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House of Representatives
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

HOUSE DEMOCRATIC POLICY COMMITTEE ROUNDTABLE

Topic: Emerging Business Industries

Pittsburgh Technology Center – Pittsburgh, PA

March 29, 2018

AGENDA

11:00 a.m. Welcome and Opening Remarks

11:10 a.m. Discussion with Panelists:

- Audrey Russo
  President & CEO
  Pittsburgh Technology Council

- Jennifer Beer
  Senior Director – Government Affairs
  Greater Pittsburgh Chamber of Commerce

- Jennifer Wilhelm
  Assistant Director of Center for Innovation and Entrepreneurship
  Urban Redevelopment Authority of Pittsburgh

12:20 p.m. Closing Remarks

Pittsburgh Technology Council

We have a great story to tell. We have some of the nation's best schools, some of the nation's best quality of life amenities, and we are building a community for everyone to access. Toward that goal, we must keep investing in those quality of life amenities. Clean air, clean rivers and livable parks play a huge rule in attracting talent to the region. A 21st century transportation system that connects the neighborhoods where these professionals live and play with the areas where they work is essential.

Entrepreneurship and Capital:

In addition to our talent related challenges, our region faces a shortfall of local capital to support the growing entrepreneurial community. Venture and angel capital investment, along with great entrepreneurs who are supported by talent teams are essential to our success. Today, the vast majority of venture funding fueling our growth comes from areas outside of Pittsburgh. So how can you help accelerate that flow of capital to PA.

Support existing programs that work:

The Ben Franklin Technology Development Authority was the nation's first technology based economic development program of its kind. Today, despite having its budget reduced by nearly 70 percent under the past several administrations, the program continues to be one of the nation's best. In particular, the two Alpha Lab programs are supporting real economic development by taking extremely early stage firms and providing intensive coaching over multiple months. The small investment capital that they provide is important as well, but their team is comprised of experience entrepreneurs and business leaders.

Pennsylvania's Keystone Innovation Zone program, which was launched under the Rendell administration, provides a powerful tool to encourage start-up activity. We are currently sitting in the Greater Oakland KIZ, which is managed by the Pittsburgh Technology Council, but the city also has the PCKIZ, which includes the central part of the city of much of the Northside. The state's R&D tax credit is also a powerful job creator for start-ups. The Rendell administration's reforms to that credit allow small businesses to immediately monetize credits by permitting small businesses to sell them to other PA taxpayers.

Finally: Make it easier for entrepreneurs to raise capital. On this front, better west coast flights are essential. We are proud to be a strong partner the Pittsburgh Airport Authority and appreciate the full support that County Executive Fitzgerald has provided to our efforts to make the west coast more accessible.

Thank you so much for indulging me this morning. To summarize my testimony: Please focus on the basics: Great educational institutions build great communities. The talent produced by those institutions is the new currency of economic development. We have great talent and amazing communities. Tell this story to the world! Finally.....Support entrepreneurs: They're our future!

Greater Pittsburgh
Chamber of Commerce
An Affiliate of the Allegheny Conference on Community Development

Jenn Beer, Senior Director of Government Affairs
Greater Pittsburgh Chamber of Commerce
House Democratic Policy Committee
Thursday, March 29, 2018
Pittsburgh Technology Council

Thank you members of the House Democratic Policy Committee for the opportunity to talk to you today about the importance of how to build a better tax environment that supports the growth and future workforce of emerging business industries.

I am Jenn Beer, senior director of government affairs for the Greater Pittsburgh Chamber of Commerce. As you may know, the Greater Pittsburgh Chamber is an affiliate of the Allegheny Conference on Community Development.

For nearly 75 years, the Allegheny Conference has played an important role in convening public- and private-sector leaders in southwestern Pennsylvania to drive a regional discourse around improving our economy and quality of life.

Economic growth not only is essential to put Pennsylvania's state government on firm financial footing, but it is also essential for addressing – and tackling – the issues facing our region. From education to health care to economic equity, no matter what the problems or issues we as a region desire to address, it is easier to design and implement solutions within the context of a robust economy. Thus, the need to adopt policies and practices that improve and grow our economy.

Consider this: over the past 17 years, the state's annual tax revenue consistently returned about 5.3 percent of its total gross domestic product. Through an economic boom and the Great Recession, while tax rates have gone up and down, or even as new taxes have been created, Pennsylvania has continued to collect about $53 million in taxes for each $1 billion of state GDP.

Based on this understanding, the best and only avenue to solve the state government's fiscal challenges is to adopt policies and practices that grow GDP. Therefore, we believe a dialogue focused on growth will encourage public and private leaders to come together to discuss the best way to move our region and commonwealth forward.

My comments today will focus on the importance of having a competitive tax policy in order to encourage current businesses to expand here and to entice new industries to set up shop here.

Our organization manages the state-wide CompetePA business tax coalition. The coalition is made up of over 130 members – including nearly all of the statewide and regional business groups, small businesses and Fortune 500 companies. The coalition was formed in 2005 to help create a business climate that encourages job growth and business expansion in our Commonwealth.

CompetePA's 2018 agenda is in front of you. To begin, I would state that overall, we have one of the least competitive corporate tax environments in the country. For its 2018 rankings, the Commonwealth ranked 44th out of 50 states in the Tax Foundation's Corporate Tax Rank ; only six states were listed as having a worse corporate tax environment.

Currently, CompetePA's top priority is to ensure a fix to the bulletin that was issued by the Pennsylvania Department of Revenue (2017-02) on December 22, 2017, addressing "Disallowance and Recovery of 100% Depreciation", which will profoundly *discourage* job growth and business expansion in the Commonwealth.

In short, the Department's December ruling recognizes that Pennsylvania law currently decouples from IRC Sec. 168 including the recent federal tax change to 100% bonus depreciation. Pennsylvania law will not allow a business to take a deduction on their qualified property 100% expensed under new federal law until that property is disposed of or sold, which may never occur. While other states including Pennsylvania have decoupled from federal bonus depreciation provisions before, no state has ever denied a depreciation expense until such time as an asset is disposed of or sold. The very financial principle of depreciation is to allocate the cost of an asset over its useful life. Denying a deduction until an asset is disposed of or sold, is not only out of alignment with every other state, but out of alignment with the accounting principle of depreciation.

While the federal government made tax changes that essentially broadened the tax base but lowered the overall rate for businesses, the Bulletin highlights the cost to businesses of this change without any other reductions or adjustments to current Pennsylvania law. As you're aware, HB 2017 would address this issue. I want to take a moment to thank all of you who voted for this bill, and in particular Chairman Wheatley, which passed in a strong bi-partisan way earlier this month. We appreciate your support, and please know we continue to work hard to advance this with the Senate and the Administration. This is an issue that impacts every sector of our economy – from health care to manufacturing to tech and innovation.

Coupled with the highest non-graduated corporate tax rate in the nation (at 9.99%), and as one of only a few states in the nation that caps Net Operating Loss (NOL) Carryforwards, this drastic move to deny depreciation until an asset is disposed of or sold strongly encourages businesses to NOT do business in Pennsylvania.

Speaking of the corporate net income tax, we must begin to consider ways in which we can reduce our 9.99 percent corporate net income tax rate and lift the cap on the net operating loss carryforward provision. Our high CNI rate is a red flag to any business before they even take a closer look at our state. And Pennsylvania is one of only a handful of states that caps the amount of net operating losses a company can offset against its current corporate net income. For cyclical companies – like manufacturers and emerging, high-growth tech start-ups – that means effective tax rates in Pennsylvania are several times higher than in competing states. Put together, these uncompetitive policies put the Commonwealth at a high disadvantage for business investment and future economic growth.

It is our hope that we can assist policy makers in moving away from these year-to-year "triage budgets" and work to support budget plans that strategically leverage our existing assets like natural gas, the tech and innovation economy and our strong university systems. We encourage policy makers to take a longer-term, forward-looking approach to tax policy that would instead put Pennsylvania on the map as a top place for economic development and corporate investment, because as I noted earlier, the more we can do to grow the overall GDP, the stronger our state revenue collections will be.

Thank you again for the opportunity to speak to you today. It is our belief that if we all move forward together and engage in a larger growth dialogue, it will lead to an even stronger economy and better quality of life for all of us.

Thank you, and I will be happy to answer any questions you may have.

We Need a Competitive Business Tax Environment to:

Grow PA Jobs • Increase Private Investment • Secure a Strong Workforce

CompetePA
Growing PA's Economy

In 2005 the business community came together through a statewide coalition called CompetePA to speak and advocate with one voice on the issue of competitive business taxes.

PROOF POINTS:

- Overall, we have one of the least competitive corporate tax environments in the country. For its 2018 rankings, the Commonwealth ranked 44^{th} out of 50 states in the Tax Foundation's Corporate Tax Rank[1]; only six states were listed as having a worse corporate tax environment.

- Pennsylvania is one of only a few states in the nation that caps the usage of net operating losses (NOLs), and we have the highest non-graduated Corporate Net Income (CNI) tax rate in the country, at 9.99 percent.

COMPETEPA's 2018 POLICY AGENDA:

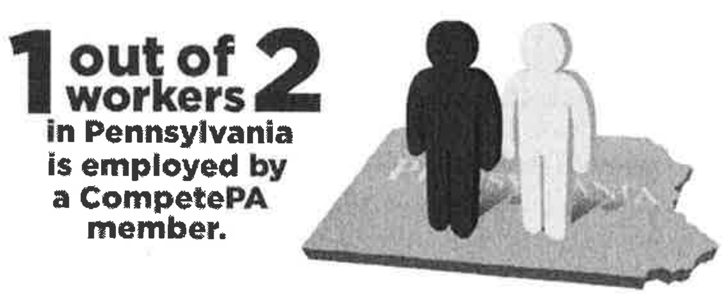
- **Our coalition's top priority is to fix the bonus depreciation changes made in PA Corporation Tax Bulletin 2017-02.** Pennsylvania is the only state that made such drastic changes to its bonus depreciation law in reaction to the 2017 federal tax reform legislation. The Bulletin, which eliminates the ability for the taxpayer to take any deduction until qualified property is sold or disposed of, ***strongly discourages*** business expansion and investment in Pennsylvania.

- **Instituting Mandatory Unitary Combined Reporting (MUCR) would have a broad range of negative consequences on Pennsylvania's economic climate.** MUCR creates complexity and uncertainty for businesses.

- **We support a reduction of the CNI tax rate.** We understand the current budgetary complexities with reducing the CNI rate, but we look forward to ongoing discussions with legislators and the administration around how we can work to reduce this uncompetitive rate in the near future.

- **Proposals to make the Commonwealth's business climate more competitive should not target businesses unequally.** The coalition encourages policy makers to consider any tax reform holistically (i.e., how one change could substantially alter the overall effective tax rate) and through a pro-economic growth lens.

- **The cap on the usage of Net Operating Losses (NOLs) should be fully lifted.** Pennsylvania is one of only a few states that caps the amount of net operating losses (NOLs) a company can offset against its current corporate net income.



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[1] https://taxfoundation.org/state-business-tax-climate-index-2018/