



Senate of Pennsylvania

Senator Anthony H. Williams

Democratic Whip

8th Senatorial District

366 Main Capitol Building

Harrisburg, PA 17120

(717) 787-5970; FAX: (717) 772-0574

MEMORANDUM

DATE: February 10, 2011
TO: All Senators
FROM: Senator Anthony H. Williams
SUBJECT: Co-sponsorship of Legislation: **Commercial Activity Tax**

In the near future, I will be introducing legislation that will phase-in the Commercial Activity Tax, while concurrently phasing-out the Corporate Net Income Tax over a five-year period. The Commercial Activity Tax is a gross receipts tax which will help Pennsylvania attract and retain local businesses by reducing the tax burden on Pennsylvania-based businesses.

The current Corporate Net Income (CNI) tax puts local businesses at a competitive disadvantage. Pennsylvania-based businesses are forced to bear the tax burden, however out-of-state businesses can adopt tax strategies to avoid paying the CNI tax. Our current CNI tax rate is 9.9%, which is the second-highest state corporate income tax in the United States.

My legislation embraces the national trend of eliminating the CNI tax in favor of a gross receipts tax in order to provide businesses with a simplified and more-efficient tax structure, while simultaneously increasing revenue stability. The Commercial Activity Tax is a broad-based, low-rate tax on gross receipts. This tax is paid by all businesses that utilize Pennsylvania consumer markets. This common-sense tax structure eliminates the “profitability penalty” that Pennsylvania-based businesses inherently incur under our CNI tax. Ohio and Michigan have recently enacted corporate taxes based on gross receipts, and California has also expressed

interest in similar legislation as part of an effort to attract business activity.

The Commercial Activity Tax is based on the principle that businesses should pay for the privilege of selling to Pennsylvania consumers, measured by the gross receipts that a business receives in a taxable year. This tax will be applicable to all types of businesses, whether they are retailers, manufacturers, or service providers. The Commercial Activity Tax has exceptions for businesses that already pay a different corporate tax under the Pennsylvania Revenue Code – specifically, financial institutions, nonprofit organizations, insurance companies, and certain public utilities.

Corporate taxes are likely to remain an important instrumentality for generating revenue in Pennsylvania; however, we need to ensure that our revenue policies reflect sound tax policies, such as: fair and equitable tax burdens for businesses, the provision of an appropriate revenue stream, neutrality, and being efficient and economical to administer.

If you wish to co-sponsor this legislation, please contact Donald Gordon, Esq., at 787-5970 or email dgordon@pasenate.com.