

Modernizing Pennsylvania's Tax Code as a Strategy for Growth

November 14, 2019

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PENNSYLVANIA'S TAX CODE CONTAINS MULTIPLE BARRIERS TO BUSINESS TAX COMPETITIVENESS

STATE

- Uncompetitive treatment of NOLs
- Room for improvement in treatment of capital investment
- High Corporate Net Income Tax (CNIT) rate
- Regular property assessments not required

LOCAL

- Local earned income tax base differs from state income tax base
- Localities rely on local gross receipts taxes (GRTs), including Mercantile and Business Privilege Taxes
- Localities levy antiquated Occupation Taxes and Local Services Taxes

PENNSYLVANIA'S TREATMENT OF NET OPERATING LOSSES IS UNCOMPETITIVE REGIONALLY AND NATIONALLY

Treatment of Net Operating Losses (NOLs)				
<i>Pennsylvania and Select Regional Competitors (2019)</i>				
	Carrybacks		Carryforwards	
State	Years	Cap	Years	Cap
Pennsylvania	0	\$0	20	40% of liability
Delaware	Conforms to federal treatment			
Maryland	Conforms to federal treatment			
New Jersey	0	\$0	20	Unlimited
New York	3	Unlimited	20	Unlimited
Ohio	Not applicable (no corporate income tax)			
West Virginia	Conforms to federal treatment			

Source: Tax Foundation, 2020 *State Business Tax Climate Index*.

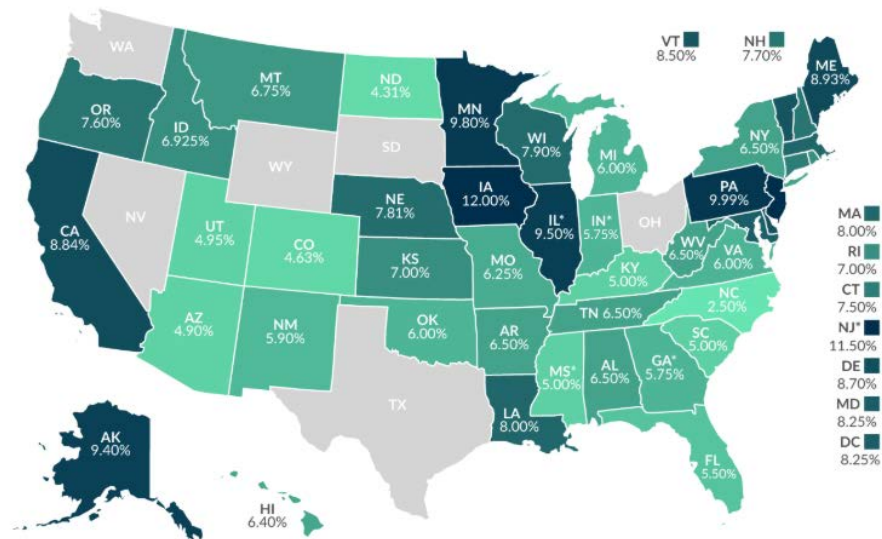
PENNSYLVANIA'S TAX CODE CONTAINS BIASES AGAINST CAPITAL INVESTMENT

Treatment of Capital Investment		
<i>Pennsylvania and Select Regional Competitors (2019)</i>		
	Section 168(k) Expensing	Section 179 Expensing Limit
Pennsylvania	0%	\$25,000
Delaware	100%	\$1 million
Maryland	0%	\$25,000
New Jersey	0%	\$25,000
New York	0%	\$1 million
Ohio	n.a.	\$1 million
West Virginia	100%	\$1 million

Source: Tax Foundation, 2020 *State Business Tax Climate Index*.

PENNSYLVANIA HAS ONE OF THE HIGHEST CORPORATE INCOME TAX RATES IN THE U.S.

Top Marginal Corporate Income Tax Rates as of January 1, 2019



Note: (*) Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware has gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level. Georgia's corporate income tax rate will revert to 6% on January 1, 2026. The state could see a drop to 5.5% in 2019, pending legislative approval. Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. Indiana's rate will change to 5.5% on July 1, 2019. The rate is scheduled to decrease to 4.9% by 2022. Iowa's rate is scheduled to drop to 9.8 percent by 2021, subject to revenue availability. Mississippi continues to phase out the 3 percent bracket by increasing the exemption by \$1,000 a year. By the start of 2022, the 3 percent bracket will be fully eliminated. Potential reform in 2020 will subject nearly all Missouri companies to a single sales factor appointment, permitting a rate reduction from 6.25% to 4%. In New Jersey, the rates indicated apply to a corporation's entire net income rather than just income over the threshold. A temporary surcharge is in effect, bringing the rate to 11.5 percent for businesses with income over \$1 million. In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax

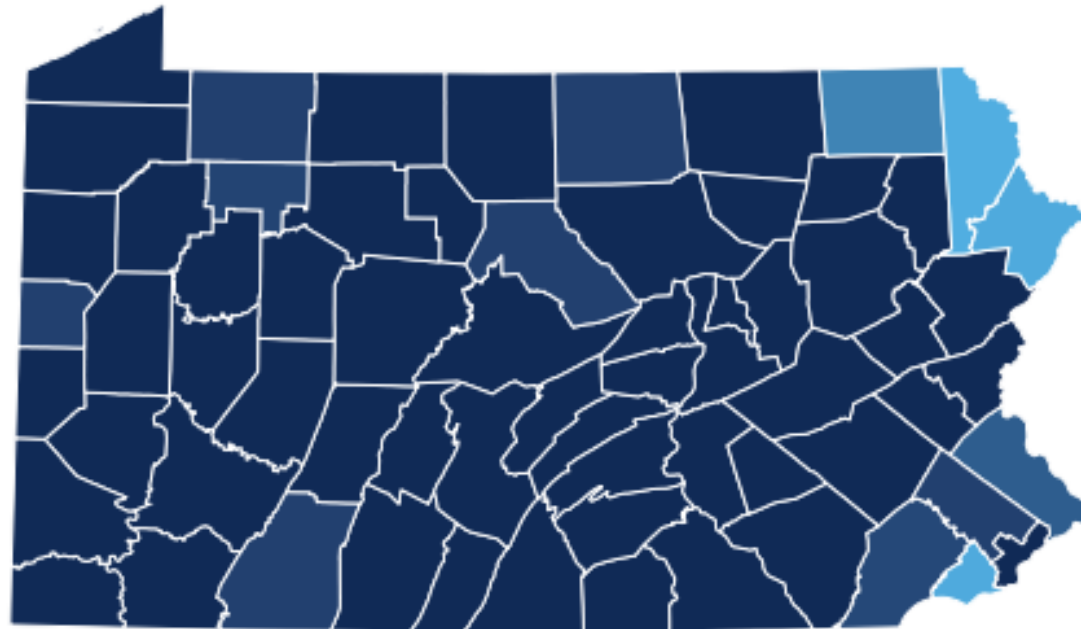


PENNSYLVANIA'S PROPERTY TAX ADMINISTRATION IS OVERLY COMPLEX

- No central property tax administration
- No regular assessments required

PENNSYLVANIA'S LOCAL INCOME TAX BASE DIFFERS FROM THE STATE INCOME TAX BASE

Percentage of Jurisdictions Levying Earned Income Taxes by County



Source: Pennsylvania Department of Community and Economic Development

LOCAL GOVERNMENTS LEVY HARMFUL GROSS RECEIPTS TAXES

- **Mercantile Tax**: May be levied on wholesale and retail businesses and restaurants
- **Business Privilege Taxes (BPT)**: May be levied on all classes of businesses

LOCAL GOVERNMENTS CONTINUE TO LEVY ASSESSED OCCUPATION TAXES

- The Occupation Tax can be imposed in one of three ways:
 - As a lump sum of \$10 or less
 - By unlimited millage against the value of all occupations
 - By millage against the assessed value of each occupation (with a maximum rate equal to the rate on real property)

LOCAL GOVERNMENTS CONTINUE TO LEVY LOCAL SERVICES TAXES

- 1,210 municipalities levy a local services tax at the standard top rate of \$52
- Four cities impose this tax at higher rates
 - Harrisburg, Johnstown, and Scranton: \$156
 - Beaver: \$104
- An additional 694 municipalities levy amounts ranging from \$5 to \$50 per year
- Other municipalities elect not to levy a local services tax

Questions?

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