



# Setting <sup>THE</sup> record straight

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## State budget debate must focus on economic growth

In what will undoubtedly be the most difficult and critical budget debate in years, elected officials face a monumental challenge – balancing the budget amidst a sizeable state deficit that could top \$2 billion by the end of the fiscal year. But with the nation mired in recession, simply balancing the budget can't be lawmakers' sole focus. As more and more employers announce they are closing their doors, and with many more struggling to stay in operation, Pennsylvania must make it a priority in the 2009-10 budget to foster job creation and improve the Commonwealth's lackluster economic standing.

Recognizing that the Rendell administration's budget proposal is a starting point, the unified business community questions whether it does enough to better position Pennsylvania during the ongoing downturn and eventual recovery. Business leaders continue to press the case for competitiveness with state lawmakers and the governor.

### Is it time to say 'cut' to Film Tax Credit?

Limited financial resources (federal stimulus dollars won't be around forever) mean elected officials need to make decisions on how best they are allocated. That is why PA Chamber members, as well as many state lawmakers, are questioning the wisdom of continuing the controversial \$75 million Film Tax Credit when this money could be better used to help improve the general business climate in ways that would assist businesses in retaining jobs and eventually creating new jobs. This is especially true considering the tax credit is only generating little more than \$18.3 million in new tax revenues for the Commonwealth, according to a recent Department of Community and Economic Development report.

Rather, the business community endorses the evaluation of every budgeted line item in order to determine which programs are producing results and which can be eliminated because they have proven ineffective. Moreover, the business community supports economic development that affects every business in the Commonwealth, not just one segment. Two targeted tax changes would do just that and would improve Pennsylvania's uncompetitive tax structure – the elimination of the cap on Net Operating Loss Carryforwards and the adoption of a Single Sales Factor for Corporate Net Income tax apportionment purposes.

Cyclical businesses and start-up companies, for example, are particularly vulnerable in a volatile economy. A change in NOL policy would enable more job creators to ride out the current economic downturn rather than close their doors, while adopting a SSF means business would no longer be penalized for hiring workers.

### The case for competitiveness

Other states are taking action to spur economic growth during these challenging economic times. New Jersey believes it can accomplish this goal through the enactment in December 2008 of tax credits for job creation and a temporary waiver of the state's 7 percent sales tax on capital investments. Interestingly, New Jersey also recently addressed its uncompetitive operating loss provisions by significantly increasing the number of years companies can claim operating losses for tax purposes, moving from seven years to 20 years in an effort to make its business climate less hostile.

In Minnesota, Gov. Tim Pawlenty recently proposed cutting that state's Corporate Net Income tax rate in half over a six-year period, as well as provide various tax credits and exemptions that would enable businesses to expand and create jobs.

And in South Carolina, Gov. Mark Sanford has introduced a package aimed at spurring job creation and capital investment. It involves a three-pronged strategy emphasizing tax reform for individuals and employers. The key provisions include an optional flat income tax, elimination of the Corporate Income tax and a full indexing of tax brackets.

All three states have taken these steps despite also facing budget deficits.

The challenge for all parties involved in this year's debate is two-fold: craft a responsible state budget that will result in the least harm for Pennsylvania residents and business, while at the same time taking steps to bolster jobs and economic growth at a time when they are most needed. The best strategy then for dealing with the challenges Pennsylvania now faces is with competitive tax policies that will help us retain jobs, keep our facilities open and, when possible, create new jobs.

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*The Pennsylvania Chamber of Business and Industry is the state's largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber's website at [www.pachamber.org](http://www.pachamber.org)*

