



Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Public Hearing on HB 678

Before the:
Pennsylvania House Local Government Committee

Presented by:

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Chairman Freeman, Chairman James and members of the Local Government Committee, my name is Neal Leshner, and I am Director of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify today regarding local taxes and the impact of tax policy on business growth and job creation.

The Commonwealth's system of local taxation must produce stable revenues, and promote uniformity, and consistency in its application of the law and treatment of taxpayers. The Pennsylvania Chamber supports local tax policy that promotes a competitive business climate and efforts at the state level that encourage local taxing authorities to continually pursue this objective. High tax rates can impede employer growth and the PA Chamber supports efforts to reduce state and local taxes by addressing cost-drivers and placing reasonable limits on local governments' ability to create, expand or raise taxes or fees.

Impact of State and Local Taxes on Job Creators

Businesses in Pennsylvania are subject to a myriad of state and local taxes, including but not limited to corporate income tax, sales taxes, personal income tax, unemployment insurance tax, gross receipts taxes, property taxes, business privilege and mercantile taxes. All told, Pennsylvania businesses pay over \$38 billion in state

and local taxes annually¹. This includes over \$13 billion in property taxes and \$6.6 billion in sales tax, which accounts for nearly half of total sales tax collections.

Pennsylvania's uniquely harsh business tax and regulatory climate is stifling economic growth. WalletHub² recently identified Pennsylvania as the fifth worst state in the entire country in which to find a job. Three separate analyses recently found Pennsylvania among the bottom third of states nationwide for key economic indicators: U.S. News and World Report³ ranks our economy 38th overall; SimplifyLLC⁴ ranks us 37th for small business taxes; and the Tax Foundation⁵ ranks the Commonwealth 31st in its overall state business tax climate index. Perhaps most strikingly, the Kauffman Foundation⁶ found that Pennsylvania has the lowest rate of new entrepreneurs out of all 50 states.

As a corollary, businesses and people are fleeing Pennsylvania, and they are taking good-paying jobs with them. Axios⁷ first reported in 2022 that more people were leaving Pennsylvania than moving in. Last year, the Bureau of Labor Statistics⁸ reported that Pennsylvania was among the top five states for businesses leaving. Home Bay⁹ identified Pennsylvania as having the fourth-highest rate of outbound

¹ <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/ey-50-state-tax-burden-study-fy22.pdf>

² <https://wallethub.com/edu/best-states-for-jobs/35641>

³ <https://www.usnews.com/news/best-states/pennsylvania>

⁴ <https://www.simplifyllc.com/best-and-worst-states-for-small-business-taxes/>

⁵ <https://taxfoundation.org/research/all/state/2024-state-business-tax-climate-index/>

⁶ <https://indicators.kauffman.org/indicator/rate-of-new-entrepreneurs>

⁷ <https://www.axios.com/local/philadelphia/2022/07/12/pennsylvania-migration-loss>

⁸ <https://www.bls.gov/opub/mlr/2023/article/firm-migrations-in-the-united-states-magnitude-and-trends.htm>

⁹ <https://homebay.com/where-should-i-move-2023/>

migration in the first half of 2023, and recent studies from U-Haul¹⁰ and United Van Lines¹¹ both indicate that employment opportunities are driving this worsening exodus of residents from Pennsylvania.

House Bill 678

House Bill 678 establishes a process by which counties could choose to enact an additional 1 percent sales tax on top of the 6 percent sales tax assessed at the state level. If enacted by the county, and approved by the voters in that county, the revenue from the additional sales tax would be shared by county and municipal governments based on the value of tax-exempt properties in each taxing jurisdiction.

The legislation would allow counties and municipalities to use the proceeds from the additional tax to fund municipal pensions, maintain county and municipal services, or lower county and municipal property taxes. We would suggest that this be expanded to include lowering or eliminating local gross receipts taxes and the various nuisance taxes which the legislature prohibited from expanding over three decades ago, but still linger throughout the Commonwealth. Additionally, while House Bill 678 provides the option for corresponding tax relief, nothing in the legislation would require any tax relief at all.

Comprehensive Local Tax Reform

The mosaic of local governing bodies, which include counties, municipalities,

¹⁰ <https://www.prnewswire.com/news-releases/u-haul-migration-trends-texas-florida-top-growth-states-again-in-2023-302024334.html>

¹¹ <https://www.unitedvanlines.com/newsroom/movers-study-2023>

and school districts, and the vast ways and degrees business are taxed, underscores the need for reform. Short of comprehensive local government consolidations, gross receipts, and the various nuisance taxes should give way to a simpler, more predictable tax base modeled after the state income tax base. The legislature should also explore all options for reducing cost drivers for local governments, such as prevailing wage reforms and other mandate relief. Additionally, the legislature should build on Act 32 which provides a model for how local tax authority can be consolidated. Remaining municipal and school district tax collections should be consolidated, eliminating the need for separate tax collectors. The current system is needlessly complex, highly duplicative, and unnecessarily costly.

The PA Chamber also supports property tax assessment reform that provides clear, consistent, and standardized assessment standards, including periodic, mandatory reassessment. One particular area of concern is the trend of some local taxing authorities evading the prohibition on spot property assessments by simply filing appeals. This practice often targets businesses which can experience unpredictable property tax increases as a result. The PA Chamber supports prohibiting spot appeals except under specific, legitimate circumstances.

Additional Tax Reforms

I would be remiss if I did not also take this opportunity to highlight the need to also address the competitiveness of state taxes on businesses. Policymakers should build on recent reforms and continue to reform the Commonwealth's tax structure

with pro-growth initiatives that will make the Commonwealth more competitive, like improving the treatment of Net Operating Losses (NOL). Pennsylvania is one of only two states that cap NOLs below the federal limit of 80 percent – 20 states have no cap at all. Increasing Pennsylvania’s 40 percent cap on NOLs would promote tax neutrality by reducing additional tax burdens on entrepreneurial risk, highly cyclical businesses, or those more susceptible to economic downturns. Our CNIT rate must continue to be reduced as the legislature intended or at an accelerated rate, in order to attract new investment, create family-sustaining jobs and spur economic growth. And finally, we should build on small-business tax reforms by removing the accelerated sales tax pre-payment requirement, allowing for bonus depreciation, and allowing small businesses the ability to carry forward net operating losses as well.

Conclusion

Thank you again for the opportunity to testify. I am happy to answer any questions.