

Testimony to the Senate Community, Economic & Recreational Development Committee
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Thank you, Majority Chair Yudichak and Democratic Chair Cappelletti, for the opportunity to submit this testimony before the Senate Community, Economic & Recreational Development Committee Public hearing on Government Barriers to Manufacturing Growth in Pennsylvania.

As we turn the corner on the pandemic and look to reopen, recover and thrive, it is imperative that the Commonwealth be in the best position possible to compete in order to retain and attract business, especially in the manufacturing sector.

We believe that the Commonwealth should focus on two tracks in order to assist business growth, which will lead to greater equitable economic growth for the Commonwealth as well: 1) reform the state's uncompetitive business tax structure, and 2) implement policies that will aid and encourage business growth in the post-pandemic world.

Reform Pennsylvania's Uncompetitive Tax Structure

First, we thank the legislature and administration for the strides that have been made to make the entire Commonwealth more inviting for business attraction and expansion over the years. Our organization worked closely with the Pennsylvania legislature and multiple administrations over the years to end the Capital Stock and Franchise Tax (CSFT), move to a single sales factor formula, take steps to lift the cap on net operating loss (NOL) carryforwards and ensure a competitive policy on bonus depreciation was implemented. We specifically commend those of you here and Governor Wolf personally for seeing the elimination of the CSFT to completion. These strides lay a foundation for the work that we believe should come next.

While all of these are positive measures, we still unfortunately have one of the least competitive corporate tax environments in the country. For 2021, the Commonwealth is ranked 43rd out of 50 states in the Tax Foundation's Corporate Tax Rank. There are two outstanding issues that we believe need to be addressed immediately to make us more competitive – 1) materially reduce the corporate net income (CNI) tax rate and 2) fully lift the cap on NOL carryforwards.

With respect to the CNI rate, it is no secret that our flat 9.99 percent rate – the highest non-graduated CNI rate in the country – serves as a blinking red light for business attraction. We have been told time and again by our economic development colleagues and site selectors that we frequently miss projects and deals – without even knowing we've been considered – because our CNI rate will cross us off lists before we've had a chance to compete in other areas.

Additionally, Pennsylvania is one of only a few states in the nation that caps the usage of net operating losses to offset against a company's current corporate net income. For cyclical companies – like

manufacturers and high-growth, innovative start-ups – that means effective tax rates in Pennsylvania are several times higher than in competing states.

The uncompetitive NOL policy and CNI rate puts the Commonwealth at a high disadvantage for investment and economic growth, particularly in a time when states around us are making their climates more attractive as the pandemic lifts. For Pennsylvania to be nationally and globally competitive, we must have a tax structure that attracts new companies to locate here and encourages those already here to expand their operations.

Implement Policies that Encourage Business Attraction & Expansion

The COVID-19 pandemic highlighted America's overdependence on imports and specifically imported products related to healthcare, food security, manufacturing, critical infrastructure, and technology. The pandemic brought drastic disruptions to supply chains, leaving companies scrambling for products and materials, residents searching for basic necessities, countless people unemployed, and weakened the US' competitive advantage.

As we exit the pandemic and look to reopen, business leaders, public officials of both parties, and think tanks across the nation are coming together to encourage the reshoring of supply chain operations to the United States. Reshoring will prevent future disruptions, ensure predictable and stable production and reduce unemployment due to supply chain issues. This is also an issue of national security.

This national focus presents an opportunity for Pennsylvania. We can leverage our rich history of manufacturing to capture our share of the investment that will come back on US shores. To this end, the Greater Pittsburgh Chamber of Commerce is advocating for the reshoring of supply chains and efforts to position PA to attract this investment that will drive much-needed economic recovery and growth.

While the federal government will play a leading role in developing the best policies for an influx of reshoring to the US, we have a role to play here in Pennsylvania to ensure our state benefits from the investment that results from this national movement.

With the anticipated robust discussion likely to occur in Washington DC on this issue, Pennsylvania must put itself in the most competitive position possible relative to other states competing for the same investment. Therefore, we urge the Pennsylvania General Assembly to support a reshoring program to encourage businesses to re-align or expand their operations in the Commonwealth.

The Greater Pittsburgh Chamber of Commerce supports the "Reshore to Restore" legislation, currently introduced in the House as HB 600, sponsored by Representative Josh Kail. The legislation is crafted to be similar to a Keystone Opportunity Zone or another "zone" program, to further promote reshoring to Pennsylvania.

Initial considerations for the program include beneficial ways in which to organize business development in potential zones. Zone areas could include under-served or economically disadvantaged geographic areas; counties or regions that contain at a certain level of higher-educational institutions; areas that are within a 50-mile radius of the existing business' operation; and connectivity to a Foreign Trade Zone.

Tax benefits for the business could come in several different ways, including but not limited to an overall tax abatement or tax holiday for a certain period for the corporate net income tax, property tax, or a combination of taxes; sales and use tax exemptions on purchases of equipment for the new operation; tax credits against corporate or personal income taxes for job creation; and job training or apprenticeship tax credits.

As an initial or crisis-phased approach, the following industries would be priorities under the House legislation: medical supply and critical health care components, life sciences, food supply chain manufacturing, robotics / IT / automation, and advanced manufacturing. We also want to note that this legislation does include prevailing wage language.

The business community in the 10-county region of southwestern Pennsylvania stands ready to work with our partners in Harrisburg to help remove barriers to manufacturing – and to all businesses – and allow us to capture the influx of reshoring that we want to see in our near future. We encourage the legislature to work in a bipartisan way to lay the groundwork for Pennsylvania to capture our fair share, if not more, of the investment.

Thank you for your time and for the opportunity to join you today.