



## A Tax Windfall Whose Time Has Passed Understanding Pennsylvania's Sales Tax Vendor Discount Program

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Twenty-six states, including Pennsylvania, compensate vendors for collecting the state sales tax. In Pennsylvania, vendors who file timely sales tax reports with the state can get a credit for 1% of the total sales tax they collect. But with the introduction of new technology, the discount program has become obsolete and too expensive for the state. Governor Ed Rendell has proposed ending the discount in 2009-10 to help close a state budget deficit.

### **Costly for Pennsylvania, a Windfall for Billion-Dollar Corporations.**

The sales tax discount program cost Pennsylvania nearly \$74 million in 2007-08. **Nearly \$12 million of that went to 10 corporations with sales exceeding \$1 billion in the state.** On average, each of those vendors kept \$1.16 million in sales tax they collected.

Small businesses, by contrast, received only a few dollars from the program. A little more than half of the 301,000 licensed vendors in the state, with sales less than \$100,000, got average discounts of \$9, while another 21% got nothing.

### **A Top Money Loser: No Limit to Pennsylvania's Sales Tax Discount.**

Good Jobs First in Washington, D.C. recently found that Pennsylvania ranks third among the states in revenue lost from its sales tax discount program, trailing only Illinois and Texas. This is largely because Pennsylvania has no cap on how much any one vendor can keep under the sales tax discount program.

### **A Luxury Pennsylvania Can No Longer Afford.**

The sales tax discount program was conceived in a time before computers, when vendors had to keep track of sales tax collections on paper. Technology has streamlined that process, rendering the discounts obsolete. Corporations also collect and remit employee withholding taxes without any type of remuneration.

Pennsylvania should eliminate the sales tax vendor discount program. The majority of small businesses would lose no more than \$10 in discounts annually, while billion-dollar corporations would have to give up million-dollar windfalls. Taxpayers cannot afford such a costly program that no longer achieves the goals it was designed to tackle.

*"At a time when state and local governments are facing a fiscal crunch, policymakers should take a hard look at retailer compensation practices. This legal skimming is depriving governments of desperately needed revenue."*

**— Good Jobs First Executive Director Greg LeRoy**