

Corporate Welfare

No Boost to Pennsylvania's Business Climate

SUMMARY

- Pennsylvania's economy continues to struggle. In June, Pennsylvania's [unemployment rate](#) reached 4.5 percent, the [fifth highest](#) in the nation.^{1, 2} As of June 2022, the state remains down 84,665 payroll jobs since January 2020.
- This analysis budget identifies over \$1.3 billion in corporate welfare spending in the fiscal year (FY) 2022–23 state budget.
- Spending on corporate welfare does not improve the state's business climate. States see low returns on investment and tax dollars subsidize jobs that would have existed without government funding. A 2021 [report](#) from the Pennsylvania Independent Fiscal Office (IFO) shows that most tax credits have a return of less than 25 cents per tax dollar spent.³
- Tax reform, meaningful deregulation, and limiting government spending growth all help spur economic growth.

PENNSYLVANIA'S BUSINESS CLIMATE PROBLEM

According to CNBC's "[Top States for Business 2022](#)," Pennsylvania's economy ranks 45th in the nation.⁴ Similarly, the American Legislative Exchange Council's (ALEC) 2022 [ALEC-Laffer State Economic Competitiveness Index](#) ranks Pennsylvania 45th in Economic Performance.⁵

- According to [WalletHub](#), Pennsylvania has the fourth highest tax burden on households earning the median income.⁶
- Pennsylvania's population is rapidly aging, amid the current [well-documented](#) labor shortage.⁷ The IFO [estimates](#) that the working-age population will decrease by 250,000 by 2025.⁸
- Our commonwealth, according to the [U-Haul Growth Index](#), saw the third-lowest rate of population growth in 2021, only ranking ahead of Illinois and California.⁹

CORPORATE WELFARE IN THE 2022–23 STATE BUDGET

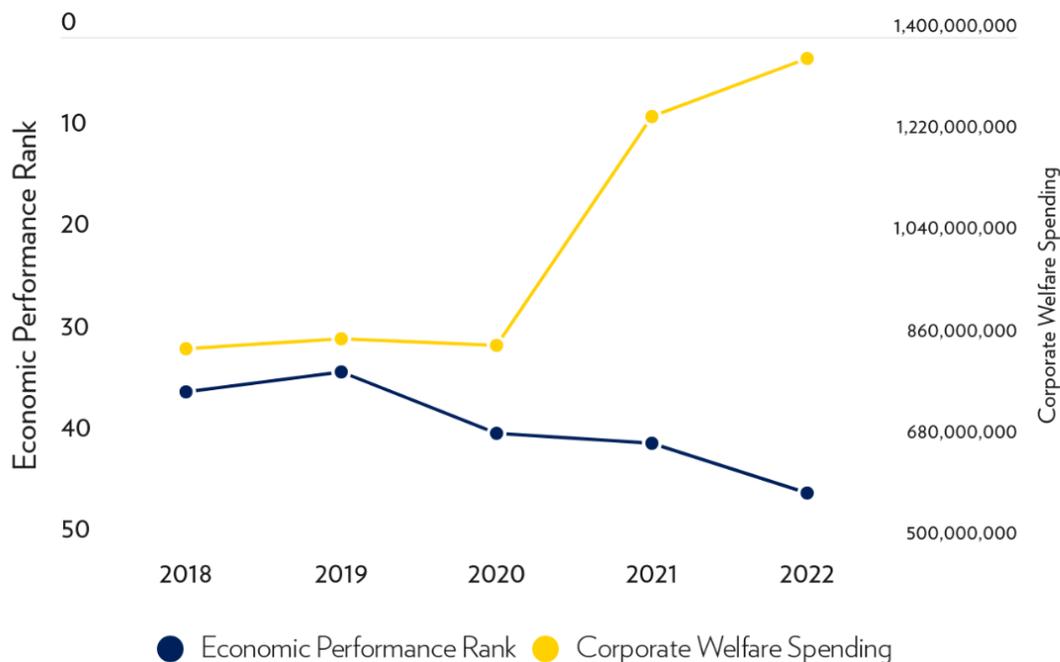
Corporate welfare, or government spending designed to [benefit](#) specific industries, is often proposed as a way to improve a state's business climate.¹⁰ Corporate welfare comes in [many forms](#), from direct taxpayer subsidies and grants to tax credits.¹¹ For example, Pennsylvania's state government grants money for race horsing, provides tax credits for film production, and subsidies for businesses expanding.

- The FY 2022–23 state budget included \$1.363 billion in corporate welfare spending.¹² Four programs account for about 60 percent of this spending. Spending increased by \$104.5 million due to new corporate welfare programs, like the Airport Land Development Zones Fund, and significant increases to old programs like the Waterfront Development Tax Credit, the Film Tax Credit Program, and the Computer Data Center Equipment Exemption.

- The top recipients of corporate welfare spending include the Redevelopment Assistance Capital Program, the Pennsylvania Racehorse Development Fund, and the Entertainment Production Tax Credit (a combination of the film tax credit and entertainment economic enhancement tax credit).
- The Film Tax Credit Program received a funding increase of \$30 million in 2022–23, and the Entertainment Economic Enhancement tax credit received a \$16 million increase. The Film Tax Credit Program, which is [ineffective at creating jobs](#), lacks oversight and often awards non-film companies.¹³

Corporate Welfare Spending and Economic Performance

As corporate welfare spending increases, economic performance worsens.



Economic Performance Ranking: Arthur B. Laffer, Stephen Moore, and Jonathan Miller, "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index," American Legislative Exchange Council, 2018-2022
 Corporate Welfare Spending: Pennsylvania Office of the Budget, "Governor's Executive Budget," Fiscal Years 2018-19 to 2022-23, <https://www.budget.pa.gov/Publications%20and%20Reports/CommonwealthBudget/Pages/default.aspx>
 Pennsylvania Office of the Budget, "Enacted Budget Line Item Appropriations," Fiscal Years 2018-2019 to 2022-23

CORPORATE WELFARE'S TRACK RECORD

A 2019 Mackinac Center [study](#) outlines the case against corporate welfare. In short, corporate welfare leads to poor market outcomes.¹⁴

- In Pennsylvania, Aquion Energy received over \$16 million in state grants and additional federal funding, but then ended up filing Chapter 11 [bankruptcy](#).¹⁵

- In 2012, the state legislature awarded Royal Dutch Shell over \$1.6 billion in tax breaks to build an ethane cracker plant that still has not opened.¹⁶ Experts predict this plant will likely be the [last of its kind](#) as fossil fuels phase out.¹⁷
- Hyundai Rotem received \$2.2 million in state grants before [vacating](#) its Philadelphia site after 10 years.¹⁸
- More recently, the state provided a [\\$17 million tax break](#) to Netflix for its production of Sweet Girl.¹⁹ The movie was released in 2021 and met with [poor reviews](#).²⁰

Beyond the poor outcomes for the companies receiving funds, the corporate welfare programs themselves are often riddled with problems:

- Tax credits are problematic for businesses, especially those that do not receive the credits. Businesses pay taxes to the state, which then in turn, redistributes those taxes to businesses of the state's choice. In some cases, Pennsylvania businesses may indirectly fund their competition through tax dollars.
- A 2018 [meta-analysis](#) of 30 studies found that corporate welfare programs had little to no impact on a company's decision to relocate 75 to 98 percent of the time.²¹
- A 2022 [report](#) from the IFO said the Pennsylvania Brewer's Tax Credit had not accomplished the legislative intent. The credit had been a "windfall" to the large and very large breweries, which are "likely to invest ... regardless." Meanwhile, small breweries often cannot use the full award before the credit expires—with very small breweries only using 5–6 percent in the same year.²²
- A 2019 IFO [analysis](#) of the recently expanded Film Production Tax Credit revealed that each dollar awarded through the program yielded a mere 13 cents in state revenue.²³

REAL SOLUTIONS

Further spending on corporate welfare is like putting a Band-Aid on a bullet wound. Instead of continuing to hand out money to corporations, there are far better ways to spur economic growth in Pennsylvania:

- Migration [trends](#) show that Americans move from high-tax states to low-tax states.²⁴ Currently, Pennsylvania has a flat personal income tax (PIT) rate of 3.07 percent. If the state stopped all corporate welfare spending, the legislature could lower the PIT to 2.84 percent while remaining revenue neutral.
 - This represents a savings of \$115 for an individual making \$50,000 per year and improves Pennsylvania's ranking from the ninth lowest to the eighth [lowest](#) top marginal state income tax rate.²⁵
- Ending corporate welfare spending could further lower the Corporate Net Income Tax (CNIT). By saving the \$1.3 billion spent on corporate welfare, the state could lower the CNIT by 2.93 percent while remaining revenue neutral. Currently, Pennsylvania has the [second highest](#) CNIT at 9.99 percent.²⁶ Reducing the rate to 7.06 percent would improve Pennsylvania's ranking to the 19th highest. The state is currently on track to [reduce the CNIT](#) to 8.99 percent next year, which would be the sixth highest.²⁷
 - Both [Republicans](#) and [Democrats](#) have called for the CNIT rate to be reduced further and quicker to make Pennsylvania economically competitive.^{28, 29}

CONCLUSION

- Pennsylvania's economy is struggling thanks to high taxes and burdensome regulations. The state's workforce is contracting due to an aging population and consistent out-migration. Rather than

addressing the root causes of economic pain, the state continues to give handouts to select corporations.

- In the 2022–23 budget, Pennsylvania is set to spend over \$1.3 billion dollars on corporate welfare.³⁰ Such spending has proven to be both ineffective and inefficient. Rather than continuing to burn taxpayer dollars on fruitless handouts, lawmakers should address the root causes of the state’s stagnant economy.
- Eliminating corporate welfare and cutting the CNIT and the PIT would go a long way towards making Pennsylvania an attractive destination for businesses and workers alike.

¹ U.S. Bureau of Labor Statistics, “Economy at a Glance: Pennsylvania,” August 2, 2022, <https://www.bls.gov/eag/eag.pa.htm>.

² Adam McCann, “Changes in Unemployment Rate by State,” WalletHub, July 22, 2022, <https://wallethub.com/edu/states-unemployment-rates/74907>.

³ Pennsylvania Independent Fiscal Office, “Tax Credit Reviews,” April 26, 2021, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/PBB_Board_Hearing_Apr_26_2021.pdf.

⁴ CNBC Staff, “America’s Top States for Business 2022: The Full Rankings,” CNBC, July 2022, <https://www.cnbc.com/2022/07/13/americas-top-states-for-business-2022-the-full-rankings.html>.

⁵ Arthur B. Laffer, Stephen Moore, and Jonathan Miller, “Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index,” 15th edition, American Legislative Exchange Council (ALEC), 2022, <https://www.richstatespoorstates.org/app/uploads/2022/04/2022-15th-RSPS.pdf>.

⁶ John S. Kiernan, “States with the Highest and Lowest Tax Rates,” Wallet Hub, March 7, 2021, https://wallethub.com/edu/best-worst-states-to-be-a-taxpayer/2416#expert=Rick_Hatfield.

⁷ Pennsylvania Independent Fiscal Office, “Where Did the Workers Go?” July 2022, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2022_07_Worker_Shortage.pdf.

⁸ Pennsylvania Independent Fiscal Office, “Demographic and Labor Market Update,” October 6, 2021, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Lancaster_Chamber_Presentation_%20Oct_6_2021.pdf.

⁹ U-Haul, “U-Haul Growth Index: Texas is the No. 1 Growth State of 2021,” January 3, 2022, <https://www.uhaul.com/Articles/About/U-Haul-Growth-Index-Texas-Is-The-No-1-Growth-State-Of-2021-26380/>.

¹⁰ Veronique de Rugy and Tad DeHaven, “Corporate Welfare: Beyond the Budgetary Cost,” Mercatus Center, March 31, 2020, <https://www.mercatus.org/publications/corporate-welfare/corporate-welfare-beyond-budgetary-cost>.

¹¹ Byron Schlomach, Stephen Slivinski, and James M. Hohman, “The Most Common Types of Corporate Welfare,” Mackinac Center for Public Policy, March 27, 2019, <https://www.mackinac.org/26439>.

¹² Pennsylvania General Assembly, “Regular Session 2021-2022 Senate Bill 1100,” July 8, 2022, https://www.legis.state.pa.us/cfdocs/billinfo/bill_history.cfm?year=2021&ind=0&body=S&type=B&bn=1100

¹³ James Paul, “Film Tax Credit Draws Bad Reviews,” Commonwealth Foundation, January 30, 2017, <https://www.commonwealthfoundation.org/2017/01/30/film-tax-credit-draws-bad-reviews/>.

¹⁴ Schlomach, Slivinski, and Hohman, “What’s So Bad About Corporate Welfare?”

¹⁵ Eric Wesoff, “Aquion, the Advanced Battery Startup Funded by Bill Gates and Kleiner Perkins, Is Bankrupt,” GreenTechMedia, March 8, 2017, <https://www.greentechmedia.com/articles/read/aquion-the-bill-gates-and-kleiner-perkins-funded-advanced-battery-startup>.

¹⁶ Good Jobs First, “Subsidy Tracker,” accessed August 2, 2022, <https://subsidytracker.goodjobsfirst.org/subsidy-tracker/pa-royal-dutch-shell>.

¹⁷ Tom Sanzillo, “IEEFA U.S.: Shell Pennsylvania Likely to Be Last Hurrah for Big Petrochemical Complexes,” Institute for Energy Economics and Fiscal Analysis (IEEFA), March 2, 2022, <https://ieefa.org/resources/ieefa-us-shell-pennsylvania-likely-to-be-last-hurrah-big-petrochemical-complexes>.

¹⁸ Natalie Kostelni, “Train Car Maker Hyundai Rotem to Vacate Philadelphia,” Philadelphia Business Journal, August 16, 2018, <https://www.bizjournals.com/philadelphia/news/2018/08/16/train-car-maker-hyundai-rotem-to-vacate.html>

¹⁹ Pennsylvania Department of Community and Economic Development, “Investment Tracker,” accessed August 2, 2022, <http://www.dced.state.pa.us/InvestmentTracker/DefaultDCED.aspx>.

²⁰ Rotten Tomatoes, “Sweet Girl Critic Reviews,” August 2, 2022, https://www.rottentomatoes.com/m/sweet_girl/reviews?intcmp=rt-what-to-know_read-critics-reviews.

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²² Pennsylvania Independent Fiscal Office, “Annual Tax Credit Reviews,” January 24, 2022, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_Board_Hearing_Jan_24_2022.pdf.

²³ Pennsylvania Independent Fiscal Office, “Film Production Tax Credit,” January 2019, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2019_Film_Production_Tax_Credit_Report.pdf.

²⁴ Jared Walczak, “Americans Moved to Low-Tax States in 2021,” Tax Foundation, January 4, 2022, <https://taxfoundation.org/state-population-change-2021/>.

²⁵ Timothy Vermeer and Katherine Loughead, “State Individual Income Tax Rates and Brackets for 2022,” Tax Foundation, February 15, 2022, <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>.

²⁶ Janelle Fritts, “State Corporate Income Tax Rates and Brackets for 2022,” Tax Foundation, January 18, 2022, <https://taxfoundation.org/publications/state-corporate-income-tax-rates-and-brackets/>.

²⁷ Commonwealth Foundation, “What to Know About the 2022 State Budget Deal,” July 7, 2022, <https://www.commonwealthfoundation.org/research/pennsylvania-state-budget-deal-2022/>; Timothy Vermeer, “Pennsylvania Cuts Corporate Net Income Tax Rate,” Tax Foundation, July 14, 2022, <https://taxfoundation.org/pa-corporate-tax-cut/>.

²⁸ Ryan Aument, “We Can’t Wait a Decade for Corporate Tax Cuts to Take Effect, Act Now,” *GoErie*, July 21, 2022, <https://www.goerie.com/story/opinion/columns/2022/07/21/sen-aument-we-cant-wait-a-decade-for-corporate-tax-cuts-act-now/65379058007/>.

²⁹ Shapiro for Governor, “Josh Shapiro Releases Plan to Boost Pennsylvania’s Economy by Cutting Red Tape and Spurring Innovation,” press release, July 25, 2022, <https://joshshapiro.org/news/josh-shapiro-releases-plan-to-boost-pennsylvanias-economy-by-cutting-red-tape-and-spurring-innovation/>.

³⁰ Pennsylvania General Assembly, “Regular Session 2021-2022 Senate Bill 1100”