant overlap between the wholesale and manufacturing sectors, and many large firms have substantial operations in both sectors.
- The information sector reported \$401 million (13.4%) of tax liability. This sector includes telecommunications, cable, wireless, software publishers, data processing and web hosting and related services firms.
- The finance and real estate sectors reported \$404 million (13.5%) of tax liability. This sector includes credit intermediation firms, insurance carriers and rental car firms.
- The management sector (\$192 million) includes a number of large holding companies that could be included in other sectors.

	Number Returns	PA Tax Income	NOL Claimed	Income Offset	Tax Liability	Share of Total
Utilities	418	\$1,244	\$294	23.6%	\$95	3.2%
Manufacturers	10,383	\$8,200	\$873	10.6%	\$732	24.5%
Wholesalers	7,309	\$2,573	\$185	7.2%	\$239	8.0%
Retailers	6,763	\$2,966	\$370	12.5%	\$259	8.7%
Transportation	4,201	\$1,165	\$55	4.7%	\$111	3.7%
Information	3,334	\$4,595	\$579	12.6%	\$401	13.4%
Finance and Real Estate	17,188	\$4,567	\$519	11.4%	\$404	13.5%
Professional and Technical	14,433	\$2,825	\$313	11.1%	\$251	8.4%
Management	3,371	\$2,322	\$396	17.1%	\$192	6.4%
Healthcare and Education	4,210	\$709	\$80	11.3%	\$63	2.1%
Leisure and Hospitality	4,836	\$1,081	\$286	26.5%	\$79	2.7%
All Other or Unreported	<u>16,219</u>	<u>\$1,967</u>	<u>\$311</u>	<u>15.8%</u>	<u>\$165</u>	<u>5.5%</u>
Total	92,665	\$34,213	\$4,261	12.5%	\$2,992	100.0%

Note: Millions of dollars.
Source: Tax returns filed with the Pennsylvania Department of Revenue. Calculations by IFO.

As noted, these data are for TY 2019 and do not reflect the surge in corporate profits since that year. For fiscal year (FY) 2018-19, gross CNIT revenues (prior to refunds) totaled \$3.40 billion. For FY 2022-23, CNIT revenues were \$6.14 billion, an increase of 81%. If the rate reduction from 9.99% to 8.99% reduced FY 2022-23 revenues by \$100 million, then the increase is 84%. While recent national corporate profits data are published by the U.S. Bureau of Economic Analysis, state level corporate profits data are not, so it is unclear how the TY 2019 data have been impacted.