



Keeping Score:

More Pennsylvania Businesses are Losers Under the Single Sales Factor

Special Interest Tax Break Puts Pennsylvania \$100 Million Deeper in the Hole

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Budget negotiators are considering adopting the Single Sales Factor (SSF)¹, a targeted tax break promoted by a small group of Pennsylvania corporations. The SSF would cost the Pennsylvania Treasury around \$100 million, when the state has a billion dollar deficit, and is facing large cuts in libraries, hospitals and services for children and vulnerable people.

Proponents argue that state's corporate income tax rate is high and the change will make Pennsylvania more competitive. In fact the SSF creates big winners and many losers: twice as many businesses would pay more using the single sales factor than would see a tax reduction. Most Pennsylvania businesses—those whose sales are primarily in Pennsylvania would receive no benefit at all, according to an analysis conducted by the Pennsylvania Department of Revenue.² Here is the score:

- The 10,500 losing corporations would pay an additional \$85 million in tax under the SSF.
- The winners get a bigger bounty. 4,400 companies would have their tax bills cut by \$186 million.
- 21,500 corporations doing all their business in Pennsylvania get no benefit from the single sales factor. For example a supplier that sells to U.S. Steel gets no benefit, but U.S. Steel gets a big benefit. A supplier that sells to Hershey Foods gets no benefit, but Hershey gets a big benefit.

The Single Sales Factor benefits a few at the expense of many, making the overall tax system less fair. In most sectors of the economy, the losers outnumber the winners by 2-to-1 (See Figure 1). Manufacturing is the *only* sector that comes out even under the proposal, with winners outnumbering losers slightly, 52% to 48%.

Table 1.

Industry	Losers	Winners
Agriculture, Forestry, and Fishing and Hunting	62%	38%
Mining	53%	47%
Utilities	53%	47%
Construction	64%	36%
Manufacturing	48%	52%
Wholesale Trade	68%	32%
Retail Trade	66%	34%
Transportation and Warehousing	68%	32%
Information	61%	39%
Finance and Insurance	57%	43%
Real Estate and Rental and Leasing	61%	39%
Services	61%	39%
Miscellaneous	71%	29%
Totals	63%	37%

Source. Pennsylvania Department of Revenue

¹Companies that have income from more than one state calculate how much of that income is earned in Pennsylvania using an apportionment formula. This share of income is what is subject to the state's Corporate Net Income Tax.

²Most corporations (98,450) do not apportion income and are unaffected by the change. The vast majority of these corporations pay no CNIT.

The 653 “winning” manufacturers reap the biggest rewards. While manufacturers comprise only 1.8% of the 36,500 taxpaying companies, they receive 49% of the tax cut. Not surprisingly, largely Pennsylvania-based Hershey Foods, PPG, and U.S. Steel have been leading the lobbying effort for the change.

In total, this plan permanently cuts \$100 million per year in corporate net income tax collections at a time when revenue is most needed. No evidence exists that states adopting SSF have attracted more business than other states. In fact, the change creates a disincentive for companies that want to do business in Pennsylvania.

The General Assembly should reject this special interest tax cut and focus on making the corporate tax system fairer for all corporations. By closing - rather than creating - tax loopholes, the state can find revenue necessary to avoid cuts to libraries, education, children's services and health care, and when the economy recovers, reduce the corporate income tax rate which would benefit all corporations doing business in the state.

Table 2. Winners and Losers from the Single Sales Factor (SSF)

	Number of Corporations	Current CNIT (\$ millions)	CNIT w/ SSF (\$ millions)	Change (\$ millions)	Average Change³
Losers	10,503	\$478	\$563	+\$85	\$8,074
Winners	4,382	\$480	\$294	-\$186	-\$42,456
No Change – PA-Only Taxpaying Corporations	21,561 ⁴	\$313	\$313	\$0	\$0
Net Total	36,446	\$1,271	\$1,170	-\$101	

Source. Pennsylvania Department of Revenue and estimates by Pennsylvania Budget and Policy Center

³ Average tax change not calculated for total taxpayers as the large number of PA-only companies, who are unaffected by the change, would skew the average.

⁴ This is an estimate based on 2002 tax year data. In 2002, 21.9% of corporations that did not apportion had taxable income. This represents 21.9% of the 98,450 corporations unaffected by the SSF change according to Department of Revenue data. The amount of tax paid is from the Department of Revenue.