



Pennsylvania Tax and Spending Levels Moderate and Stable over Time

Fact Sheet: Primer on Pa. Budget and Tax Systems

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Pennsylvania ranks favorably when compared to the nation and to competitor states in overall tax and spending levels, according to a report from the Pennsylvania Budget and Policy Center (PBPC).

Pennsylvania state taxes, when measured as a share of state personal income, ranked 33rd among the 50 states in 2007, while state spending ranked 32nd. Pennsylvania taxes were 6.4% of state personal income, a half-percentage point less than the average of competing states.¹

But Pennsylvania's tax system is highly regressive, taking a significantly larger share of the incomes of the poorest 20% of earners than of the incomes of more affluent Pennsylvanians. The bottom fifth of earners, making less than \$19,000 per year, paid 11.2 cents in taxes on every dollar of income, while the top 1%, with average incomes of \$1,369,600, paid only 3.9 cents in taxes.

PBPC's new report, *The Common Good: What Pennsylvania's Budget and Tax Policies Mean to You*, is an easy-to-read guide to state and local taxes and Pennsylvania's budget process. It is a resource for policymakers, journalists, advocates and all Pennsylvanians. [View it online.](#)

The report finds that, over the past three decades, Pennsylvania state government taxes have held steady as a share of income, while state expenditures have stayed below the national average for 24 of the last 30 years.

The report makes the case that investments in public goods, including schools, higher education, workforce development, and transportation, make a vital contribution to the state's economy and are critical to economic growth.

The report puts the larger discussion of the state budget and taxes in context by showing that Pennsylvania spending and taxes are both competitive and necessary for the state's economy to grow.



¹ State personal income measures a state's economic activity. It includes the total of all wages, salaries, employer-contributed pensions and insurance, business earnings, rental earnings, dividends, and interest earned by commonwealth residents.

Report's Major Findings

- **State Taxes Are Relatively Low:** The personal income tax rate, at 3.07%, is the second lowest top rate in the country, while the 6% sales tax in all counties — but Philadelphia (which has an 8% rate) and Allegheny (7%) — is in the middle range of all states. The corporate net income tax rate of 9.99% is relatively high, although loopholes in the law (and other factors) mean that more than two-thirds of companies don't pay any of the tax.
 - Pennsylvania state taxes and spending are less than a majority of U.S. states when measured as a share of state personal income. In 2007, state taxes were 6.4% of personal income, ranking the state 33rd in the nation.
 - Pennsylvania state taxes are less than competitor states. Ohio, New Jersey and New York had slightly higher rates as a share of personal income, while Delaware exceeded 8% and West Virginia came in at 8.5%.

- **Pennsylvania Relies Heavily on Local Taxes:** Pennsylvania state and local taxes combined rank 20th nationally, at 10.8% as a share of personal income, compared to 33rd nationally for state only taxes. This reflects a heavy reliance on local taxes, and especially on local property taxes, to fund public services.
 - In 2006-07, local governments and school districts relied on property taxes to fund 72% of services and public education.

- **Local School Districts Shoulder Large Share of Public Education Funding:** Pennsylvania, in fact, ranked near the bottom, 45th, in the share of state funding for public education. In 2006-07, 57% of all school funding was raised locally by school districts, while the state provided 35%. Nationally, state governments contribute 48% to schools. Pennsylvania's heavy reliance on local funding has created school funding disparities across the state's 500 school districts.

- **Local Property Taxes Are Comparatively Low But Contain Significant Disparities Across Districts:** Across Pennsylvania, property taxes mirror the national average of 3.2% of personal income, compared to more than 4% in New York and nearly 5% in New Jersey.
 - At the same time, average property tax rates on residential property can range from 0.9% to 9.7% of personal income across Pennsylvania's 500 school districts. It is not uncommon for poorer school districts to have higher school property tax rates than more affluent districts in the same county.

- **Pennsylvania's Tax Structure Squeezes Middle- and Low-Income Workers:** Middle- and low-income Pennsylvanians pay much higher percentages of their income in taxes than the wealthiest Pennsylvanians.
 - The poorest fifth of Pennsylvanians spends 2.1% of their income on sales tax, and the middle fifth spends 1.8%, while the wealthiest fifth spends 1.2% or less.

- Overall, the poorest 20% pay nearly three times their share of income in state and local taxes than the richest 1% —11.2 cents out of each dollar of income compared to only 3.9 cents for the richest families (once you take 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%.

A Regressive Tax Structure

The commonwealth has one of the most “regressive” state and local tax systems in the nation, based on the share of income paid in state and local taxes by middle- and low-income families compared to affluent families. One reason for this is Pennsylvania’s flat personal income tax rate.

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. That prevents Pennsylvania from using a progressive income tax. As a result, lower-income workers end up paying a bigger chunk of their paychecks in taxes than wealthier Pennsylvanians, contributing to the overall unfairness of Pennsylvania’s tax structure.

The report proposes that policymakers consider 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.

Toward a Stable Tax System

The report suggests the state needs a stable stream of revenue that grows over time to keep up with the cost of services, and highlights challenges to a stable tax system. They include declining corporate tax revenue, the aging population, and a tax system that has not been comprehensively updated and reformed in generations. To address these issues, state policymakers should:

- Review tax exemptions and tax credits for effectiveness.
- Close loopholes in the corporate net income tax system that allow multistate and multinational companies to hide Pennsylvania earnings in lower-tax jurisdictions. That would generate \$616 million a year, according to the Department of Revenue.
- Broaden the state sales tax base to include currently exempt luxury items and expand tobacco taxes to include smokeless tobacco. Pennsylvania is the only state that does not tax smokeless tobacco.
- Implement a “severance” tax on the extraction of state resources from the ground, such as natural gas. Estimates show that such a levy on natural gas drilling could raise \$200 million in new revenue annually.

To learn more, you can download a copy of *The Common Good: What Pennsylvania’s Budget and Tax Policies Mean to You* by [clicking here](#).