



Just the Facts on Combined Reporting: Chamber of Business and Industry Makes Misleading Argument Against Closing Corporate Tax Loopholes

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A May 24 press release from the Pennsylvania Chamber of Business and Industry purported to set the facts straight on combined reporting.

Combined reporting would close corporate tax loopholes and make it harder for multi-state corporations to avoid paying corporate net income tax (CNIT) on income earned in Pennsylvania.

The release includes a number of assertions that need to be corrected:

Who Doesn't Pay Corporate Income Taxes?

The Chamber complains about the often-cited fact that 71% of corporations in Pennsylvania pay no corporate income tax at all. The chamber says this is wrong, arguing that most businesses in Pennsylvania are small businesses and pay the 3.07% personal income tax rate.

The Chamber is attempting to confuse the issue by lumping small businesses that pay the lower personal income tax rate together with traditional corporations that pay the CNIT rate.

In tax year 2006 (last available year), 71% of Subchapter C corporations, the traditional type of corporation and the only one subject to the CNIT, did not pay income taxes, according to the Pennsylvania Department of Revenue. In that same year, 14% of corporations paid \$1,000 or less in CNIT.

The truth is that in 2006, during a booming economy, a family earning \$36,000 paid more in state taxes than 84% of Pennsylvania corporations.

Under combined reporting, not all of those companies would pay taxes. As we have long argued, many corporations don't pay taxes because they don't have taxable income (after deductions and losses or from being inactive). Under combined reporting, companies that game the system would have additional taxable income.

Combined Reporting Is a Tax Increase?

The Chamber argues that enacting combined reporting will result in a tax increase for Pennsylvania businesses. Calling combined reporting a tax increase is misleading.

There are no proposals to increase Pennsylvania's business tax rates. Under combined reporting, some companies would pay less in CNIT; some would be unaffected; others would finally pay corporate taxes on income they earn in the state. This is not a tax increase. Simply put, these

corporations will have more taxable income because they can no longer shift it out of state. If your personal income increased from \$40,000 to \$50,000 a year, you would pay more in taxes, but that isn't a result of a tax increase.

Under Combined Reporting, Many Corporations Would Pay Less in Taxes

In 2008, the Maryland General Assembly authorized a study of the impact of combined reporting using real data from Maryland companies. The study found that one-third of companies would pay less under combined reporting, while another third would be unaffected.

Combined reporting makes the tax system more fair, so all companies pay tax on income legitimately earned in the Commonwealth, not just Pennsylvania-based companies that don't have Delaware or Nevada shell companies in which to hide their income.

All but one of Pennsylvania's 31 biggest private employers (97%) operate in states that have combined reporting, and 21 of those operate in five or more combined reporting states.

Making Pennsylvania More Competitive?

The real question for policymakers should be this: **Is letting a small number of multi-state companies game the tax system making Pennsylvania more competitive?**

If the high tax rate is the problem, then fix the rate. For six years, lawmakers and the Rendell administration have proposed to enact combined reporting and use a portion of the proceeds to reduce the CNIT rate. This proposal would benefit all Pennsylvania corporations rather than a select few and provide additional revenue to support infrastructure, higher education and other services all businesses rely upon. Won't that make Pennsylvania more competitive?

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