



Corporate Tax Reform in PA

Amy Gill, Deputy Secretary for Tax Policy, PA Department of Revenue

FTA Conference October 24, 2022

History of Corporate Net Income Tax - PA

- Narrow Base – High Rate
- Progressively Higher Weighted Sales Factor culminating in Single Sales Factor was also passed for Tax Year 2013
- Pennsylvania's Unique NOL History
- An addback (TY 2015) and market sourcing of services (TY 2014) was added in Act 52-2013
- Combined Reporting was first suggested at the Business Tax Reform Commission in 2004

Initial Proposal

2022-2023 Budget Proposal

The Governor proposed a three pronged approach to corporate tax reform (broadening the base):

- Codify Economic Nexus
- Market Sourcing of Intangibles
- A Stronger Addback
- Rate Reductions of the CNIT to an eventual 4.99%

Legislative Action

The budget proposal was introduced in both the House and the Senate:

- Senate Bill 1077
- House Bill 2510

Fiscal Impact of CNIT Reform

CNIT (\$ Millions)				
Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25	Fiscal Year 2025-26	Fiscal Year 2026-27
-79.4	-140.9	-140.8	-270.5	-645.1

Fiscal Impact of CNIT Reform

Methodology

- Create a sample for the universe
- For the addback use data from Other Deductions of the pro-forma 1120 or the RCT-101 addback
- For the interest use line 18 interest expense on the pro-forma 1120 – greater than the SEC amount

Fiscal Impact of CNIT Reform

Methodology

- For Market Sourcing of Intangibles – examine companies to see if sales would be impacted by market sourcing of intangibles
- For Economic Nexus – Create an estimate for the PICS that would become subject to CNIT, using the addback as a starting point

Fiscal Impact of CNIT Reform

Base Broadening vs Rate Reduction

IMPACT BY PROVISION (\$ Millions)				
FISCAL YEAR	ADDBACK	ECONOMIC NEXUS & MARKET SOURCING	RATE CUTS	TOTAL
2022-23	135.8	40.2	-255.4	-79.4
2023-24	460.8	168.3	-770.0	-140.9
2024-25	504.1	190.7	-835.6	-140.8
2025-26	514.3	194.5	-979.3	-270.5
2026-27	513.2	193.8	-1,352.1	-645.1

Fiscal Impact of CNIT Reform

Base Broadening vs Rate Reduction

IMPACT BY PROVISION				
TAX YEAR	ADDBACK	ECONOMIC NEXUS & MARKET SOURCING	RATE CUT	TOTAL
2023	14.5%	5.5%	-24.0%	-4.1%
2027	14.5%	5.5%	-48.0%	-28.1%

Impact on Corporations

9.99% RATE	COUNT		
PA SALES	UNAFFECTED	AFFECTED	TOTAL
100% PA	42,756	259	43,015
1,000,000	29,642	1,590	31,232
10,000,000	7,178	908	8,086
> = 100,000,000	586	9,200	9,786
TOTAL	80,162	11,957	92,119

Impact on Corporations

5.99% RATE	COUNT			
PA SALES	DECREASE	INCREASE	NEUTRAL	TOTAL
100% PA	17.9%	0.0%	28.8%	46.7%
1,000,000	12.7%	1.0%	20.1%	33.9%
10,000,000	5.4%	0.5%	2.9%	8.8%
100,000,000	3.6%	1.4%	0.7%	5.6%
>100,000,000	3.5%	1.0%	0.5%	5.0%
TOTAL	43.0%	4.0%	53.0%	100.0%

Budget Negotiations

Budget Process

- Budget negotiations started in late June
- First draft of the legislation had significant changes

Addback

- The budget modifications **addback** was completely struck from the language
- What is the impact of no modifications to the addback?

Economic Nexus

- The Economic Nexus had a tax year date of 2023, versus tax year date of 2020 in the proposed legislation

Market Sourcing of Intangibles

- The language also proposed significant changes to the Market Sourcing of Intangibles

CNIT Rate Reduction

Tax Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Proposed Legislation	9.99%	7.99%	7.99%	7.99%	6.99%	5.99%	5.99%	5.99%	5.99%	5.99%
Tax Bill	9.99%	8.99%	8.49%	7.99%	7.49%	6.99%	6.49%	5.99%	5.49%	4.99%

Final Legislation

Act 53 of 2022

- Economic Nexus
- Market Sourcing of Intangibles
- CNIT rate cut to 4.99%
- Addback Stays Unchanged

Act 53 of 2022 Fiscal Impact

CNIT (\$ Millions)					
TAX YEAR	2022-23	2023-24	2024-25	2025-26	2026-27
SOURCING / NEXUS / RATE CUTS	-126.6	-305.3	-408.1	-585.2	-774.1

CNIT Base Broadening

CNIT Combined Reporting vs Economic Nexus/Market Sourcing of Intangibles

Questions?

