



**PACP March Column
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Governor's Proposed PIT Increase, Minimum Wage Hike a Hit to Small Businesses

As the Wolf administration and General Assembly begin the months-long process of negotiating a budget for the 2021-22 fiscal year, the PA Chamber is advocating for pro-growth policies that will help the Commonwealth's economy recover from the COVID-19 pandemic stronger than ever. Unfortunately, many of the components of the proposal Gov. Tom Wolf unveiled early this month would put further burdens on business owners via higher taxes and cost increases – making the state less competitive and slowing our economic recovery. That's why we're hitting the ground running with an alternative path forward, working with our local chamber and industry partners, on our "Bringing PA Back" initiative.

Several aspects of the governor's proposal were unveiled prior to his budget address – including a repeated push for an additional tax on the natural gas industry; linking a much-needed reduction in the Corporate Net Income tax to the implementation of unitary combined reporting; and increasing the state's minimum wage to a staggering \$15 an hour. In addition to these anti-business proposals, the governor announced during his address that he is also calling for a nearly 50 percent increase to the state's Personal Income Tax to help fund an 11 percent increase in state spending. In total the governor's budget would increase taxes by \$6 billion– even though state tax revenues in 2020 only declined by 1 percent. This aggressive desire to significantly grow state spending – in the middle of a pandemic, no less – would be paid for largely on the back of small businesses.

The governor's plan would raise the PIT from 3.07 percent to 4.49 percent and attempts to circumvent the state's uniformity clause by imposing special tax provisions. This essentially creates a system of winners and losers – where some employers might be spared from a steep tax increase while others would be forced to make up the cost. As noted by the Tax Foundation at a recent House Republican Policy Committee hearing, this proposal would "yield the nation's highest combined flat-rate income taxes." While our current tax structure leaves much room for improvement, Pennsylvania's 3.07 percent PIT rate is actually one of the shining spots of our tax structure, largely because it is a flat rate with relatively few exemptions. According to the U.S. Small Business Administration, in 2020, the Commonwealth had nearly 1.1 million small businesses – a majority of which pay individual (PIT) rather than corporate net income taxes. As I know you've heard from your members, the pandemic has devastated many small businesses throughout the Commonwealth and many are struggling to survive. To raise their taxes by nearly 50 percent will it make it even harder for these businesses to come through the pandemic intact.

The PIT proposal combined with the administration's push to move the state's minimum wage to \$15 an hour would be a double hit on small businesses. As we all know, government mandated wage increases impact small businesses the most. The governor's plan calls for an immediate increase to \$12 an hour starting in July 2021 – a 65 percent increase over the current rate, with incremental increases to \$15 by 2027 that would amount to a 107 percent increase over the current rate. The proposal would also eliminate the tipped wage – which would equate to an immediate 235 percent increase in costs for those employers (a majority of which are restaurants). By the time it goes to \$15 an hour, employers who pay the tipped wage would see a massive 500 percent cost increase. These cost increases would especially devastate small business owners, many of which are still recovering from strict shutdown orders and subject to crippling capacity limitations.

As I highlighted in last month's column, several nonpartisan studies have shown that an increase to \$15 an hour would lead to significant job loss. A report that came out in recent weeks by the Congressional Budget Office found that an increase to \$15 an hour would lead to the loss of 1.4 million jobs nationwide, around 500,000 more than the number of people the CBO projects would be helped out of poverty. With the state's unemployment rate continuing to be above pre-pandemic levels, these types of policies will only exacerbate job loss amidst the state's economic struggles.

All of the proposals I've mentioned above have been repeatedly pushed by the Wolf administration and have repeatedly failed to garner legislative approval. Instead of providing a bold vision for how the Commonwealth can recover and move forward, the Wolf administration has fallen back on typical government tax and spend proposals.

But there is an alternative – one that puts Pennsylvania on a path toward economic growth and prosperity. Our "Bringing PA Back" initiative has identified policies that will help businesses not only recover from the pandemic – but will also encourage additional investment and attract emerging and expanding industries to the Commonwealth. Commonsense reforms – such as targeted COVID liability protections; streamlining and simplifying the state's tax code; reducing regulatory burdens; and creating greater government efficiency and connectivity – are all central to this vision of building a stronger, more inclusive economy.

We have heard directly from job creators – particularly small businesses – that these policies are what's needed to help them move Pennsylvania forward. In our view, who is a better choice to lead the charge in driving economic growth and improving the quality of life for every Pennsylvanian than the business community? As the backbones of their local economies, employers are the true experts in the field, who know firsthand the challenges to operating that existed prior to and were exacerbated by this pandemic.

Pennsylvania can – and should – be a model for what economic recovery should look like. Over the next several months we will be working with law makers to forward this pro-growth agenda. Working together, the private sector and lawmakers have a real opportunity to write a new chapter for the Commonwealth.

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