



CompetePA

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Administration tax proposal would hurt prospects for recovery, job growth

Job creators say combined reporting is counter to economic progress in Pa.

HARRISBURG, PA – On behalf of more than 130 Pennsylvania businesses and trade organizations, the [CompetePA Coalition](#) today said the top priority for the 2010-11 state budget must be creating a competitive business climate that leads to jobs and investment. To that end, the group – which represents more than half of the private sector employment in Pennsylvania – urged state lawmakers to reject new tax increases, including the administration's call for mandatory unitary combined reporting.

Combined reporting is an attempt by Harrisburg to impose Pennsylvania tax liability onto a business' activities in other states. Due to 50 different state systems of taxation – with differing taxes, tax rates and applicability tests – multi-state businesses operating in Pennsylvania would be hit with expensive legal, accounting and administrative costs, even when the Department of Revenue ultimately concludes that it has no additional tax liability. Combined reporting also undermines competitiveness by eliminating the predictability of tax compliance, as all interactions with the department devolve into a negotiation over how Harrisburg views your activities in other states.

The Revenue Department already has the enforcement powers to counter illegal abuses of passive investment companies. Furthermore, it also knows that Pennsylvania's employers already pay \$23 billion in state and local taxes, in addition to innumerable state fees. Taxes paid by employers represent about 42 percent of all state and local taxes collected in the Commonwealth

"This is the wrong approach to take if the end goal is stabilizing and growing the economy and restoring jobs lost to the recession," James Moran, General Manager, G4S Wackenhut said, pointing out that in the 2010 ALEC-LAFFER State Economic Competitiveness Index, Pennsylvania ranked 46th for economic performance and 43rd for economic outlook.

Under combined reporting, the manufacturing, business service and trade industries would see net increases in their tax liabilities amounting to millions of dollars. The proposal would be especially detrimental to the manufacturing sector, which has lost more than 300,000 jobs since July 2000. The call for combined reporting also comes at a time when Pennsylvania's business services sector faces an additional \$1 billion tax increase under the governor's proposed sales tax expansion.

"With Pennsylvania's unemployment rate at a 25-year high, lawmakers should not heed Governor Rendell's call to raise business taxes," David Taylor, Executive Director of the Pennsylvania Manufacturers Association said. "At a time when private-sector job losses have hit working Pennsylvanians hard, the last thing elected officials should do is enact a major tax increase on key industry sectors."

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Combined reporting would also serve as a disincentive to new business investment. Out-of-state companies would be reluctant to locate in Pennsylvania because it would expose income in other states to taxation here.

CompetePA members cautioned that in addition to the above mentioned concerns, combined reporting would not be the cure-all for the state's fiscal woes.

The Revenue Department has admitted that it does not currently have the resources to handle the change, and other states that have adopted combined reporting have unresolved taxpayer disputes that are decades old. Additionally, there is no statistical evidence that states enforcing combined reporting collect more tax revenues than states that employ separate accounting.

"In fact, Pennsylvania's percentage of companies that don't pay the Corporate Net Income tax is comparable to states with combined reporting, which brings up another oft-repeated misconception in the combined reporting debate," Gene Barr, Vice President of the Pennsylvania Chamber of Business and Industry said.

Half of Pennsylvania's 120,000 C-corporations do not pay state or federal taxes each year, either because they have lost money or because they are inactive corporations. Barr said the Rendell administration's statement that 71 percent of Pennsylvania corporations don't pay taxes is misleading.

Businesses already pay sales, property, gross receipts and unemployment compensation taxes, among others – not to mention regulatory expenses, government mandates and fees, and escalating health-care costs – all of which add to the cost of creating jobs and maintaining operations in Pennsylvania.

"The hundreds of thousands of employees from all geographic areas and industries that are represented by the CompetePA Coalition remain unified in their concern about the serious impact to economic growth, business investment and job creation posed by combined reporting and with the misinformation that is clouding the debate," said Carlos Cardoso, Chairman, President and CEO, Kennametal Inc. "With the Commonwealth already facing challenges of monumental proportions, the last thing policymakers should do is further hamstringing the private sector – Pennsylvanians' true hope for long-term economic prosperity."

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For more information about CompetePA and what you can do to help Pennsylvania compete successfully for new jobs and investment, visit www.CompetePA.com.