



Just the Facts

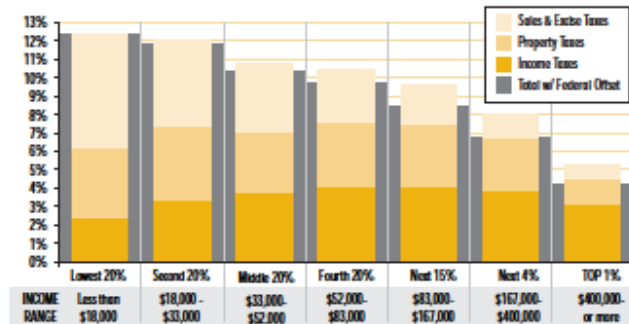
Pennsylvania Budget and Taxes

Pennsylvania Tax Fairness

Pennsylvania's Taxes Burden Poor Workers More Than Rich.

Pennsylvania has one of the most regressive tax systems in the nation. **The poorest fifth pay more than 12 cents in taxes out of every dollar of income, while the richest 1% pay a little more than 4 cents on the dollar.** This takes into account that state and local taxes reduce federal taxable income for most affluent families. Middle-class families also pay a higher share of their income in state and local income taxes than the wealthiest 20%.

Who Pays? Pennsylvania State and Local Taxes as a Share of Family Income for Non-elderly Taxpayers, 2006

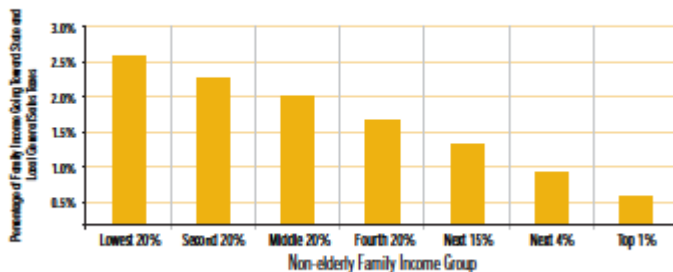


Source: The Institute on Taxation & Economic Policy (ITEP), 2008.

Poor Pay More of Their Incomes in Sales Tax.

The lowest fifth of Pennsylvania earners spends 2.5% of their income on sales tax, while the wealthiest fifth spend 1.5% or less.

Poorer Pennsylvanians Pay More of Their Incomes in Sales Taxes



Source: Institute on Taxation and Policy (ITEP), 2008.

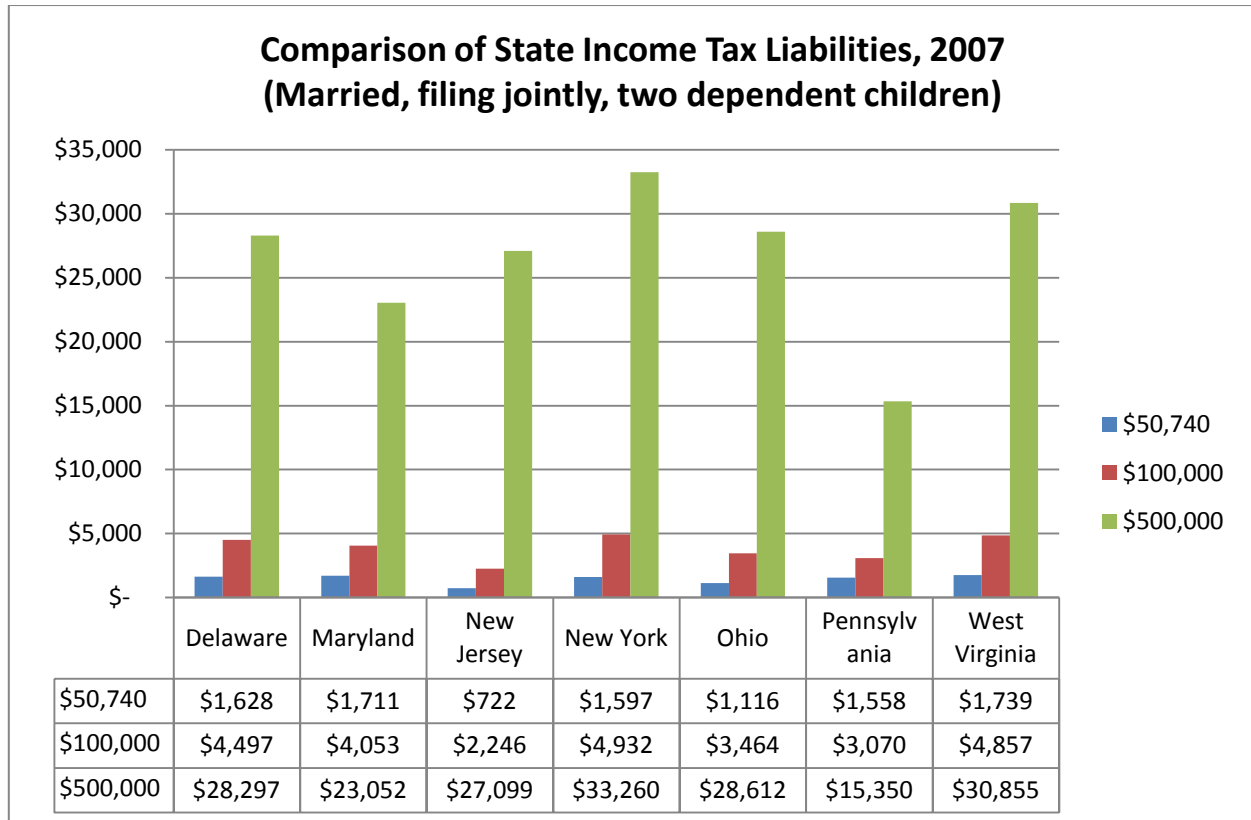
Some Progressive Features to Sales Tax

Pennsylvania exempts groceries and clothing from the sales tax, and the rate is lower than many states. Still, several steps could be taken to make it fairer. It could be expanded to include more non-essential items and certain professional services to distribute the tax more evenly. Additionally, the state could offer rebates through the personal income tax code to help offset sales taxes paid by low-income families.

The Main Culprit: A Flat Personal Income Tax.

While most states have graduated income taxes that assess higher rates on affluent earners than on middle-class and low-income families, **Pennsylvania's Constitution requires all earners (except for the poor and elderly) to be taxed at the same, or "uniform," rate.** This prevents Pennsylvania from using a progressive income tax to increase the overall fairness of the tax structure.

As a result, the rich pay much less in income taxes in Pennsylvania than their counterparts in neighboring states.



Bright Idea: Amend the Constitution to Make Tax System Fairer.

Policymakers could make Pennsylvania's tax system less regressive and fairer by adopting an amendment to the state Constitution so that a graduated income tax could be introduced to Pennsylvania. That would tax the income of wealthy earners at a higher rate than lower-income workers.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget, and related policy matters, with attention to the impact of current or proposed policies on working families. To learn more about state taxes and spending, go to www.pennbpc.org/pabudget/primer.html.