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Jul. 06, 2013

In a move that could increase state tax revenue by millions of dollars each year, the Pennsylvania Legislature passed a bill this week meant to close the infamous "Delaware loophole."

The new policy will outlaw a set of tax avoidance practices in which Pennsylvania businesses transfer some of their assets to holding firms in states like Delaware, where the assets will be taxed at far lower rates — or not at all.

The list of offenders includes some familiar names: Home Depot, Victoria's Secret, The Gap, Circuit City and Toys R Us have each reportedly owned subsidiary companies in Delaware or in states with similarly lax tax policies.

State Rep. Dave Reed (R) who devised the provision to close the loophole, said the bill will ultimately level the playing field for businesses. "I think what we aim to do is to create a competitive climate in Pennsylvania where every business succeeds or fails on its own merits, and not because of creative accounting," he said.

The bill, which has been debated in one form or another for several years, was approved in both the state House and Senate earlier this week, with bipartisan backing. Since 2000, about 20 other states have passed similar legislation.

The amount of tax money the new bill could generate is an open question, with estimates ranging from nothing to $500 million. The Pennsylvania Department of Revenue places the figure between $35 million and $50 million, while Mr. Reed thinks the state could see revenue surge as much as $100 million per year.

Tax avoidance strategies have been estimated to cost the state about half a billion

The fact remains that many companies do legitimate business in states like Delaware, and Nathan Benefield, a director at the Commonwealth Foundation, said estimates of the new legislation's impact on revenues are hampered by difficulties in distinguishing companies trying to lower their tax bills from other businesses.

Leo Knepper, the executive director of the conservative Citizens Alliance of Pennsylvania, said he fears some businesses will choose to go elsewhere if the new legislation is strictly enforced. Any revenue the state might gain from the new legislation will be balanced against revenue lost from businesses that choose to end operations in Pennsylvania as a result of the law.

Rather than closing a loophole involving other states, Mr. Knepper recommended that the Keystone state lower its own corporate taxes and bring in business from out-of-state by effectively creating a "Pennsylvania loophole."

Mr. Reed's tax bill also included other provisions, such as an incentive program for small startup businesses.

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Income Tax