June 22, 2023 **Allegheny Institute Op-Ed**

460 words

Benefits, challenges in accelerated CNIT cuts

By Colin McNickle

Legislation introduced in the Pennsylvania Senate that would increase the rate of reduction for the onerous Corporate Net Income Tax (CNIT) has the potential to provide a triple benefit for the commonwealth, concludes a new analysis by the Allegheny Institute for Public Policy.

It could boost the economy with new businesses and jobs and lead to population gains, say Eric Montarti, research director, and Scott T. Cross, research assistant, at the Pittsburgh think tank.

And it provides an opportunity to find other budget spending reductions to offset the lower CNIT receipts, the researchers say (in *Policy Brief, Vol. 23, No. 23*).

The Corporate Net Income Tax 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.

Pennsylvania's current CNIT rate is 8.99 percent. When the rate dropped at the beginning of 2023, it was the first reduction since 1995.

That said, however, Pennsylvania still has the third-highest corporate income tax compared to other single-rate states, with only Minnesota and Illinois ranking higher.

Amending legislation to Act 53 would expedite the reduction schedule, dropping the CNIT rate to 4.99 percent by the beginning of 2026. That is, the tax rate would be reduced by 1 percentage point per year instead of the current half-percentage point.

"A benefit of Pennsylvania pursuing the abbreviated reduction period of the CNIT is that it could incentivize individuals and corporations to migrate to the state," Montarti and Cross say. "This is a trend that has not been going in the right direction and needs to be reversed."

And while lower taxes should be an enticement for new businesses to start up or relocate in the Keystone State, it also could reduce state revenues.

"(P)olicymakers should look first to the economic development subsidies and incentives it grants to targeted businesses" to make up those lost tax dollars, Montarti and Cross say.

"After all, any business that would be subject to paying the CNIT will be paying the same reduced rate as others, thus leveling the playing field and reducing the need to grant subsidies to certain select businesses."

On net, the proposed Act 53 amendment should be seen as a benefit to Pennsylvania.

"Not only would it offer a reprieve from the high tax rate encumbering existing corporations in the commonwealth but it could also serve as a beacon, incentivizing both other corporations and individuals to migrate to Pennsylvania," Montarti and Cross reiterate.

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