



## **Pa. House Revenue Package Will Close Tax Loopholes, While Preserving Critical Services**

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When the Pennsylvania House of Representatives returns to session the week of May 24, lawmakers are expected to vote on a legislative package that would end special interest tax breaks in order to preserve critical public services like education and health care.

House Bill 2435, sponsored by State Representative Dwight Evans, will close corporate tax loopholes, enact a severance tax on natural gas production, assess an excise tax on cigars and smokeless tobacco, and close a sales tax giveaway that has put millions of your sales tax dollars in the pockets of big retailers like Home Depot and Wal-Mart.

The package also includes a reduction in the corporate tax rate and other business tax cuts long sought by the business community.

The package will raise about \$344 million in the first year for the state General Fund. Below is a summary of the main components of the bill:

### **Creates a tobacco products tax on cigars, chewing tobacco, snuff, and loose tobacco**

Just about everywhere in the United States people pay a state excise tax when they buy cigars, chewing tobacco, snuff, or loose tobacco to roll their own cigarettes. But not in Pennsylvania.

Though it taxes cigarettes – like every other state – Pennsylvania is one of only two states to exempt cigars from taxation and is the only state not to tax the other forms of tobacco.

HB 2435 would levy an excise tax on other tobacco products at a rate of 30% of the prices paid by retailers. Not only will the tax raise needed revenue, it will also help reduce health care costs by discouraging use of tobacco products.

The tobacco products tax is expected to raise \$42 million in 2010-11.

### **Enacts a severance tax on natural gas drilling**

Pennsylvania is on the cusp of a 21st Century natural gas “gold rush” in the Marcellus Shale, a rock formation that underlies most of Pennsylvania and several neighboring states.

Out-of-state oil and gas producers like Exxon Mobil and Chesapeake Energy are flocking to Pennsylvania to tap into this goldmine. Technological advances and increasing demand for natural gas has made the development of the Marcellus Shale very lucrative for energy companies.

HB 2435 would levy a severance tax on natural gas production at the same rate as neighboring West Virginia. The tax would shift some of the public costs of increased drilling, such as environmental

damage, infrastructure wear and tear, and additional public safety needs, onto the companies doing the drilling.

Every state that produces more natural gas than Pennsylvania imposes a similar tax or fee on its extraction.

This legislation would direct 90% of the tax into the state's General Fund, with the remainder being distributed to counties and municipalities that host the gas development. The severance tax is expected to raise \$179 million in 2010-11 – with \$161 million going into the General Fund.

### **Closes corporate tax loopholes and lowers the corporate income tax rate**

Corporations pay income taxes just like people do. At least, they're supposed to.

In Pennsylvania, loopholes in our antiquated corporate tax system allow many businesses to avoid paying taxes on their income. In fact, more than 70% of Pennsylvania corporations pay no income tax at all.

Large, multi-state corporations have an army of accountants who develop sophisticated "tax planning" techniques to avoid paying taxes on income they earn. Small Pennsylvania companies can't use many of these tricks and gimmicks. This leaves homegrown companies and individuals to pay the freight for multi-state and foreign corporations.

HB 2435 slams the door on these techniques by requiring parent companies and their subsidiaries to file tax returns as a single company, eliminating the transactions that artificially move profits out of state.

The bill also lowers the corporate net income tax rate from 9.99% to 8.99% and includes two provisions long sought by some corporations: a shift to a single sales factor (where only sales in Pennsylvania are used to determine taxable activity in the state) and allowing unlimited use of net operating losses to reduce current taxable income.

Closing corporate tax loopholes is expected to raise \$67 million in 2010-11 and could bring in as much as \$500 million in new revenue in future years.

### **Eliminates the antiquated sales tax vendor discount**

Currently, retailers that collect sales tax are allowed to keep 1% of the take to offset administrative costs. For big-box retailers, like Wal-Mart, Target, and Home Depot, this discount can add up to millions of dollars each year.

In the age of computers, administrative processing costs have plummeted and the state can no longer afford this expensive and unnecessary perk for retailers. HB 2435 would end this obsolete discount.

Eliminating the discount is expected to increase sales tax collections by \$74 million in 2010-11.