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Cutting Pa's Corporate Net Income Tax a good start

The long overdue and welcome news is that Pennsylvania's onerous Corporate Net Income Tax (CNIT) will be cut by five percentage points over the next nine years.

But the questions writ large are whether the commonwealth can sustain the phasedown, from 9.99 percent to 4.99 percent, reduce other business taxes and enact legislation to better retain and attract businesses to the Keystone State, concludes an analysis by the Allegheny Institute for Public Policy.

"Ultimately, Pennsylvania must continue making policy decisions like this if it is to become a competitive state," says Benjamin Seevers, a research assistant at the Pittsburgh think tank (in *Policy Brief Vol. 22, No. 31*).

The CNIT is "the tax paid by all domestic and foreign corporations for the privilege of doing business, carrying on activities, or employing or owning capital or property in Pennsylvania," notes the state's Tax Compendium. Act 53 of 2022 authorizes its reduction.

Pennsylvania's Independent Fiscal Office (IFO) says the tax produced $5.3 billion in revenue in fiscal 2021-22, a significant increase from the average of $3.6 billion for FY2019-20 and FY2020-21,
attributable to the economic fallout from COVID and inflation.

The Pennsylvania CNIT rate has been either the highest or second highest in the nation, depending on how it's measured, which has kept the commonwealth at a competitive disadvantage.

And while critics are wont to point out that reducing the CNIT will result in hundreds of millions of dollars in "lost" revenues for the state, other tax law changes will help to mitigate those losses.

Additionally, the reduction in the CNIT revenue might be further ameliorated by increases in personal income taxes and sales taxes that result from corporations starting or expanding operations inside Pennsylvania.

"Since the CNIT cuts are expected to boost Pennsylvania's economy, the state should try to offset any net loss in tax revenue by cutting government funding for economic development," Seevers suggests. "The government should take the opportunity to reduce outlays for economic incentives that have been thought necessary.

"The CNIT rate cuts are a good first step—but by no means the only needed step—to make the state more economically competitive," he stresses.

But there remains a wildcard question as the CNIT's phaseout phases in.

"Was this tax cut made possible by the unprecedented $3.8 billion in federal aid?" Seevers asks, noting how $3.8 billion in COVID aid was transferred to the general fund, then a $2.6 billion general fund surplus was transferred into the rainy-day fund in Fiscal 2021-22. In FY2022-23, an anticipated general fund surplus of $2.1 billion is to be transferred to the rainy-day fund.

"State lawmakers are up front about the CNIT cut being made possible by a healthy rainy-day fund," Seevers recounts. "What will they do when COVID aid expires?"

He foresees the possibility of the rate cut schedule being called into question with the phasedown either being delayed or canceled, troublingly reminiscent of what occurred with cuts to the capital stock and franchise tax, which was delayed and paused repeatedly for years.

"Or will the corporate net income tax rate cut spark new investment and expansion in Pennsylvania and fill state tax coffers in other ways?" Seevers asks.

"And might the state Legislature finally muster the courage to pass a Right-to-Work measure (no small part of North Carolina's economic success story) that most certainly would help retain and expand current businesses and attract new companies to the Keystone State" and more than counter any potential state coffer shortfalls?

Still, "Pennsylvania should adamantly commit to keep to the scheduled CNIT decreases and continue lowering its taxes in general," Seevers concludes.

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