

Corporate Welfare in Governor Shapiro's Fiscal Year 2025–26 Budget Proposal

SUMMARY

- Pennsylvania's economy lags behind other states, hindered by high taxes and burdensome regulations. As a result, the state suffers from continued outmigration, with residents leaving for better opportunities in states like Florida, Texas, and North Carolina.
- Rather than improving the state's tax and regulatory environment, Gov. Josh Shapiro's Fiscal Year (FY) 2025–26 budget proposal seeks to increase spending on corporate welfare programs by \$100 million.
- Under Shapiro's proposal, the state would spend \$1.7 billion on corporate welfare programs. Overall, his budget spends over \$4 billion more than last year. This overspending will grow the state's structural deficit from \$3.8 billion last fiscal year to \$7 billion this year, setting up Pennsylvania families for tax hikes in 2026.
- Corporate welfare consists of targeted tax credit, grant, and loan programs. These programs are administered by the government, allowing bureaucrats and politicians to pick winners and losers based on an applicant's political connections.
- Corporate welfare programs benefit large corporations with a poor return on investment for taxpayers. Rather than doubling down on these ineffective handouts, lawmakers should take steps to address Pennsylvania's burdensome tax and regulatory environment. For example, cutting all corporate welfare spending would provide enough cost savings to reduce the personal income tax (PIT) rate to 2.79 percent, about \$523 in annual savings per family of four.

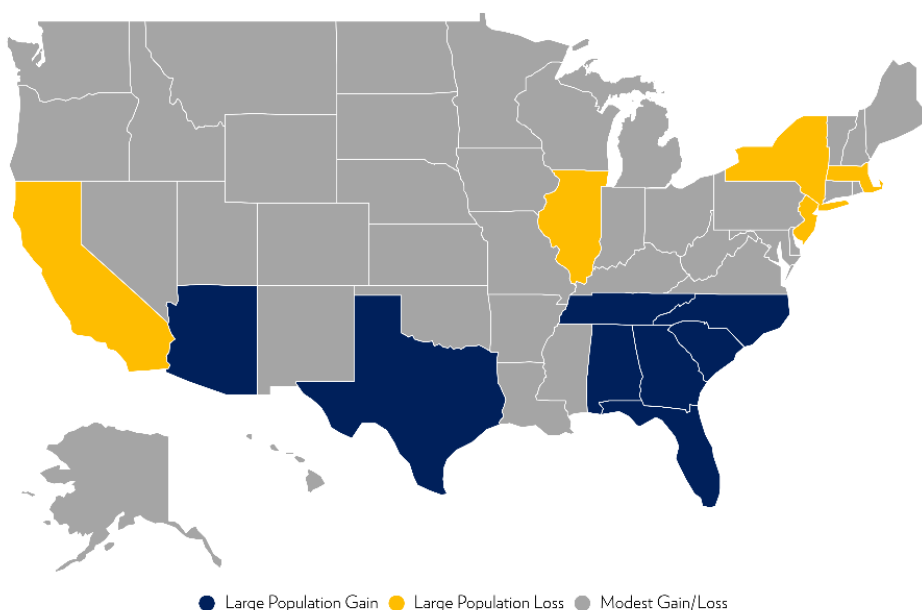
ECONOMIC WOES

- Pennsylvania's economy is stuck in neutral. July 2025 data from the U.S. Bureau of Labor Statistics puts Pennsylvania's seasonally adjusted unemployment rate at [4.0 percent](#).¹ Moreover, the state's labor force participation rate remains [1.6 percentage points](#) below pre-pandemic levels.² Likewise, from February 2020 to July 2025, Pennsylvania saw a meager 2.5 percent job growth—far below fast-growing states like Idaho, Utah, Texas, and Florida.
- Several studies offer insight on where Pennsylvania's economy lags:
 - The [American Legislative Exchange Council's \(ALEC\) Rich States, Poor States Index](#) ranks Pennsylvania 44th in economic performance and 36th in economic outlook.³
 - According to the [Tax Foundation](#), Pennsylvania ranks 28th in per-capita state and local tax burden, with 10.6 percent of the average Pennsylvanian's income going toward paying state and local taxes.⁴ Another Tax Foundation [study](#) ranks Pennsylvania 34th in tax competitiveness, 38th in corporate tax competitiveness, and 38th in income tax competitiveness.⁵

- [Mercatus Center's State Reg Database](#) identifies Pennsylvania as the 14th most regulated state in the nation, with over 160,000 regulations on the books.⁶
- With uncompetitive tax and regulatory policies, residents and businesses are fleeing the state. Data from the United States Census Bureau shows that Pennsylvania has [suffered](#) net population loss from domestic migration in 14 of the past 15 years. Since 2020, Pennsylvania ranks as a bottom-ten growth state, losing over 49,000 residents to other states.⁷
- The Tax Foundation's [analysis](#) of migration data (i.e., U.S. Census Bureau and commercial movers) shows Americans consistently move from high-tax states to low-tax states.⁸

Where are Americans Moving?

Americans are voting with their feet and moving to lower tax states.



Source: United States Census Bureau, "Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2024," December 2024.
<https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-total.html>

SHAPIRO'S PROPOSAL

- To address Pennsylvania's economic woes, Shapiro's [budget proposal](#) spends \$1.7 billion on corporate welfare tax credit and loan programs. His proposal represents a \$100 million increase compared to the enacted FY 2024–25 budget.
- Shapiro's proposal would eliminate four existing tax credit programs, create three new corporate welfare tax credits, and four new corporate welfare grant programs.
- As part of his "Lightning Plan," Shapiro proposes [expanding](#) the EDGE tax credit program. This program, initially passed in 2022, went completely [unused](#). In May, the Pennsylvania House passed [House \(HB\) 500](#), based on the governor's plan, to allocate \$214 million through EDGE.⁹
- Shapiro's budget proposal aims to accelerate the Corporate Net Income Tax (CNIT) rate reduction by decreasing the rate by 0.75 points annually until it reaches 4.99 percent in 2029. The current

reduction schedule will reduce the rate to 4.99 percent in 2031. However, Shapiro also proposes creating mandatory combined reporting for CNIT filers in Pennsylvania.

- Combined reporting's [requirements](#) would add complexity to filing taxes in Pennsylvania, increasing compliance costs and tax-related litigation, deterring businesses from operating in Pennsylvania.¹⁰
- Based on the experience of other states, the [Independent Fiscal Office \(IFO\) projects](#) one billion less in annual revenue than Shapiro's executive budget by imposing the new rules.¹¹
- On the campaign trail, Shapiro [pledged to lower](#) the commonwealth's CNIT rate to "4 percent by 2025," something that has not materialized.

CORPORATE WELFARE'S TRACK RECORD OF FAILURE

- Corporate welfare programs have a proven track record of failure. An IFO [review](#) of tax credits found that most return less than 25 cents per dollar spent.¹² As noted above, a \$2.6 billion tax credit package passed in 2022 went completely unused.
 - When tax credits are [utilized](#), large, multi-national corporations, like Janssen, Vanguard, Merck, Google, Microsoft, Apple, Netflix, and Facebook/Meta, are [among](#) the biggest beneficiaries. These businesses do not need the support of Pennsylvania taxpayer dollars to operate.
- Grant and loan programs are also ineffective and suffer from bureaucratic roadblocks. For example, allocation benchmarks set by the Pennsylvania Liquor Control Board [stopped](#) reimbursements on approximately 20 percent of awards for a beer grant program. This led to layoffs and financial difficulties for business owners who were expecting to receive the grant funds they were promised.
 - Even when businesses receive state grants, there is no guarantee of success or return on investment. For example, a lunar lander project that received \$4 million in state [funds](#) suffered a critical failure, [destroying](#) the lander.
- Corporate welfare programs, like the [Redevelopment Assistance Capital Program \(RACP\)](#) and the [Pennsylvania Strategic Investments to Enhance Sites Program \(PA SITES\)](#), present a unique set of challenges. These programs receive their funding from state borrowing through general obligation bonds.
 - In the case of RACP, the governor has the [final say in funding awards](#). This allows the governor to pick winners and losers based on an applicant's political savviness rather than strictly merit, alongside possible program use for insider pandering.

SOLUTIONS

- To fix Pennsylvania's uncompetitive economy and reverse the outmigration trend, lawmakers must tackle the state's burdensome tax and regulatory environment.
 - If the state eliminated all corporate welfare spending, it could use the cost savings to reduce the PIT rate to 2.79 percent, which equates to annual savings of \$523 per family of four. It would also benefit the [82 percent](#) of Pennsylvania businesses that pay the PIT.
 - The Senate Finance Committee passed [Senate Bill \(SB\) 207](#) to reduce the CNIT to 4 percent by 2026. This would instantly make Pennsylvania more competitive, putting the state in a tie for the

third-lowest CNIT rate in the nation.¹³ [Research](#) suggests even a one-percentage-point reduction to the CNIT will put \$223 back in the average worker's annual wages and encourage 18,000 people to move to Pennsylvania.

- A 2023 [study](#) found that Pennsylvania could grow its GDP by \$9.2 billion and create over 180,000 new jobs by cutting 36 percent of state regulations.¹⁴

Corporate Welfare Programs and Tax Credits in Shapiro's 2025-26 Budget Proposal

Program	Amount (thousands)	Program	Amount (thousands)	Tax Credits	Amount (thousands)
Agriculture business and workforce development	\$4,800	Life Sciences Greenhouses	\$3,000	Advance PA Tax Credit	\$10,000
Agricultural Excellence	\$3,300	Livestock Show	\$215	Airport Land Development Zones	\$7,100
Agricultural Innovation and Development	\$25,000	Machinery and Equipment Loan Fund	\$11,778	Brewer's Tax Credit	\$5,000
Agricultural Research	\$2,187	Marketing to Attract Business	\$4,320	Computer Data Center Equipment Exemption*	\$43,100
Agricultural Promotion, Education and Exports	\$303	Marketing to Attract Tourists	\$19,315	Film Production Tax Credit	\$100,000
Alternative Fuels Funding	\$7,186	Municipalities Financial Recovery Revolving Fund Transfer	\$15,500	Entertainment Economic Enhancement Tax Credit	\$24,000
America250PA	\$2,500	Neighborhood Improvement Zone Fund (State Tax Share)	\$82,000	Keystone Innovation Zone	\$15,000
Ben Franklin Tech Development Authority Transfer (DCED)	\$17,000	New Choices/New Options	\$1,000	Keystone Opportunity Zone	\$72,600
Business PA	\$8,892	Open Dairy Show	\$215	Milk Processing Tax Credit	\$15,000
City Revitalization and Improvement Fund (State Tax Share)	\$17,000	Partnerships for Regional Economic Performance	\$10,880	Neighborhood Assistance Tax Credit	\$72,000
Commonwealth Financing Authority Debt Service*	\$59,904	Pennsylvania First	\$33,000	Pennsylvania Resource Manufacturing Tax Credit	\$65,000
Council on the Arts	\$1,288	Pennsylvania Race Horse Development Fund (Disbursements)	\$185,400	Reliable Energy Tax Credit	\$100,000
Food Marketing and Research	\$494	Redevelopment Assistance Capital Program Payments	\$350,000	Research and Development Tax Credit	\$60,000
Grants to the Arts	\$9,590	Regional Economic Competitiveness Program	\$3,500	Resource Enhancement and Protection Tax Credit	\$13,000
Hardwoods Research and Promotion	\$725	Regional Events Security and Support	\$15,000	Semiconductor Manufacturing and Biomedical Manufacturing and Research Tax Credit	\$20,000
Industry Partnerships	\$7,813	Tourism-Accredited Zoos	\$1,000	Tax Credits for Beginning Farmers	\$6,000
Infrastructure and Facilities Improvement Grants	\$10,000	Transfer to the Nutrient Management Fund	\$6,200		
Main Street Matters	\$20,008	Office of International Business Development	\$4,525		
PA Innovation	\$50,000	Youth Shows	\$169		
PA SITES Debt Service	\$38,198				

*Remaining balance as of January 31, 2025 Status of Appropriations

**Total of multiple components

Sources: Office of the Budget, Commonwealth Budget, 2025-26, "Governor's Executive Budget," <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/commonwealthbudget/2025-26-budget-documents/2025-26%20budget%20book.webversion.pdf>

-
- ¹ U.S. Bureau of Labor Statistics, “Economy at a Glance: Pennsylvania,” accessed September 1, 2025, https://www.bls.gov/eag/eag.pa.htm#eag_pa.f.2.
- ² Federal Reserve Bank of St. Louis, “Labor Force Participation Rate for Pennsylvania,” August 19, 2025 [update], <https://fred.stlouisfed.org/series/LBSSA42>; U.S. Bureau of Labor Statistics, “Civilian Labor Force Participation Rate,” accessed September 1, 2025, <https://www.bls.gov/charts/employment-situation/civilian-labor-force-participation-rate.htm>.
- ³ Arthur B. Laffer, Stephen Moore, and Jonathan Williams, “Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index, 18th Edition,” (Arlington, VA: American Legislative Exchange Council, April 15, 2025), 4–5, 43, https://www.richstatespoorstates.org/app/uploads/2025/04/ALEC_RSPS_18th_2025_Web.pdf.
- ⁴ Tax Foundation, “Facts and Figures 2025: How Does Your State Compare? – Table 2. State-Local Tax Burdens per Capita and as a Percentage of Income,” March 25, 2025, https://taxfoundation.org/wp-content/uploads/2025/05/TaxFoundation_FactsFigures2025-v2.pdf.
- ⁵ Andrey Yushov, Jared Walczak, and Katherine Loughhead, “2025 State Tax Competitive Index,” October 31, 2024, <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>.
- ⁶ Patrick McLaughlin and Dustin Chambers, “Snapshots of State Regulations, 24th ed., Federal and State Rules and Some of Their Unintended Consequences – Pennsylvania’s Regulatory Landscape,” Mercatus Center, August 6, 2024, <https://www.mercatus.org/regsnapshots24/pennsylvania#:~:text=Pennsylvania%20is%20the%2014th%20most%20regulated%20state%20in%20the%20US&text=Research%20from%20the%20Mercatus%20Center,policymakers%20actively%20cut%20red%20tape>.
- ⁷ Commonwealth Foundation, “Pennsylvania’s Uncompetitive Economy Continues to Drive Away Residents,” news release, December 20, 2024, <https://commonwealthfoundation.org/2024/12/20/pennsylvanias-uncompetitive-economy/>.
- ⁸ Katherine Loughhead, “Americans Moved to Low-Tax States in 2024,” Tax Foundation, January 7, 2025, <https://taxfoundation.org/data/all/state/americans-moving-to-states/#:~:text=Americans%20were%20on%20the%20move,Haul%20and%20United%20Van%20Lines>.
- ⁹ Pennsylvania Office of the Governor, “At York Hydropower Plant, Governor Shapiro Launches Legislative Push for “Lightning Plan” to Build More Energy Projects, Speed Up Permitting, Lower Costs, and Create Jobs for Pennsylvanians,” press release, March 11, 2025, <https://www.pa.gov/governor/newsroom/2025-press-releases/governor-shapiro-launches-legislative-push-for--lightning-plan--.html>; Rep. John Inglis III, House Bill 500, Pennsylvania General Assembly, Regular Session 2025–26, <https://www.palegis.us/legislation/bills/2025/hb500>.
- ¹⁰ Pennsylvania Chamber of Business and Industry, “Unitary Combined Reporting,” n.d., <https://www.pachamber.org/wp-content/uploads/2023/10/Combined-Reportingn-One-Pager.pdf>.
- ¹¹ Pennsylvania Independent Fiscal Office, “Executive Budget Revenue Proposals – Budget Brief,” March 2025, https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2025_03_Executive_Budget_Revenue_Proposals.pdf.
- ¹² Stacey Knavel et al., “Summary of Tax Credit Reviews, 2019 to 2023 Evaluation Period,” Pennsylvania Independent Fiscal Office, October 2023, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Summary_Tax_Credit_Reviews_Oct_2023.pdf.
- ¹³ Sen. Greg Rothman et al., Senate Bill 207, Pennsylvania General Assembly, Regular Session 2025–26, <https://www.palegis.us/legislation/bills/2025/sb207>.
- ¹⁴ James Broughel, “Cutting Red Tape in Pennsylvania,” Commonwealth Foundation, September 18, 2023, <https://commonwealthfoundation.org/research/cutting-red-tape-pennsylvania/>.