

GROSS RECEIPTS TAX RARE NATIONWIDE, BUT NOT IN PENNSYLVANIA



By Anthony Hennen,
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Center Square

Though much attention has focused on Pennsylvania's corporate net income tax, the commonwealth has another corporate tax that only a few states use: the gross receipts tax.

Gross receipts taxes are used on the local level in Pennsylvania, along with Virginia and West Virginia. Another seven states have a state-level gross receipts tax, including Ohio and Delaware.

The tax is applied on firms' gross sales before adjusting for operating costs and other business costs, the Tax Foundation noted, and applies to every stage of production before the final sale to a consumer, unlike a sales tax.

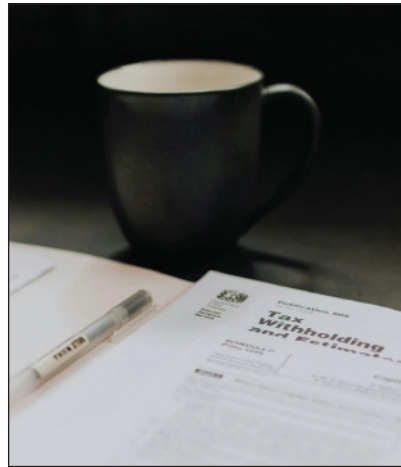
In Pennsylvania, gross receipt taxes hit a variety of businesses from electric companies to telecoms and transportation companies to private banks and managed care organizations.

The taxes are getting rarer, however. Joseph Johns, of the Tax Foundation, said gross receipts taxes "have fallen out of favor" in most states and were repealed before 2000.

He said Indiana, New Jersey, Kentucky and Michigan eliminated the taxes between 2022 and 2011.

"Policymakers increasingly recognized that these taxes were structurally unsound, distorted firms' incentive to reinvest in their business models, and eliminated the profits of businesses with already narrow profit margins," he said.

Gross receipts taxes have also caused some trouble in the past. In 2014, an audit by the U.S. Department of Health and Human Services found that Pennsylvania's



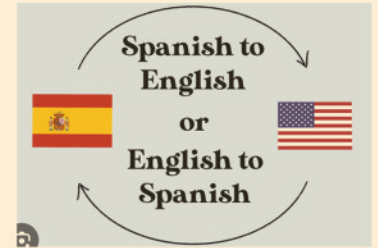
gross receipt tax on Medicaid managed care organizations was "impermissible," helping the state inflate Medicaid payments.

Senate Republicans also announced on May 7 a new plan to cut the gross receipts tax on electricity bills as part of a larger package to reduce the state's overall burden by \$13 billion over the next five years. It requires buy-in from the rest of the legislature, however.

The persistence of gross receipts taxes in Pennsylvania also adds to its overall burden. The commonwealth ranked 34th nationally for state and local sales taxes and 28th nationally for its overall state-local tax burden. While it's better or competitive with neighboring states, Pennsylvania trails Sun Belt states that have been attracting more residents in recent years.

State politicians have made progress on reducing the corporate net income tax, but other barriers remain. Beyond taxes, business leaders have complained of a slow permitting process that delays or kills new projects. Though the Shapiro administration has made some progress, regional variations and a lack of predictability still cause headaches.

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