



# Setting THE record straight

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## Sorry governor, that's not correct

As Gov. Ed Rendell and his supporters press for higher taxes in the 2010-11 state budget, they continue to make statements that range from misleading to factually incorrect, significantly clouding what should be a reasoned dialogue about what is really needed to move the Commonwealth forward. Nowhere is this more obvious than in the push for combined reporting, a complex tax reporting system that would have far-reaching, harmful effects on large and small employers.

As has been reported on numerous occasions, the governor (and groups that support a similar tax-and-spend ideology) has said that 71 percent of *businesses* in Pennsylvania don't pay any taxes; 71 percent of *corporations* don't pay taxes; or that most corporation don't pay any taxes because they use the Delaware holding provision contained in Pennsylvania tax law. All of these statements are demonstrably wrong.

For starters, most businesses in Pennsylvania are small businesses that pay the Personal Income Tax rate of 3.07 percent, not the Corporate Net Income tax rate of 9.99 percent. If these businesses aren't paying taxes, it means they are not making money. This is an all-too-common and unfortunate occurrence in this economy, and a reason why lawmakers from both sides of aisle are rejecting the administration's attempt to aggravate the situation with a proposal to increase the sales tax on business services.

Corporations are subject to the CNI, and Pennsylvania happens to have the highest effective rate in the nation. Of the 71 percent of corporations the administration claims are not paying taxes, many of those also have no tax liability because they lost money or didn't report a profit – an important clarification that never seems to be made. Even the Rendell administration previously testified that under combined reporting, more than half of corporations would still legitimately not pay the CNI tax. Ironically, that fact is also omitted from the debate.

Some corporations do take advantage of what is called a passive investment (Delaware holding) company to legally reduce their tax liability in the same way that a homeowner might take advantage of the tax savings achieved through a mortgage interest deduction. The state Revenue Department already has the power to address abuses in the use of passive investment companies, and, in fact, has brought actions against certain companies in recent years. However, Revenue has admitted that what it doesn't currently have is the resources to implement a combined reporting system.

The reality is that combined reporting is a tax increase, and many Pennsylvania employers that do not employ a "Delaware holding" or passive investment strategy would see their taxes increase under this system. Instead of acknowledging that for seven years, the business community has offered to sit down with Revenue officials to jointly identify "egregious violations" and agree on a plan (short of combined reporting) to address these situations, the administration and its supporters would rather continue to vilify job creators in the minds of the public.

Finally, implying that Pennsylvania businesses are somehow getting a free ride is also off base. Taxes paid by employers represent about 42 percent of all state and local taxes collected in the Commonwealth. Regardless of whether or not a business is liable for the PIT and CNI, job creators in general face a burdensome tax on assets, regardless of whether or not they make a profit. Sales, property, gross receipts and UC taxes, among others, add to their tax responsibilities and generate revenue for the state.

An issue of this complexity and with so many potentially negative implications for the Commonwealth and its residents deserves to be vetted responsibly and honestly, and free from misleading statements clearly designed to garner support for proposals that will take more money away from individuals and families and more capital away from businesses in these fragile economic times. The certain result would be lost investment and lost jobs in the Commonwealth.

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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)*