

Business2Business Magazine “Issues Column”

By: Tom Baldrige, president of The Lancaster Chamber of Commerce & Industry

Last month, Governor Rendell laid out his eighth and final budget proposal to a joint session of the General Assembly. Starting what we hope will turn into a back-and-forth exchange of ideas and concepts between now and when the budget is expected to be passed by the end of June. Let's hope this year's budget process has learned some lessons from last year's extended experience that left our state without a budget for months and left many in a state of limbo while they awaited legislative action.

Yet, from the announcement of the 2010-2011 spending proposal to the initial weeks of discussion that followed, one has to look pretty hard to find any real sense of "lessons learned" from the Governor's Office.

At its core, the proposed budget spends \$26.3 billion, a 3.2 percent increase over last year. If you include billions in federal stimulus and other spending, total expenditures for the 2010-11 fiscal year come in at \$29 billion, a \$1.2 billion, or 4 percent increase over last year. It's curious that in a time of economic contraction, government spending continues to rise. In fact, over the last decade, the state's economy grew by 20 percent while the budget grew by 50 percent. Clearly, not a sustainable path.

Further, in unveiling his budget, the Governor noted that no broad-based tax increases were included. I must admit, I'm not so sure. There are certainly new taxes, mostly on easy targets: a new tax on natural gas extraction; new taxes on cigars; and new taxes on smokeless tobacco. Further, to help combat the looming pension crisis and backfill the post-stimulus budget, Rendell is proposing to lower the state sales tax rate from 6 to 4 percent, while broadening it to include 74 currently tax-exempt items. While some may see that as a “good thing,” if one dives deeper into the details of the proposal, it's easy to see the flaws and the negative impact on business.

To be clear, the broadened sales tax would exclude food, clothes and prescription drugs. But what it would tax – and most concerning to The Chamber – are professional services, such as accounting, advertising, marketing, consulting, legal, engineering services and so on. Ultimately, consumers will be paying more for goods and services overall, in a time when consumers need access to essential goods and services, and when employers need business to keep their heads above water and people employed. It is also worth noting that the majority of these professional development purchases are made by business -- simply adding to the cost of doing business in Pennsylvania --and is there ever a good time for that?

It should come as no surprise that The Chamber is opposed to a tax on professional services, and we have opposed it since the last time it was on the table five years ago. We believe this tax would not only result in decreased economic activity and competitiveness – which we can ill-afford – but could also result in multiple taxation and administrative complexities. Clearly, not a way to create, not a way to save jobs and certainly not a way to enhance the business climate in Pennsylvania. Since Rendell's

budget address, The Chamber has been hearing from our membership that adding another layer of taxation on an already struggling economy and industry would be the “final nail” for their business. For that very reason, we urge our lawmakers to oppose a tax on professional services.

While some may argue the professional services tax is “dead on arrival,” the fact of the matter is it’s a proposal still on the table and no doubt will be vetted as appropriations hearings begin in Harrisburg. And as long as it remains on the table, The Lancaster Chamber will mount a campaign of opposition. We ask you to join us in our fight. To learn more about how you can help, check out our website at www.lancasterchamber.com.

Finally, while I am writing about this year’s state spending plan, it is also worth reminding readers that from a broader tax perspective, The Chamber continues to promote our “usual suspects” of reform, namely the phase-out of the Capital Stock & Franchise Tax, lowering the Corporate Net Income Tax (the second highest in the nation) and comprehensive tax reform.

By keeping money in the hands of business and consumers alike, we will improve economic performance in the long-run and the short-run. I encourage every Chamber member and business leader to take a look at the budget proposal and let your state officials know what you think. As the Legislature begins the process, The Chamber is committed to working closely with our delegation to develop strategies that will make state government more efficient, rebuild the economy and restart the economic engine. Most importantly, The Chamber plans on continually spreading the message that retaining jobs and encouraging job creation is a top priority for our organization.

As all of you know, developing budgets at a time of soft revenues is no easy task and we respect the challenges facing our state. But we will continue to suggest that the best long-term solution to Pennsylvania’s budget woes is to create a business climate that invites and encourages business growth. Take some time to learn more about the state budget. It has the potential to impact your business more than you might initially have thought. For additional information, please feel free to contact David Greineder, Advocacy Director for The Lancaster Chamber at dgreineder@lancasterchamber.com or 717.397.3531.