PENNSYLVANIA CHAMBER OF BUSINESS AND INDUSTRY
Setting THE record straight

Nov. 19, 2008

Fostering job growth should be priority No. 1 in any economy

The business community recognizes that with the Commonwealth facing a potential $1 billion to $2 billion revenue shortfall in the 2009-10 fiscal year, state lawmakers will have some difficult choices to make in the upcoming budget cycle. But with the nation in the grips of a recession, according to most economists, and Pennsylvania facing a gloomy financial outlook, the decision to advance policies that will lead to greater job opportunities for residents and boost economic growth should be an obvious one to make.

To start with, this means resisting the urge to balance the budget on the backs of job creators, who have yet to fully recover from the multi-billion dollar 1991 tax increase, then the largest in the state's history and bad enough for *US News and World Report* to call it "the worst economic decision in the nation."

Job creators still trying to rebound from 1991 tax increase

Prior to 1991, Pennsylvania's Corporate Net Income tax rate was 8.5 percent. In January 1991, it jumped to 12.25 percent, where it stayed for three years. The tax rate was reduced slightly in 1994 to 11.99 percent, and in January 1995, it was lowered to 9.99 percent. Some 13 years later, it remains at 9.99 percent – the second highest rate in the nation and well above the national average of 6.80 percent.

Pennsylvania lost a lot of ground against the competition in 1991 and has been slow to catch up. In fact, when the Commonwealth was debating lowering the CNI to 9.99 percent in the early 1990s, forward-thinking states like North Carolina were debating a move from 7.9 percent to 6.9 percent. Because the CNI is the most straightforward measure that businesses use when comparing states' business climates, Pennsylvania consistently scores low marks in competitiveness studies in comparison to the rest of the nation. The Commonwealth has also seen its Gross Domestic Product continue to trend below the national average, and has experienced a steady decline in population.

More than just holding the line on taxes needed to boost growth

Job creators are cautiously optimistic by early pronouncements from legislative leaders and Gov. Ed Rendell that a tax increase next year is not a certainty.

Senate President Pro Tempore and Lt. Gov. Joseph Scarnati recently told a *Capitolwire* reporter, *"We cannot go into this year with the assumption we are going to raise taxes because we are not going to do that."*

And the governor was quoted in the media, when talking about the upcoming budget, as saying, *"It is my goal to avoid a tax increase."*

But beyond holding the line on taxes, elected officials need to take steps to shore up Pennsylvania's economic climate both now and for the long term. Two targeted business tax reforms – both of which enjoy overwhelming bipartisan support in the legislature – will foster job creation and economic growth: basing the CNI formula only on sales and eliminating the cap on Net Operating Losses. An NOL deduction free of uncompetitive restrictions will help start-up companies get off the ground and balance the effects of volatile economic conditions on cyclical companies that face regular fluctuations in income. Adopting a Singles Sales Factor means the Commonwealth would no longer penalize companies for investing and hiring in Pennsylvania by basing the CNI on sales, property and payroll.

There is no better time than today's challenging economic times to give job creators the tools they need to prosper and grow. Without quality job opportunities, it is Pennsylvania residents who will be left with the difficult choices to make.

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The Pennsylvania Chamber of Business and Industry is the state's largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber's website at www.pachamber.org