Corporate Net Income Tax Policy Analysis

Pennsylvania State Senator Ryan Aument

36th Senatorial District

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Introduction

As we emerge from the COVID-19 pandemic, it's time we revisit the conversation around economic opportunity and a vision for the future of Pennsylvania.

After the preliminary 2020 Census data was released earlier this year, we learned that Pennsylvania's population growth has been so stagnant that we again lost a seat in Congress. This is the continuation of an unfortunate trend where the Commonwealth has consistently lost at least one Congressional seat in all of the last 10 censuses beginning in 1930.

The state's inability to retain residents or attract new ones has cost us political influence in Washington.

Beyond our diminishing power in the nation's capital, many Pennsylvanians have seen this outbound migration in action as they watch the dream of having their children live nearby fade away as economic opportunity pulls our younger generations out of the Commonwealth to jobs in other states where there's greater promise of upward mobility.

Pennsylvania's current Corporate Net Income (CNI) tax rate is 9.99%, which consistently ranks our state amongst the worst for business, claiming one of the highest corporate net income tax rates in the country, second only to New Jersey. With Pennsylvania's current rate of 9.99%, we're at a tremendous competitive disadvantage compared to most of our neighboring states who boast rates of around 6 to 6.5%.

We must take action to counter this population trend, incentivize working professionals and families to move here and stay here, and create economic opportunity for all our residents – the first step to achieving those goals is to make the state's Corporate Net Income (CNI) tax rate competitive with that of neighboring states.

Data suggests that doing so would not only increase our population, but also increase home values AND wages for our residents all without negatively impacting state revenue. Simply put, the following research shows that:

- *Lowering the CNI by one point can increase Pennsylvania's population by an additional 18,000 people in the first year and that population will continue to grow each year thereafter.*

- *The 23 states with the lowest CNI rates experienced significant growth in typical home value compared to the 23 states with the highest CNI rates.*

- *A one-percentage-point decrease in the top marginal CNI tax rate would lead to a meaningful increase of up to $223.35 in workers' wages in our state based on annual mean wage in Pennsylvania in 2020.*

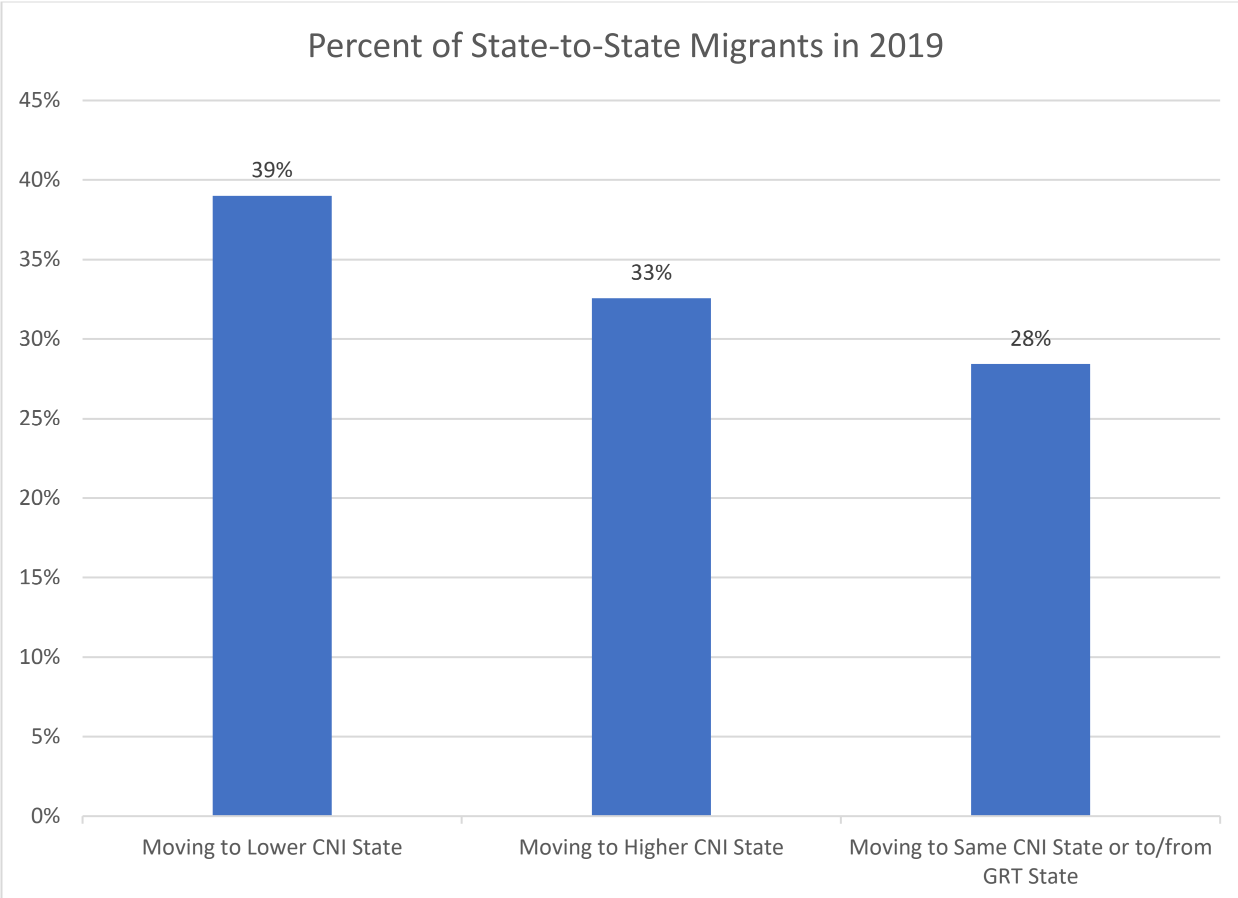
- *Labor bears the burden of higher corporate net income tax rates.*

- *The difference between average union and non-union hourly wages was $1.88 greater in states with corporate tax rates below four percent than in states with tax rates of nine percent and above.*

- *States with the lowest CNI rates experienced 10% higher growth in state revenues from 2000 to 2020 compared to those states with higher CNI rates.*

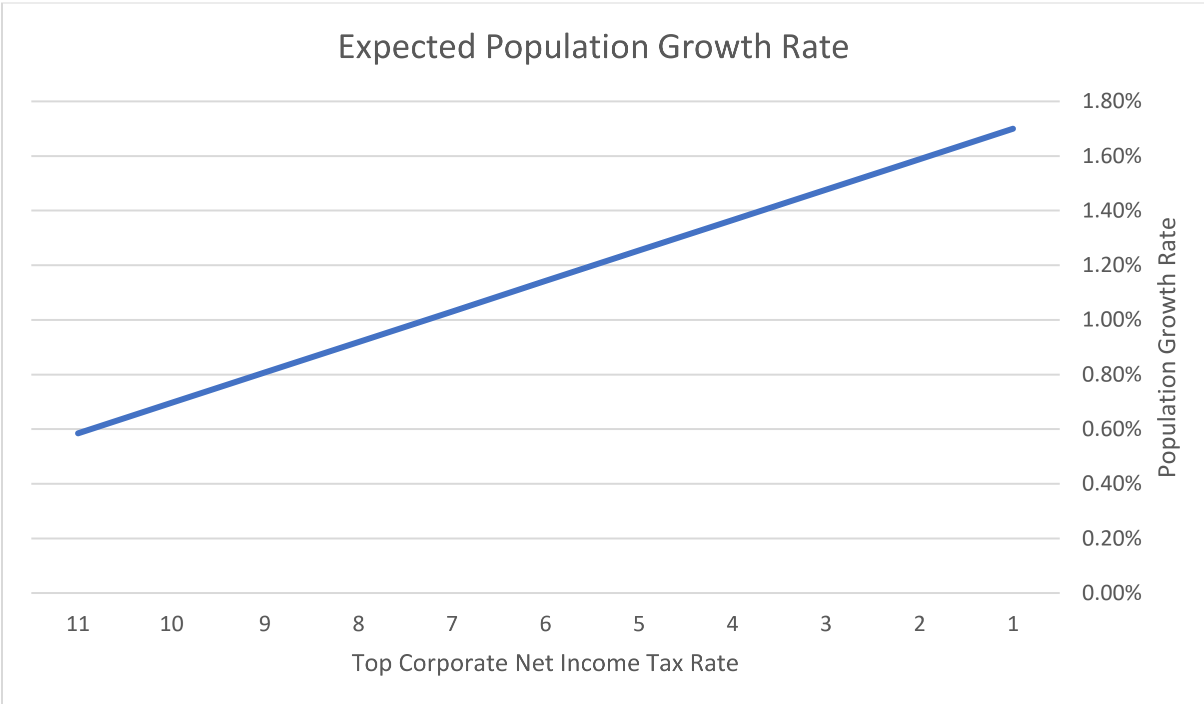
CNI Impact on Population & Inbound Migration

Based on data from the U.S. census, research shows that lower corporate income tax rates are associated with higher rates of population growth. Additionally, interstate migration trends in 2019 show that many more people move to states with lower CNI rates than move to states with a higher rate, supporting the claim that states with lower CNI rates have more favorable business climates and better job opportunities.



Specifically, data modeling projects that lowering the CNI by one point can increase Pennsylvania's population by an additional 18,000 people in the first year and that population will continue to grow each year thereafter.

Bottom line – reducing our state's CNI rate would directly address our ongoing issues with outbound migration while at the same time providing real, tangible benefits to those who reside here in the Commonwealth.



Methodology

This trend is the result of a regression analysis that was conducted using a dataset of each state's top corporate net income tax rate each year as the independent variable with their population growth rate in that same year being the dependent variable. This methodology allows us to sample points from various states at various points in time and plot each year in each state as its own instance.

Data on state populations / year to year population growth is based on Intercensal Data from 2000-2010. This data is used instead of estimates from 2010-2020, because intercensal data for the 2010-2020 period has not yet been published using 2020 survey data. This data can be found on the U.S. Census Bureau's website here.

In total, ten years of data were studied for 47 states and the district of Columbia. Ohio, Washington, and Texas were excluded because they exclusively use gross receipts taxes. Nevada did not yet use exclusively GRT at this point.

The dataset used to calculate population growth begins in the year 2000, so 2001 was the first year that a population growth rate could be calculated, meaning that the studied period began in 2001. The dataset contains 479 points (47 states and DC over a ten-year period). The one point that is excluded from the analysis is data for population growth in Louisiana in 2006. The devastation from Hurricane Katrina caused a 6% drop in population, which was novel in this dataset and a clear outlier.

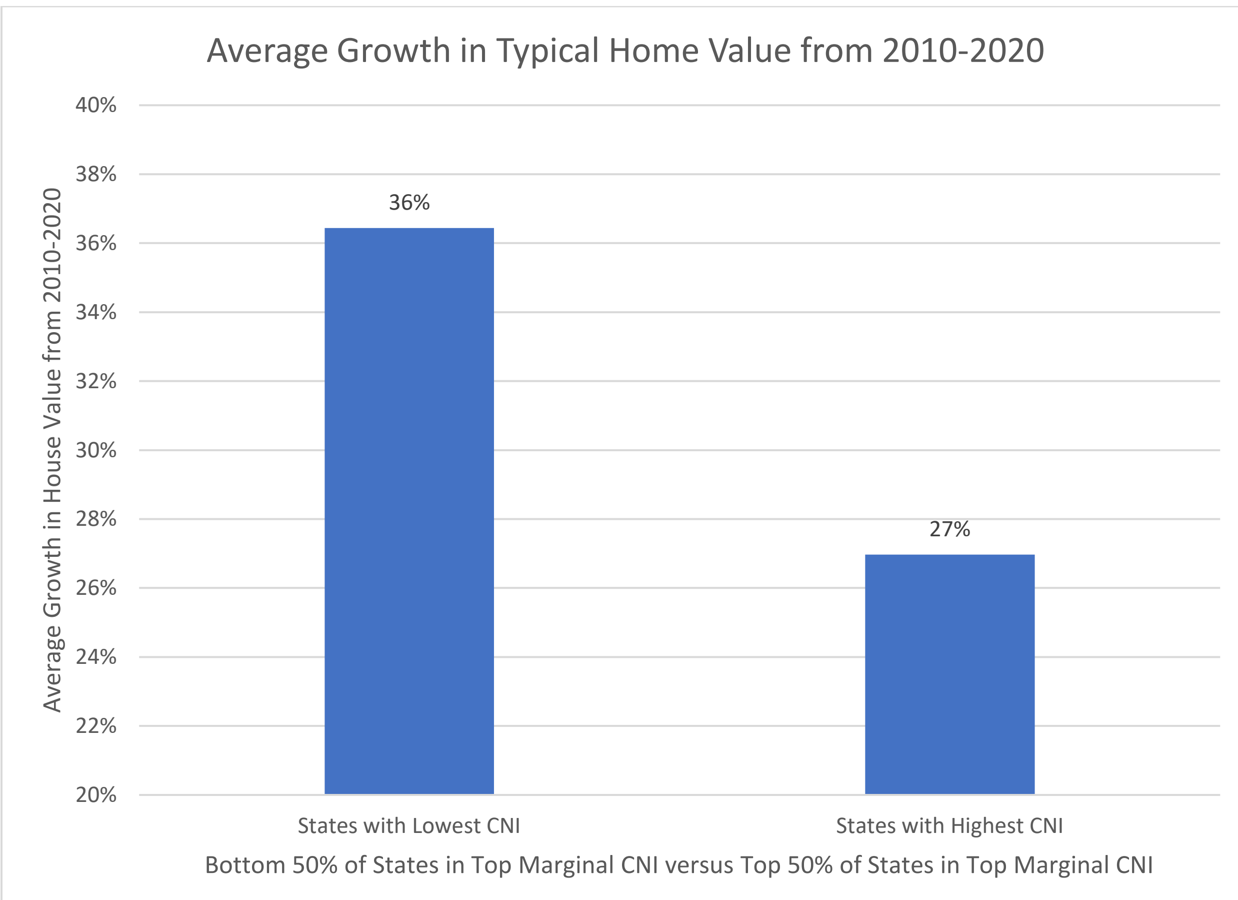
State CNI calculations are based on each States Top Marginal CNI according to the Tax Foundation. The most recent data from the Tax Foundation can be found here. The analysis was rather scattered with an R value of 0.37159 and an adjusted R square of 0.136272. Because population growth is something that has so many potential influences, it is extremely difficult to control for outside variables and "tighten" the data.

That being said, the Significance F of the data was 3.94E-17, meaning that our data is extremely significant, and these variables are, in fact, correlated. Our calculated intercept is approximately 1.7%, and our calculated slope is -0.11%. The P values for these coefficients are 2.08E-55 and 3.94E-17, respectively.

The additional 18,000 people figure is based on the upper figure in the 95% confidence interval of the coefficient in the regression analysis and the population [data](#) for Pennsylvania in 2020 according to Statista.

CNI Impact on Home Values

Lowering a state's CNI rate is also associated with increased growth in home values. For the period between 2010-2020, data analysis shows that the 23 states with the lowest CNI rates experienced significant growth in typical home value compared to the 23 states with the highest CNI rates.



Methodology

This graph compares typical home value growth in the 23 states with the lowest average top CNI from 2010-2020 to home value growth in the 23 States with the highest average CNI from 2010-2020. This *graph excludes the four states that exclusively use Gross Receipts Taxes, those being Nevada, Ohio, Texas, and Washington.*

The reason that the groups are 23 to 23 is as simple as cutting the studied states in half and comparing the top half to the lower half. The figure reflected in the graph is just an average of the individual growth values for each 23-state group over the studied ten-year period.

Data on Typical Home Value is based on the time-smoothed seasonally adjusted Zillow Home Value Index (ZHVI) for all homes. This data can be found here and information about its methodology can be found here.

Analysis was conducted over a ten-year span due to limited data for some states during the 2000-2010 period. Data for each state's CNI in each year was collected from the Tax Foundation like in the previous example. The most recent data from the Tax Foundation can be found here.

The states were grouped based on averages to account for states that made changes to their top Corporate Tax rate over the studied period.

CNI Impact on Workers' Wages

Perhaps the most compelling argument for lowering the CNI is the benefit that it would provide to Pennsylvania working families. Decades of research demonstrate that there is a direct correlation between lower CNI rates and higher wages for working class families.

Unfortunately, when politicians talk about lowering corporate taxes, many middle- and lower-class working families are skeptical that such a policy would benefit them. Though many believe that reducing corporate taxes would only help upper-class CEOs and large corporations, the data clearly shows that this is false and that individual employees and their families will also benefit greatly by enjoying higher wages.

Specifically, research by Alison Felix estimates that a one-percentage-point decrease in the top marginal CNI tax rate would lead to a meaningful increase of up to $223.35 in workers' wages in our state. This is based on Felix's top figure of 0.36 percent and annual mean wage data from Statista in Pennsylvania in 2020.

Furthermore, there is an overwhelming amount of evidence from economists all over the world that suggests that labor bears the burden of higher corporate net income tax rates. Corporations avoid higher taxes by moving company resources elsewhere; as a result, workers lose their jobs or suffer pay cuts because the company cannot afford to pay the higher CNI tax rate without making difficult internal decisions that negatively impact their employees.

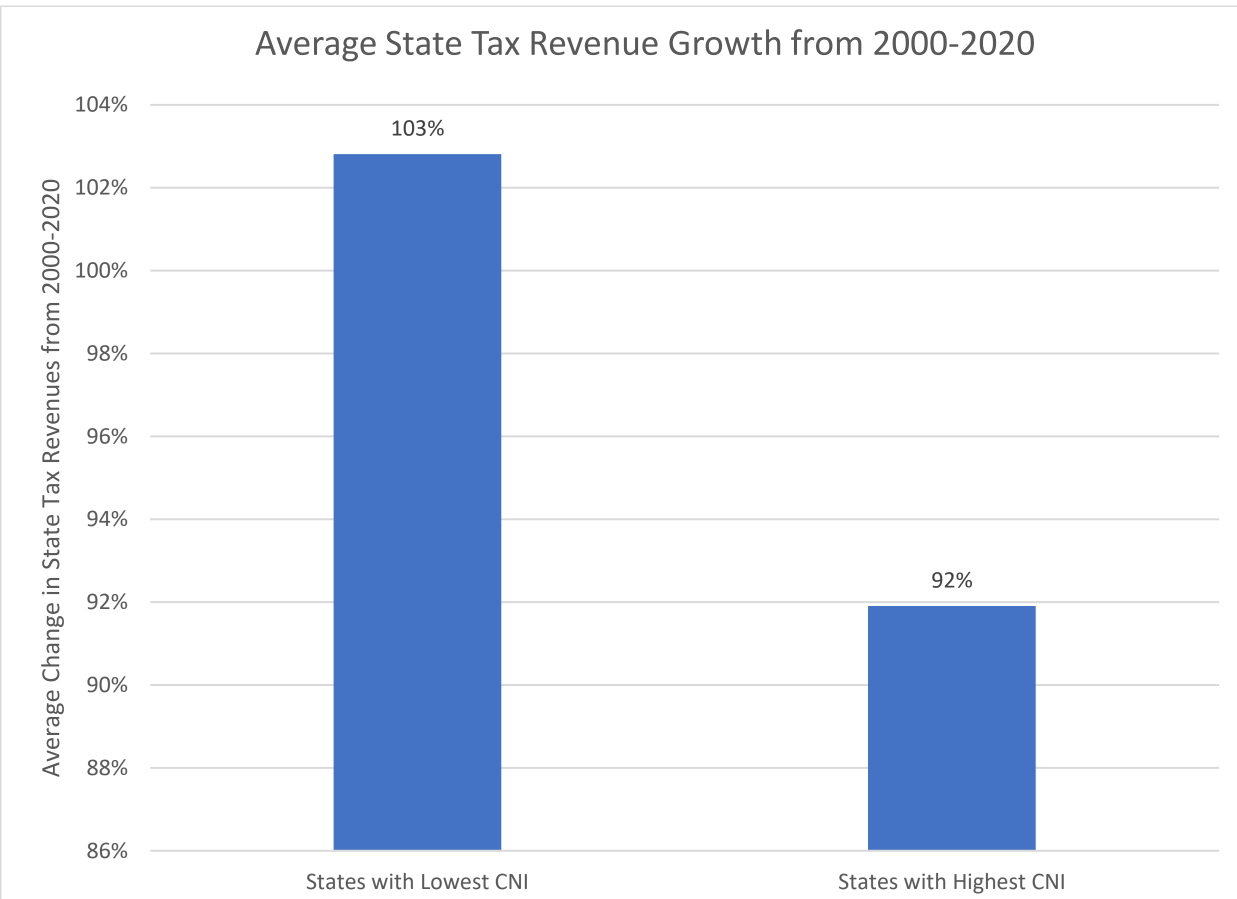
In research published by the Department of the Treasury, William M. Gentry states it bluntly: "New evidence on capital mobility and investment corroborate the view that labor bears a substantial burden from the corporate income tax"(*A Review of the Evidence on the Incidence of the Corporate Income Tax*, Gentry).

Finally, economist Alison Felix also found in a 2009 study that higher CNI rates also reduce wages for union workers: "In 2000 the difference between average union and non-union hourly wages was $1.88 greater in states with corporate tax rates below four percent than in states with tax rates of nine percent and above" (*Corporate Taxes & Union Wages in the United States*, Felix).

CNI Impact on State Revenue

Despite all the data showing the benefits of a competitive CNI rate, opponents usually claim that doing so would decrease state revenue thereby negatively impacting many vital state programs funded through the collection of CNI taxes.

However, research contradicts that claim, showing that states with the lowest CNI rates experienced 10% higher growth in state revenues from 2000 to 2020 compared to those states with higher CNI rates.



Methodology

This chart was constructed similarly to the last chart, however the growths used in this comparison were growths in state tax revenues over a 20-year period. The source for CNI data is the same as the previous chart, and Data on State Tax Collection Revenue is based on Annual Survey of State Government Tax Collections from the U.S. Census Bureau which can be found here.

The figures reflected in the graph are averages of growth rates from 2000-2020 among the sample groups. The sample groups in this chart are divided using the same criteria as the previous chart and consist of 23 state groups that reflect the top 50% of average top CNI and the bottom 50% of average top CNI.

Conclusion

In summary, not only does the data show a strong connection between lower CNI rates and higher population, home values, and workers' wages, but these goals are able to be achieved without impacting general fund revenue or raising taxes on Pennsylvanians.

For that reason, I have proposed Senate Bill 771 which would gradually reduce the state's CNI tax rate to attract new employers and promote economic growth in the Commonwealth. It is my hope that making Pennsylvania more economically competitive by lowering our CNI rate will benefit working class families, reverse our stagnant population growth, and ensure that Pennsylvania is an attractive place to live, work, and raise a family for generations to come.

It's time to build a stronger Pennsylvania where entrepreneurship, innovation, and economic opportunity can thrive – a Pennsylvania where each and every resident has the opportunity to experience earned success and upward economic mobility.

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