

State budget should bolster sustainable economic, job growth

By Lesley Smith

The legislature approaches debate on the 2010-11 state budget against the backdrop of more fiscal challenges, including an anticipated revenue shortfall of \$525 million; the eventual loss of federal stimulus dollars; and the looming public pension crisis.

In addition, job creation remains sluggish and more needs to be done to bring jobs to Pennsylvania and create a more prosperous economic future.

Taken as a whole, the governor's proposed budget would not improve Pennsylvania's prospects for private-sector job creation. Nor would it do enough to lighten the burden on taxpayers, or reduce government spending. (The \$29.3 billion budget would actually increase spending by 4 percent over the current fiscal year.)

Job creators face several proposed business tax increases, revenue from which would be placed into a special reserve fund to help deal with the looming public pension crisis (although the governor makes no mention of cost-control measures for a system that is currently under funded to the tune of \$4 billion). Rendell wants new taxes on natural gas extracted from the Marcellus Shale; cigars and smokeless tobacco; and from the repeal of 74 existing sales tax exemptions, including those for business services.

Even though the proposed expansion of the sales tax base would coincide with a reduced rate from 6 percent to 4 percent, it is still a tax increase on consumers and business, one that would be particularly detrimental to small businesses. By taxing services such as accounting, advertising and even warehouse storage, businesses would be taxed multiple times as they move goods and services from production to sale.

Rendell does propose specific business tax reforms favored by the business community. However, he wants these improvements tied to the adoption of combined reporting, a complex tax reporting system that creates winners and losers within the tax system and would do little to improve the state's overall business climate.

With a private sector left reeling from the recession, job creation must be the guiding principle in the upcoming state budget debate. The PA Chamber is encouraging elected officials to focus on reducing government spending, lowering tax burdens on job creators and individuals, and advancing policies that enable the private sector to effectively and efficiently operate.

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