

Mandatory Unitary Combined Reporting Will Make Pennsylvania Less Competitive

In these economic times, Pennsylvania needs to create a business climate that encourages job creation and retention along with new capital investment in the Commonwealth. A major structural change to the tax reporting system, like that required to implement and maintain mandatory unitary combined reporting, raises uncertainty as to the cost of investing in Pennsylvania and increases administrative costs to the Commonwealth without a proven ability to increase tax revenues.

Instead of imposing new taxes and associated requirements on businesses, the most effective steps that Pennsylvania can take to improve our business climate is to make the current corporate net income (CNI) tax more competitive with other states that compete with Pennsylvania for jobs. Removing the cap on net operating loss (NOL) carryforwards, and creating a single sales factor (SSF) apportionment formula are two significant ways in which the Commonwealth can improve the business climate.

Here are a few reasons why mandatory unitary combined reporting will make Pennsylvania less competitive for business investment:

Combined reporting creates uncertainty in revenue forecasts and collection and will result in increased administration and litigation costs for the Commonwealth.

- Combined reporting is complex to implement as well as to administer.
- Business operations, including entities that have losses outside the state, will be included in the Pennsylvania combined tax return. Also, historically, the uncertainty associated with the determination of what constitutionally comprises the combined reporting group will increase long-term litigation costs for the Commonwealth.
- Recent independent studies of the effects of combined reporting on tax revenue collections have indicated that combined reporting may not increase overall tax revenues. Instead, the incidence of tax is redistributed to primarily the manufacturing and service based industries, which in turn decreases the ability of those industries to invest in Pennsylvania operations.
- The lack of definite increases in tax revenue streams coupled with the historical certainty of additional administrative costs and litigation expenses for the Commonwealth and affected businesses would indicate that mandatory unitary combined reporting would not achieve growth in Pennsylvania.

Pennsylvania businesses pay \$23 billion in taxes.

- There are hundreds of thousands of businesses – large and small in our state. They already pay more than \$23.4 billion per year in state and local taxes, in addition to innumerable state fees. Taxes paid by employers represent about 42% of all state and local taxes collected in the Commonwealth.
- There is a misconception that many corporations in the state do not pay the CNI. The fact is that many expanding companies invest significant capital in the Commonwealth and therefore have operating losses. Other companies are still registered with the state but are inactive. As a result, about half of the 120,000 C-corporations registered in Pennsylvania that are subject to the CNI do not have an income tax liability for state or federal purposes, either because they have operating losses or because they are inactive corporations. When compared to other states – even states that have enacted combined reporting – Pennsylvania's proportion of corporations that do not have an income tax liability is typical.

In these times, a competitive business climate must be our first goal.

- Pennsylvania has the second highest CNI tax rate in the country. To make Pennsylvania more competitive in these difficult times, the most effective step that the Governor and the General Assembly can take is to improve the CNI tax regime by enacting the single sales factor and removing the cap on net operating loss carryforwards. These changes would encourage job creation and investment in Pennsylvania.

CompetePA is a coalition of more than 130 businesses and organizations representing more than half of the private sector workforce in Pennsylvania, committed to improving the business climate in order to encourage economic investment and job creation. For more information about CompetePA and what you can do to help Pennsylvania compete successfully for new jobs and investment, visit www.CompetePA.com.