

POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

May 20, 2003

Volume 3, Number 23

Taking Care of Business

Will an overhaul of the state's property tax system bring any relief to Pennsylvania's business community? As matters now stand, probably not. That's because for all of the talk surrounding the prospect of significant reform of property taxes in the Commonwealth, little attention has been given to how plans will affect the commercial and industrial sectors in the state. Consensus at this time seems to be that if the property tax is eliminated or reduced, the benefits will flow primarily to owner-occupied homes.

Of the three most visible plans that have been formed to address property tax reform, two are directed exclusively to homeowners. These include the one put forward by the Governor. His plan would offer a partial tax rebate for homeowners on the school district portion of their property tax in exchange for an increase in the personal income tax and the approval of gambling. The other, advanced by Senator Sean Logan, would eliminate the property tax for homesteads while raising taxes on income and sales. Only the plan put forth by the Commonwealth Caucus would offer relief to businesses by eliminating the school district property tax for all taxpayers. This plan would broaden the base of the state's sales tax by taxing clothing, food, and other items not currently covered by the tax.

The neglect of business in property tax reform discussions may be a result of the belief held by many groups and elected officials that businesses, particularly big businesses, get off easy when it comes to the taxes paid at the state and local level. Last year, the Keystone Research Center went so far as to say that since Pennsylvania's business tax burden was so low (in terms of business taxes per-capita) that further reductions or long-term reform was not needed. Claims such as these are misguided and wrongheaded.

A recent study by the Council on State Taxation (COST) puts the business tax burden into perspective. Their study shows that, nationally, businesses pay a substantial fraction of state and local taxes--\$378 billion (41%) of all non-federal taxes collected in 2002. Businesses pay taxes on corporate income, purchases of business inputs and business property along with gross receipts and license taxes.

Interestingly enough, the COST study found that taxes on business property were the largest single source of tax collections from the business community. Nationally, the dollar amount paid in property taxes (\$145 billion or 38% of business tax share) was nearly twice that of sales taxes on business inputs, more than twice as high as excise taxes, and five times the share of corporate income taxes. From 1999 to 2002, property taxes on businesses increased nearly 10 percent. The table below outlines the national data from the COST study.

State and Local Tax Contributions by Business, 2002

Tax	Dollar Amount (in billions)	Percentage of Total
Property	\$145.6	38
Sales on Business Inputs	74.3	20
Excise and Gross Receipts	72.2	19
Business License Taxes	30.6	8
Unemployment and Workers' Compensation	29.0	8
Corporate Income Taxes	27.1	7
Total	\$378.9	100

In the case of Pennsylvania, COST estimated taxes by business to be \$16.9 billion in 2001, or nearly 43 percent of all the Commonwealth's state and local taxes. * Moreover, it is clear that high property taxes in many Pennsylvania's communities significantly raise the cost of doing business in those communities. The unfairness of the property tax that frustrates homeowners is just as true for businesses. Even when the economy is weak and profits disappear, businesses must still meet their onerous property tax obligation.

Addressing the tax burden carried by business would go further to improve the state's economic standing than the alternative of more top-down economic development. Why would the state borrow billions of dollars to try to stimulate private investment and ignore the stimulative effects of reducing the taxes that are so onerous for business? Capital goes where it earns the highest after-tax return. High business taxes, particularly the property tax, are extremely detrimental to private sector investment. And, the reality is that without business investment, the jobs and income needed to pay other taxes won't be there.

A plan that includes the business community in property tax reform would certainly be welcome news. This, along with reductions in other business taxes--especially the corporate income and Capital Stock and Franchise taxes--are necessary if the private sector is to lift the state out of its economic malaise.

As Pennsylvania looks for ways to reduce property taxes, we must take into account the negative effects created by the burden carried by the business community. Our job and income producers should not be excluded from the discussions about property tax relief.

**PMA Bulletin- May 5, 2003*

Jake Haulk, Ph.D. President

Eric Montarti, Policy Analyst

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Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 305* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org