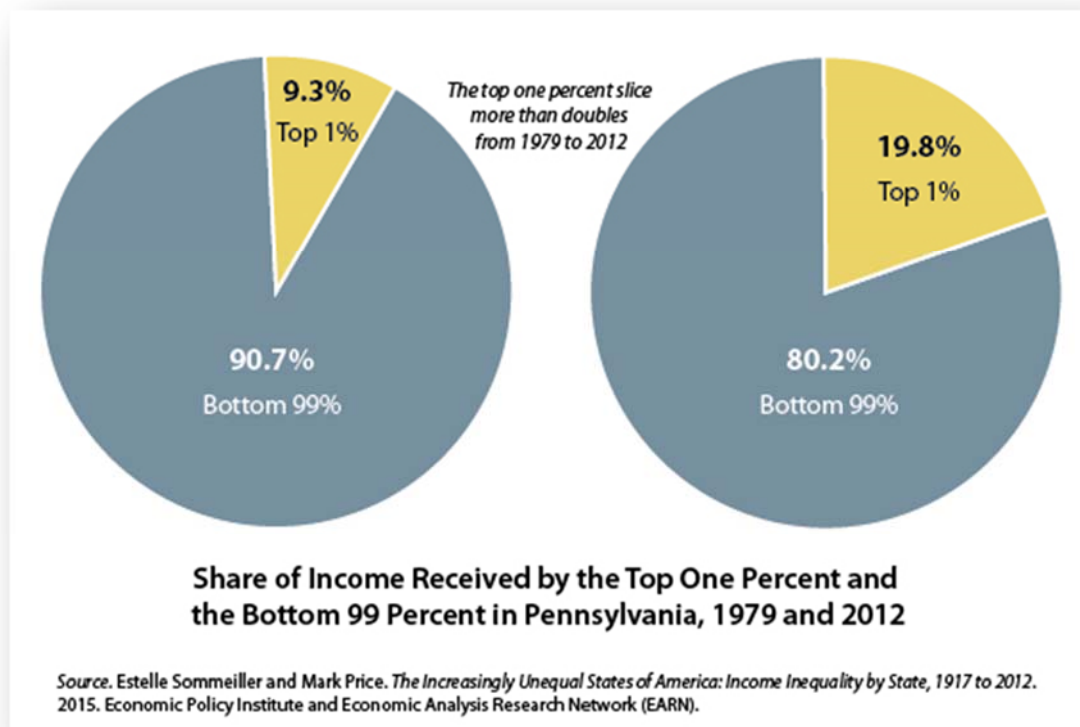


Tax Fairness: An Answer to Pennsylvania's Budget Problems

In Pennsylvania, the very highest-income residents are getting richer: the top one percent of taxpayers—those who earned average income of \$1.07 million in 2012—now get *a fifth* of all the state's income. They also pay less of their income in taxes than everyone else—less than *half* the rate of the middle class. If these high income earners paid taxes at the same rate as middle-class Pennsylvanians, the commonwealth could solve many of its budget problems—raising \$3.75 billion a year for education, infrastructure, health care, pensions and job creation.

The Rich Are Getting More Income than Ever

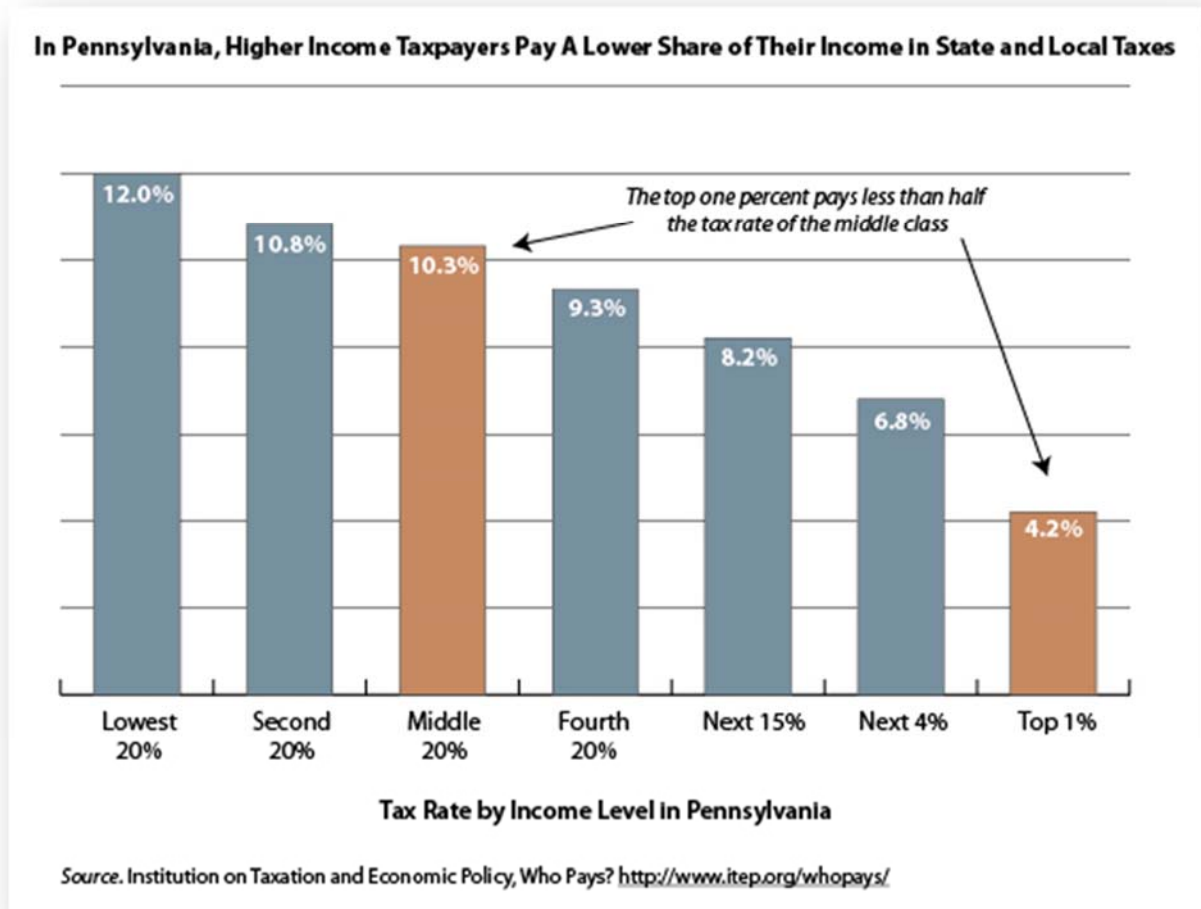


In the 1970s, the top one percent of taxpayers received less than 10 percent of total income in Pennsylvania. By 2012, their share of Pennsylvania's total income had more than doubled, to almost 20 percent. This shift equals means that, every year, more than \$73 billion in income now goes to just one percent of Pennsylvanians.

For context: \$73 billion is roughly two-and-a-half the Pennsylvania state budget and 47 times the annual cost of paying down the state's pension debt.¹

High-Income Pennsylvanians Less of Their Income in Taxes than the Rest of Us

The Institute on Taxation and Economic Policy ranks Pennsylvania one of the “Terrible Ten” for its extremely regressive tax system. High-income residents pay a far smaller share of their income in state and local taxes than middle class residents. The high-income one percent of Pennsylvanians pay just 4.2 percent of their income in taxes, while the middle fifth pay more than twice that rate: 10.3 percent. Pennsylvania’s lowest income families pay even more: 12 percent.

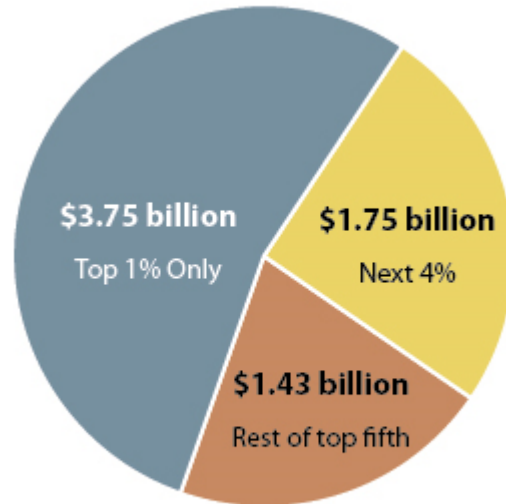


There are a few basic reasons Pennsylvania’s tax system is so inequitable, and the solutions are simple.

- Unlike most states, Pennsylvania’s income tax is flat, not graduated. Millionaires, the middle class, and lower-income families all pay the same 3.07 percent. ²
- Pennsylvania’s tax code is riddled with loopholes that allow corporations to pay low or no taxes, an inequity that mainly benefits rich families who own stock and receive dividends, capital gains, and corporate profits.

Taxing High-Income Pennsylvanians at Middle-Class Rates Would Do Wonders for the Budget

Taxing Top Fifth Pennsylvania Incomes at the Same Rate as the Middle Class Would Do Wonders for the State Budget



Total Revenue from Tax Fairness: \$6.93 Billion

Source: Institute on Taxation and Economic Policy

Taxing upper income groups at the same overall tax rate as middle-class Pennsylvanians would relieve enormous pressure on the state's budget. Taxing just the highest one percent at the rate that the middle fifth pays would raise \$3.75 billion in new revenue. That would fill Pennsylvania's current budget hole (estimated at \$1.86 billion by the Independent Fiscal Office), restore \$1 billion in education funding, and leave most of another billion to rebuild infrastructure, restore other funding cuts and pay down Pennsylvania's pension debt.

These are critical expenditures. In 2014, the American Society of Civil Engineers gave Pennsylvania seven "D" grades for infrastructure conditions. The state has never replaced the \$1 billion that Gov. Corbett cut from the public schools in 2011, and the state has an unfunded liability pension liability of \$47 billion.

Extending tax fairness to the top 20 percent would generate an estimated *\$6.93 billion* in additional revenue each year.

Tax Fairness is Not Rocket Science

There are many ways that Pennsylvania could increase tax fairness. (The Better Choices for Pennsylvania budget coalition recently outlined 19 different ways Pennsylvania could make the state tax system fairer.³) For example, the Wolf Administration's \$3.8 billion property tax relief proposal, which provides

the largest relief to lower-income school districts and to renters with incomes below \$50,000, will reduce taxes for many Pennsylvania families. A number of other proposals in the gov.'s budget proposal would also increase tax fairness, including a severance tax on natural gas, closing corporate tax loopholes (such as the "Delaware Loophole" which allows companies to avoid taxes on profits made off Pennsylvania consumers), and raising the income thresholds below which taxpayers pay no income taxes (because they qualify for the state's "tax forgiveness" program).

Another path to greater tax fairness would be to eliminate taxes on the first part of income for all taxpayers, which might require a change to the Pennsylvania constitution.⁴ Even without a constitutional change, the state could raise the income tax rate on non-wage income such as dividends, capital gains, and profits. The state could also impose a very small flat (or "uniform") wealth tax, over four fifths of which would be paid by the highest-income one fifth of taxpayers.

After 30 years of a middle-class squeeze, it's time to restore balance. One percent of Pennsylvanians get twice the share of income they got 30 years ago—taxing them at less than half the middle-class rate generates too little revenue and exacerbates the state's economic inequality before taxes. Solving the budget deficit through tax fairness while restoring education and infrastructure investment will revitalize Pennsylvania's economy, boost opportunity, and improve quality of life.

END NOTES

¹ This assumes that Pennsylvania's \$47 billion in unfunded pension liabilities is paid off in equal installments over 30 years. Unfunded pension liabilities from Pew Charitable Trusts, *The Fiscal Health of State Pension Plans*, March 2014, online at <http://www.pewtrusts.org/~media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf>

² A flat income tax, when combined with inherently regressive sales and property taxes, leads to an overall state and local tax system in which lower-income Pennsylvanians pay far more of their income in state and local taxes than do the highest-income ones. That is, lower-income families necessarily spend higher shares of their incomes on property and sales taxes than do high-income people.

³ Better Choices for Pennsylvania, *2015 Pennsylvania Tax Fairness Campaign Platform: Nineteen ideas to make Pennsylvania's tax system fairer*; online at <https://pennbpc.org/sites/pennbpc.org/files/2015PennsylvaniaTaxFairnessCampaignPlatform.pdf>

⁴ Governor Wolf proposed this during the campaign but did not include it as part of his budget address, possibly because of concerns about its constitutionality.