



2023-24

# BUDGET AND SESSION PRIORITIES





# PA Chamber's Pathway to a More Competitive Pennsylvania

*Pennsylvania has enormous potential. From our prime location, rich history, strong infrastructure, industrial diversity, business resources, world-class economic institutions, and hardworking people — the Keystone State has it all. In order to capitalize on these advantages and make Pennsylvania the most competitive state in the nation for business, the PA Chamber advocates for the following policy priorities:*

## Tax Reform

- ✓ Accelerate PA's **corporate net income tax** phasedown.
- ✓ End Pennsylvania's penalty on start-up businesses by removing or raising the cap on **net operating losses**.
- ✓ Improve the tax system for **small businesses** through accelerated sales tax, bonus depreciation, and net operating loss reform.


## Permitting Reform

- ✓ **Third party review** of permits.
- ✓ Codify the Governor's **One Stop Shop**.
- ✓ Streamline **permit appeals**.
- ✓ Stop draining **agency resources**.
- ✓ Shot clocks and **deemed approved**.

## Workforce Development

- ✓ Bridge the **job skills gap**.
- ✓ Address **childcare** challenges.
- ✓ Expand the **workforce pool**.
- ✓ **Cultivate the next generation** of skilled workers.





# The Case for Accelerating PA's CNI Phase Down

**A lower CNI will not only generate more overall investment. Studies show broad economic gains across the board when the CNI is reduced — including higher GDP, higher wages, greater home values and increased job creation by businesses of all sizes.**

Last session, lawmakers came together in a bipartisan manner to advance significant tax reform (Act 53), including reducing the state's second highest in the nation corporate net income (CNI) tax rate of 9.99% and enacting various improvements for small businesses.

These measures will make our state more competitive, incentivize investment and job growth, and create additional economic opportunities in the Keystone State. The PA Chamber appreciates these critical reforms, and we thank the General Assembly for its overwhelmingly bipartisan support in this endeavor, with 88 percent of lawmakers on board.

Once the phasedown is complete in 2031 and Pennsylvania reaches a 4.99% CNI rate, a Tax Foundation analysis shows Pennsylvania will leap from 44th in corporate tax structure to 27th. In terms of overall competitiveness, Pennsylvania will have improved from 29th place to 17th, and we will have gone from the 2nd highest CNI tax rate in the nation to the 8th lowest, based on current rates.

While Act 53 represented a historic overhaul of the corporate tax structure, we know that other states are moving forward on pro-business reforms as well. We are in perpetual competition with other states.

Since 2021, nine other states have used their revenue surpluses to make additional reductions in Corporate Taxes:

**Arkansas** became the most recent state to reduce its corporate income tax rate from 5.3% to 5.1%, in legislation enacted in April 2023.<sup>1</sup> This was in addition to the reduction passed last year from 5.9% to 5.3%.

**Colorado** reduced its corporate income tax by voter referendum, dropping the rate from 4.55% to 4.40%.<sup>2</sup>

**Idaho** reduced its corporate tax rate from 6.5% to 6.0%.<sup>3</sup>

**Iowa** enacted a plan to phase down its corporate income tax rate, bringing the state's top marginal rate down from 9.8% to as low as 5.5%.<sup>3</sup>

**Nebraska** reduced its top marginal corporate tax rate from 7.5% to 7.25%, with a planned phasedown to 5.84% by 2027.<sup>3</sup>

**New Hampshire** reduced its Business Profits Tax from 7.6% to 7.5%.<sup>3</sup>

**North Carolina**, already boasting the lowest corporate income tax rate in the nation, enacted a plan to completely phase out its corporate income tax by 2030.<sup>4</sup>

**Oklahoma** became the first state in the nation to make full corporate expensing of large capital investments permanent. While many states currently have this provision because of conformity with the federal tax code, the provision is set to begin phasing out nationally in 2023.<sup>3</sup>

**Utah** reduced its corporate income tax rate from 4.95% to 4.85%.<sup>3</sup>

The Chamber supports the call from Gov. Josh Shapiro and multiple lawmakers to accelerate the CNI phasedown in order to **maximize the benefits** of this historic tax reform and keep pace with other states.

## Can Pennsylvania really afford to wait a decade to fully realize the benefits of tax reform?

<sup>1</sup> <https://apnews.com/article/huckabee-sanders-arkansas-tax-cuts-corporate-income-775414f45f0beaf25252ed0f30204739>

<sup>2</sup> <https://coloradosun.com/2022/11/08/colorado-income-tax-proposition-121-results/>

<sup>3</sup> [2022 State Tax Reform & State Tax Relief | Rebate Checks \(taxfoundation.org\)](https://taxfoundation.org/2022-State-Tax-Reform-State-Tax-Relief-Rebate-Checks)

<sup>4</sup> <https://poole.ncsu.edu/thought-leadership/article/north-carolina-set-to-become-the-newest-0-corporate-income-tax-rate-state/>



# Net Operating Loss

## Pennsylvania's Penalty on Start-up Businesses

### Net Operating Loss Carryforward

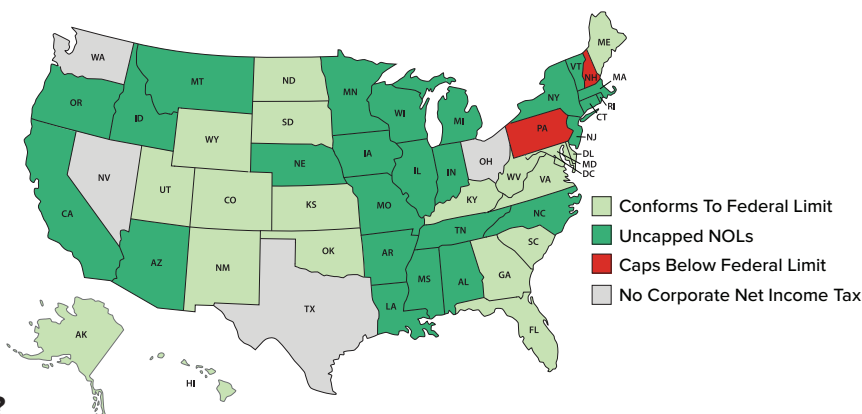
Net Operating Loss (NOL) carryforward is a tax provision that allows businesses having losses in a taxable year to carry those losses forward and deduct them from future years' profits.

The ability to carryforward losses particularly benefits two types of businesses, both of which are critical to our economy:

- Start-up firms, including those in technology or biosciences, often experience significant losses in early years that could be reinvested by reducing future tax liabilities if they ultimately become profitable.
- Employers that operate in cyclical business cycles, such as manufacturers in the commodity markets like metals, chemicals, or pulp and paper where profits and losses can fluctuate in wide swings.

### How Pennsylvania Compares

Pennsylvania currently caps a business's NOL carryforward deduction at 40 percent of taxable income. We are **one of only two states** that cap NOL deductions below the federal limit of 80 percent of taxable income. There are 19 states that align with the federal rules, while 25 states have no deduction cap at all.



### Which State Would You Choose?

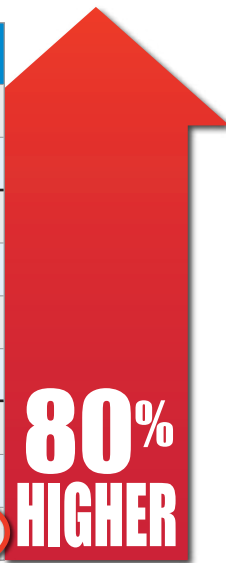
Consider a hypothetical start-up company that has a choice to do business in Pennsylvania or in another state that has the same tax rates as Pennsylvania. In its first year of operation (2023), the Company had significant start-up costs and recorded a \$50 million loss. Once the business started generating sales, they earned a \$75 million profit in 2024.

Under Pennsylvania's uncompetitive NOL rules, the company is limited to reducing their taxable liability in 2024 to 40 percent of their taxable income (\$75M x 40% = \$30M). Unable to deduct the full amount of losses carried forward from the previous year, they end up paying \$3.82 million in taxes, an effective tax rate of 15.28 percent!

In the other state, the company can deduct up to 80 percent of taxable income (\$75 x 80% = \$60). Because this amount is greater than the \$50 million loss carried forward from the previous year, the company can deduct the full \$50 million loss. This results in a total tax liability of \$2.12 million, or an effective tax rate of 8.49 percent.

**If you had the option between two states to start a company, would you choose Pennsylvania where you will pay \$1.7 million more in taxes and an effective tax rate that is 80 percent higher?**

\$ Millions	Pennsylvania with 40% Cap	Uncapped State
2023 Taxable Income	(\$50.00)	(\$50.00)
8.99% CNI Rate	\$0.00	\$0.00
2024 Taxable Income	\$75.00	\$75.00
NOL Deduction	(\$30.00)	(\$50.00)
Taxable Income After NOL	\$45.00	\$25.00
8.49% CNI Rate	\$3.82	\$2.12
Total Net Income (2 Yrs)	\$25.00	\$25.00
Total Tax (2 Yrs)	\$3.82	\$2.12
2 Yr Effective Tax Rate	15.28%	8.49%



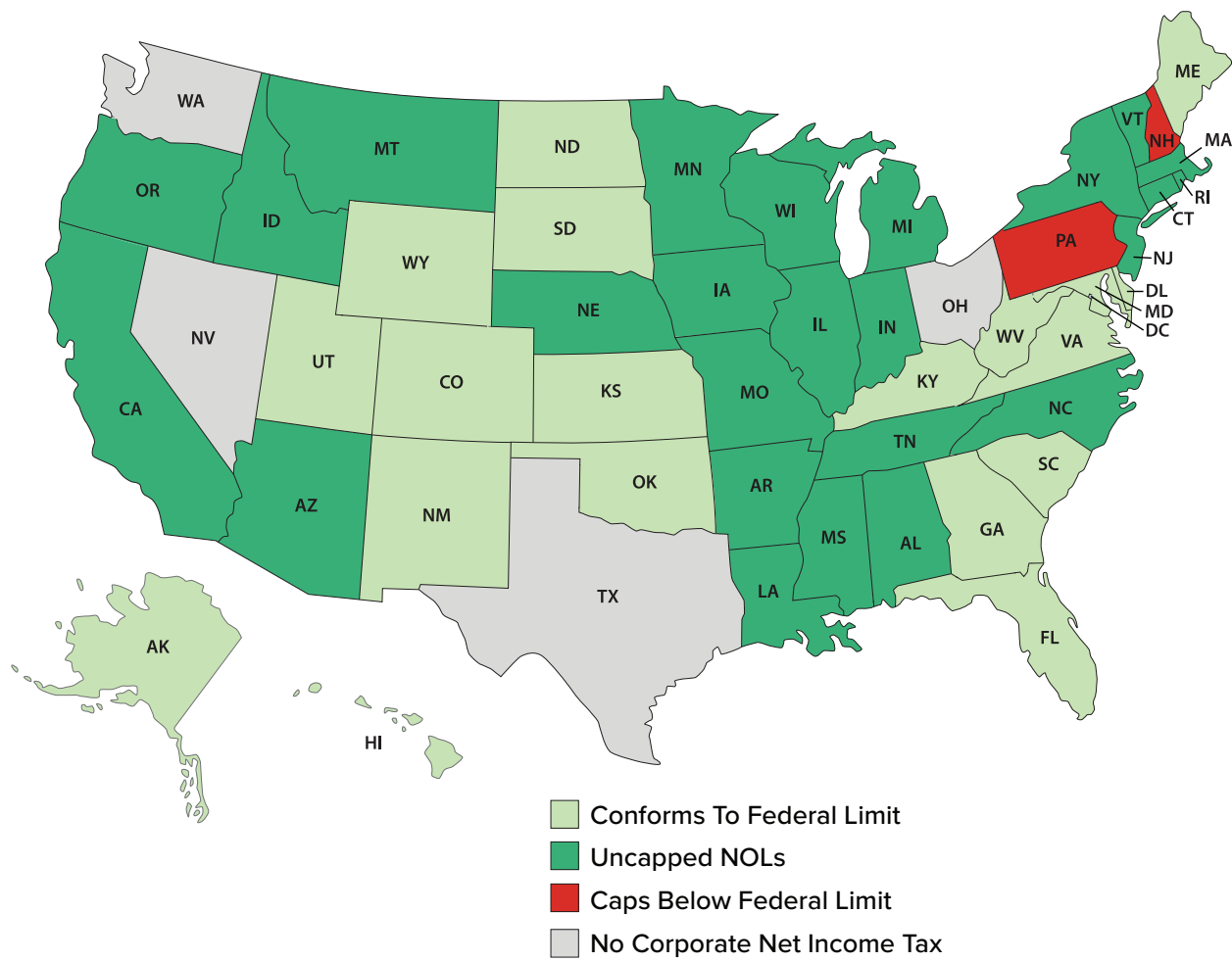
### Improving Our Tax Climate

NOL deductions promote a fair tax system by reducing additional tax burdens on entrepreneurial risk, cyclical businesses, or those more susceptible to economic downturns. Pennsylvania is a national outlier in its harsh treatment of losses and fixing this flaw will promote future growth, provide more stability as businesses make long term investment and hiring decisions and make Pennsylvania more attractive to employers and entrepreneurs.





# It's Time to End Pennsylvania's Penalty on Start-up Businesses



## It's Time to Eliminate the Cap on Net Operating Losses





# Small Business Tax Reforms



## Accelerated Sales Tax

To simplify compliance and ease paperwork burdens on small businesses, the accelerated sales tax pre-payment requirement should be repealed. Current law requires businesses that collect more than \$25,000 in sales tax in the third quarter of the previous year to make monthly pre-payments equal to 50 percent of their expected sales tax collections. Confused? Yes, so are small businesses! Repealing this requirement would allow small businesses to simply remit collected sales tax revenues in accordance with their filing period.



## Bonus Depreciation

To promote investment, output and job creation, Pennsylvania should allow full expensing of eligible equipment and property in the year the investment was made, known as bonus depreciation. Section 168(k) of the federal Tax Cuts and Jobs Act allowed for 100 percent expensing, which was gradually phased down to 80 percent in 2023. Pennsylvania does not allow bonus depreciation. The PA Chamber supports legislation that would implement bonus depreciation at the state level, either at 100 percent expensing or a designated percentage of the federal provision.



## Net Operating Loss Deductions

To promote fairness, Pennsylvania should allow small businesses organized as S-corporations, LLCs, or sole proprietors to carry forward net operating losses (NOLs).



# Permitting Reform

Improving Pennsylvania’s competitiveness will help all our residents, workers, families, and businesses have greater economic opportunity. Adopting a more welcoming tax and regulatory policy will benefit our future and lead to the building of a more modernized infrastructure system, establish advanced manufacturing hubs in innovative industries, and continue to provide the energy and goods needed in a diverse, 21st century economy.

The PA Chamber supports the following reforms to help get new projects permitted and built:

### Third-Party Review of Permits

With state agencies reporting workforce challenges, we recommend providing permitting agencies be given the option to contract with qualified third-parties to assist with the technical review of permits. Such is the case in states like Massachusetts, Washington, and New Jersey.



### Codify the Governor’s One-Stop Shop

The PA Chamber stood with Gov. Shapiro, his cabinet and leaders from business and labor for the signing of an executive order to establish a one-stop shop to streamline permits for key projects. We recommend codifying this office into statute.



### Streamline Permit Appeals

Once a permit is issued, it is possible the decision is challenged in court. We recommend limiting the scope of review for permit challenges going before the Environmental Hearing Board to only those issues raised during public comment. This is the approach used for most federal environmental statutes. If it’s important enough to sue over, it’s important enough to have raised during public comment.



### Stop Draining Agency Resources

Permit review times are protracted in part because of DEP, should it lose a permit appeal, potentially being responsible for attorney’s fees, which activist groups use as a source of funding. We support state government having the resources to do its job by limiting awarding of legal fees only in cases of bad faith.



### Shot Clocks and Deemed Approved

Timely permit decisions are necessary to get projects financed and built. We recommend a set timeframe for permits to be reviewed and issued — and be “deemed approved” if the agency does not make a decision in the time defined in statute.





# Workforce Development Policies

To ensure that Pennsylvania can continue to boast a skilled and modern workforce and remain competitive in the global market, the PA Chamber prioritizes workforce development as a cornerstone of its advocacy agenda. We are working with policymakers to strengthen existing workforce development programs and ensure that the Commonwealth is fully developing and harnessing the talent, skills, and capacities of its citizens:

## Bridge the Job-Skills Gap

Supporting career and technical education and proven job training programs will help individuals develop the skills necessary for in-demand jobs. Lawmakers should promote public-private partnerships and apprenticeship programs, expand and improve educational options in technical and vocational fields, and establish clear performance criteria and system-wide accountability standards for all public workforce training programs.



## Expand the Workforce Pool

Advancing policies that encourage employment is critical to addressing the workforce shortage. Lawmakers should help facilitate employment for reentrants and expand PA's Clean Slate law to encourage reformed individuals to re-enter the workforce, support employment opportunities for individuals recovering from addiction, protect the gig economy, improve the Unemployment Compensation system to encourage rapid reemployment, and expand work visa programs and employment-based green cards.



## Address Childcare Challenges

Improving the childcare landscape is critical to meaningfully addressing PA's workforce challenges — and the private sector should be empowered to drive solutions. Lawmakers should remove excessive regulatory burdens and costs on employers to make it easier to offer childcare benefits, as well as address childcare staffing needs.



## Cultivate the Next Generation of Skilled Workers

Working to prepare today's students for the jobs of tomorrow will help ensure Pennsylvania's long-term economic wellbeing and enhance the Commonwealth's overall competitiveness. Lawmakers should implement K-12 curriculum that aligns with workforce needs and promote opportunities for students to hear from and interact with trade schools, representatives from the business community, and others to provide educational and career guidance.







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## About The Chamber

The Pennsylvania Chamber of Business and Industry — the Statewide Voice of Business<sup>TM</sup> — was founded on Dec. 16, 1916 by a group of more than 100 influential business leaders from across the Commonwealth who recognized the need for a unified voice for business in the halls of the state Capitol. Our mission is to advocate for job creation and lead Pennsylvania to greater prosperity for its residents.

Headquartered in Harrisburg, and with staff in Pittsburgh, Philadelphia, the Lehigh Valley and Hazleton, today's PA Chamber is the largest broad-based business association in Pennsylvania. Our membership comprises close to 10,000 member employers of all sizes and industry sectors throughout the state — from sole proprietors to Fortune 100 companies — representing roughly 50 percent of the private workforce in the Commonwealth.

Advocacy to promote economic growth and job creation is at the heart of our work. With a full-time staff of experienced lobbyists, an active political action committee, legislative issue work groups and grassroots action network, the PA Chamber serves as the frontline advocate for business growth in the state Capitol.

Once laws and regulations are enacted, our organization is dedicated to helping our members understand and navigate the complexities of complying with state and federal workplace rules. Educational services include conferences, webinars and guidebooks on a wide variety of issues important to the business community.

## Affiliations and Partnerships

The PA Chamber is proud to work with a robust network of chambers of commerce statewide. The PA Chamber and each chamber throughout the Commonwealth is a distinct, independent entity, though most chambers are members of the PA Chamber and comprise a chamber community in Pennsylvania that works together closely to advocate for employers and communities.

Similarly, the PA Chamber works closely with the United States Chamber of Commerce, who has awarded the PA Chamber with a rating of Accredited with Distinction — one of only five state chambers to reach this achievement. Accreditation is the only national program that recognizes chambers for their effective organizational procedures, sound policies, corporate citizenship, and ability to advance their member businesses' legislative goals.