

Raising Revenue This Year and in the Long Run through Fair Taxation on Pennsylvania's Richest and Wealthiest

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Pennsylvania Budget Summit

Revenue Options

FY 15-16 Budget - Act 10A (General Appropriations Act)

- Total Spend - \$30.26 billion
 - Total Spend before line-item veto
 - Includes appropriations for the state-related universities.
- Revenues Available - \$29.75 billion
- **Senate D - Act 10A Deficit - \$510 million**

FY 16-17 Projected Deficit

- IFO - \$1.86 billion
- Senate Democrats estimate the structural deficit may be as high as \$2.4 billion depending on how the FY 15-16 shortfall is resolved.
- Numbers reflect a simple “cost-to-carry” budget and assume no additional investments in FY 16-17.

Structural Deficit: In Context

- The IFO's January 2016 estimate of a \$1.86 billion structural deficit for FY 16-17 is the equivalent of the FY 14-15 combined General Fund appropriations for the following departments:
 - Attorney General
 - Auditor General
 - Agriculture
 - DCED
 - DCNR
 - Drug & Alcohol
 - DEP
 - DGS
 - Health
 - L & I
 - Military & Veterans Affairs
 - Revenue
 - State
 - Judiciary
 - State Police

Fiscal Realities

- The FY 14-15 budget included over \$2 billion in one-time revenues, funding shifts and other accounting gimmicks to give the appearance of a balanced budget
- The GOP's June FY 15-16 budget (HB 1192 – vetoed by Governor Wolf) included over \$1.5 billion in one-time revenues, funding shifts and gimmicks
- The use of these budget practices during the Corbett era created the situation we find ourselves in today.
- **Even the most anti-tax members of the General Assembly have not proposed a budget that spends only the revenues we have.**

Recurring Revenue Options

- Broad-based taxes
 - Personal Income Tax
 - Rate
 - Expansion of Base (e.g., Lottery winnings)
 - Sales Tax
 - Rate
 - Eliminate Exemptions
 - Vendor Discount
- Other Taxes
 - Natural gas extraction tax
 - Cigarette tax
 - Other tobacco products tax
 - Bank Shares Tax
 - Insurance Premiums Tax
 - Casino Promotional Play

Other Revenue Options

- Wine & Spirits Modernization
- Gaming Expansion (Internet Gaming)
 - License fee (One-time)
 - Tax revenue
- Close Delaware Loophole
- Job Creation Initiatives
- Minimum Wage Increase
- Government Savings/Efficiencies

The Cost of Doing Nothing

- Failure to generate sufficient revenues to fix the structural deficit and make needed investments in education, human services, and job creation programs leaves only one option – more cuts.
- While Governor Wolf has been accused of trying to scare people when warning of future cuts, the reality is that education (including higher education) and human services comprise the largest portions of the budget and are the only areas where cuts could generate the funds necessary to balance the budget.
- This is not “fear mongering,” it’s a fact.



Inequality, Fair Taxation and Revenue Adequacy

by

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PBPC Budget Summit March 3, 2016

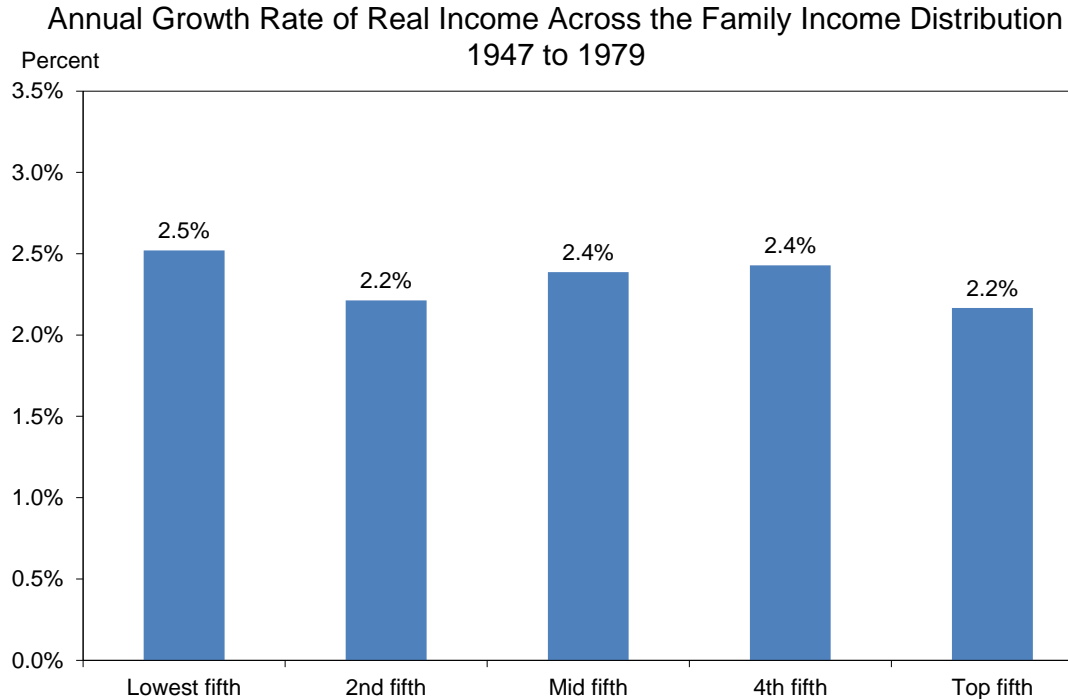
For more on state tax and budget issues, see the website of the PA Budget and Policy Center, <http://pennbpc.org/>

For more on inequality and the economy, go to <http://keystoneresearch.org/>

The Big Picture

- Income inequality has grown sharply
- PA tax system taxes top incomes at low rates
- Combo adds to structural deficit, means revenue adequacy requires higher middle-class tax rates
- Tax fairness – higher top tax rates – can relieve tension between adequacy & middle-class taxes
- We can get tax fairness w/o constitutional change
- ...or with constitutional change
- Build a coalition of low-income rural and urban areas, and suburban progressives, for tax fairness

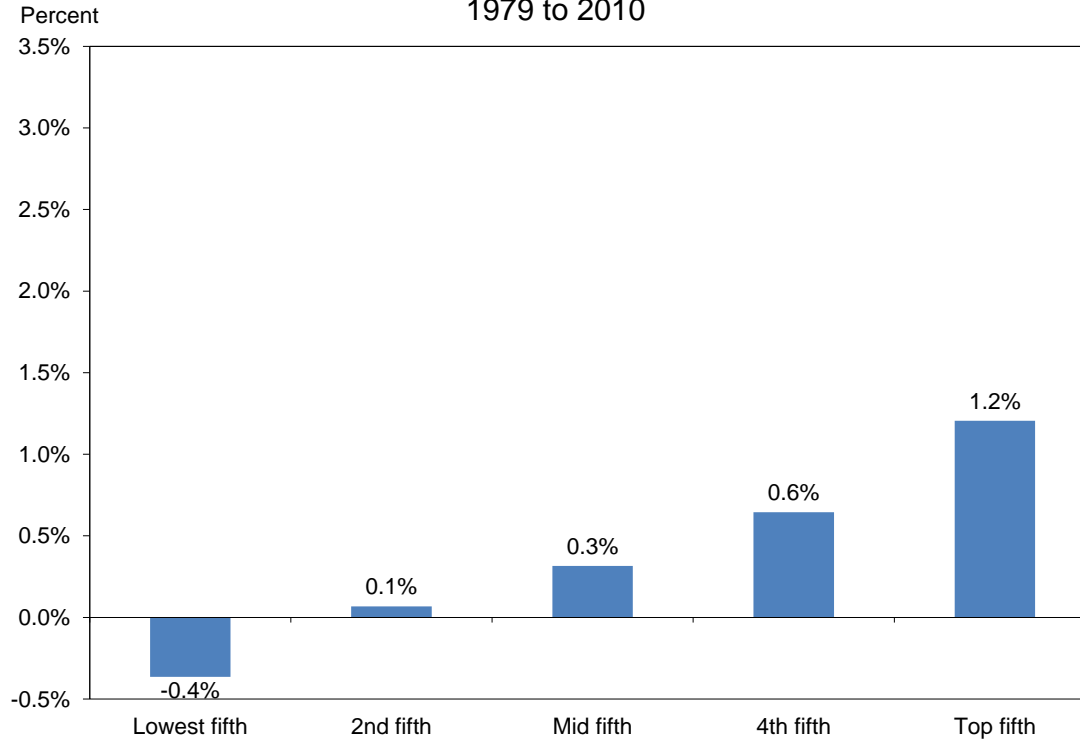
Growing Together



Source: Census Bureau. Slide adapted from Alan B. Krueger, "The Rise and Consequences of Inequality in the United States" available online at <http://goo.gl/1bPeb>

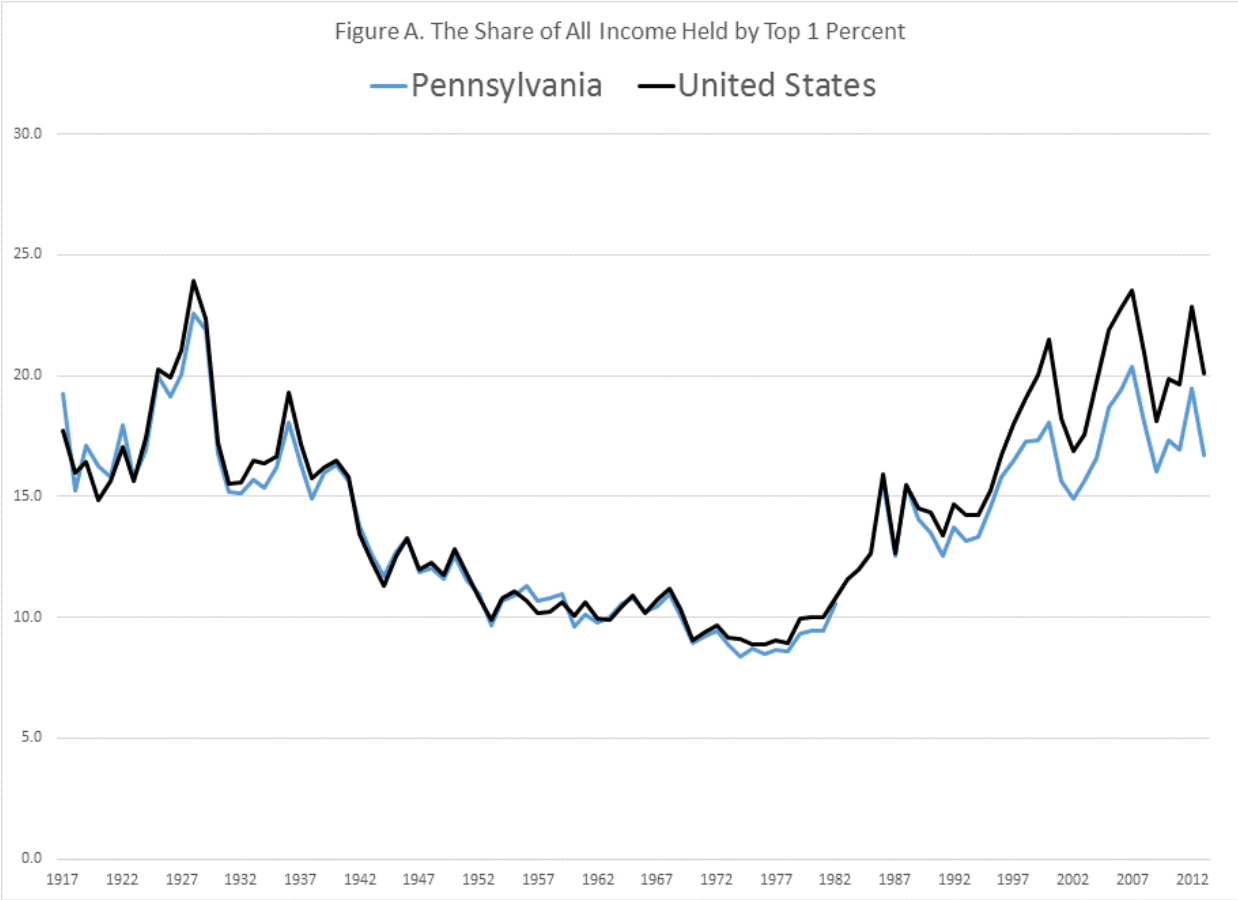
Growing Apart

Annual Growth Rate of Real Income Across the Family Income Distribution
1979 to 2010



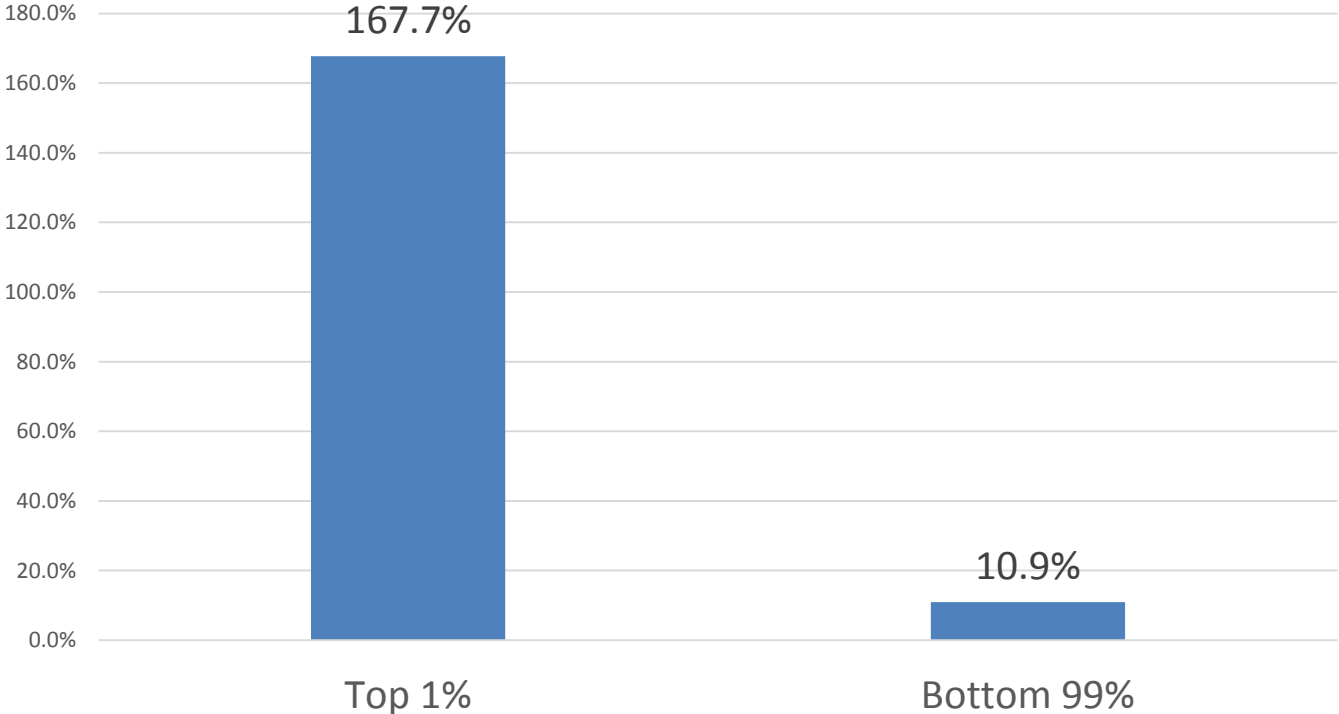
Source: Census Bureau. Slide adapted from Alan B. Krueger, "The Rise and Consequences of Inequality in the United States" available online at <http://goo.gl/1bPeb>

Top 1% Income Share Bouncing Around Historic Highs



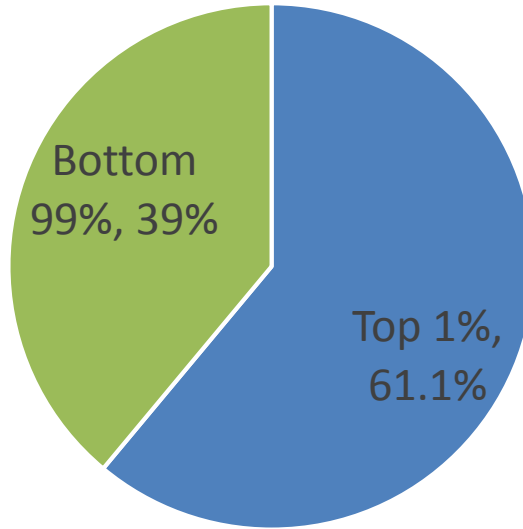
Top 1% Income Increases 15 Times Faster than 99% Since 1979

Figure F. Real income growth for the top 1% and the bottom 99% 1979 to 2012 in Pennsylvania



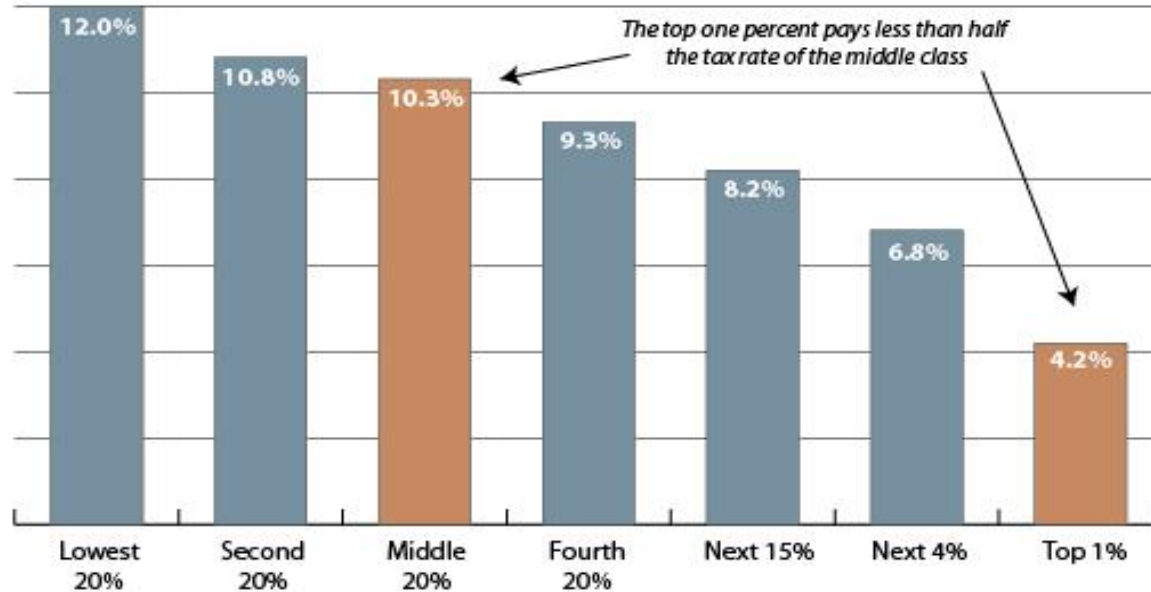
Top 1% Has Taken Home 61 Cents of Every Dollar Increase in PA Income Since 1979

Figure I. Share of overall income growth from 1979 to 2012 captured by the top 1% and bottom 99% in Pennsylvania



Now Let's Look at the PA Tax System

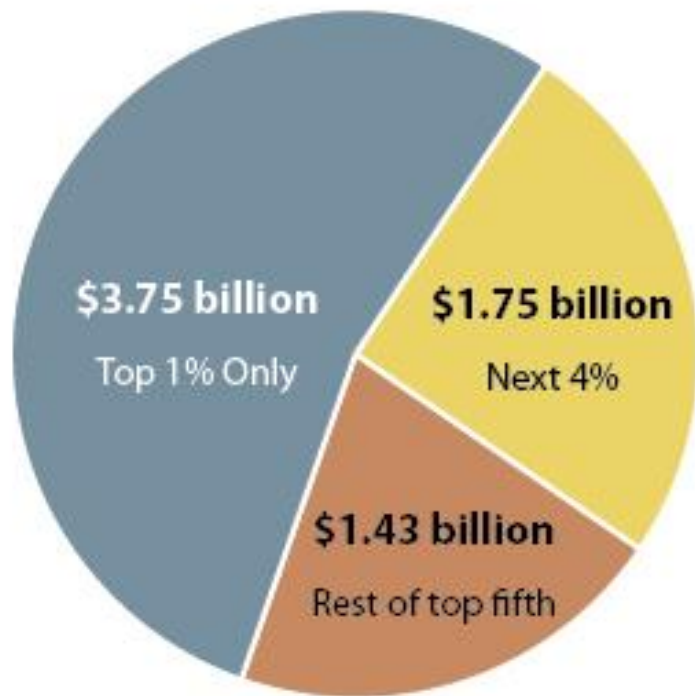
In Pennsylvania, Higher Income Taxpayers Pay A Lower Share of Their Income in State and Local Taxes



Tax Rate by Income Level in Pennsylvania

Source: Institution on Taxation and Economic Policy, Who Pays? <http://www.itep.org/whopays/>

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

But What About the Uniformity Clause?

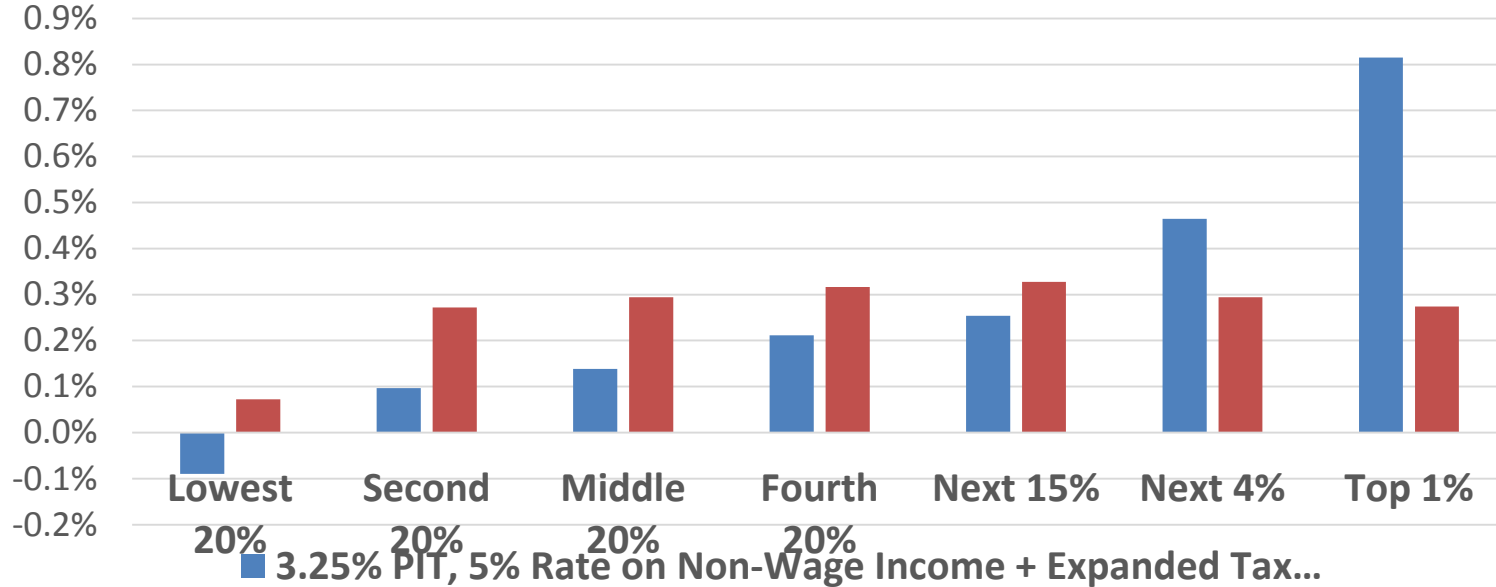
- PA constitution requires that taxes be “uniform” with exceptions for seniors and poverty
- Without constitutional change we can ...
 - Raise the tax rate on non-wage income
 - Enact a state flat tax on *ALL* wealth not just middle-class (property) wealth
- Repealing the uniformity clause would be better...
 - Who gets hurt by PA’s “terrible 10” tax system? Low-income RURAL areas and urban communities
 - Rural/urban/progressive coalition for repeal

Raising the Tax Rate on Non-Wage Income Can Raise Revenue with Little Impact on Middle Class

Two key points

- Wolf proposal much more progressive than current tax system
- Raising same revenue partly with higher tax rate on non-wage income means smaller tax hike

Increase in Tax Rate as Share of

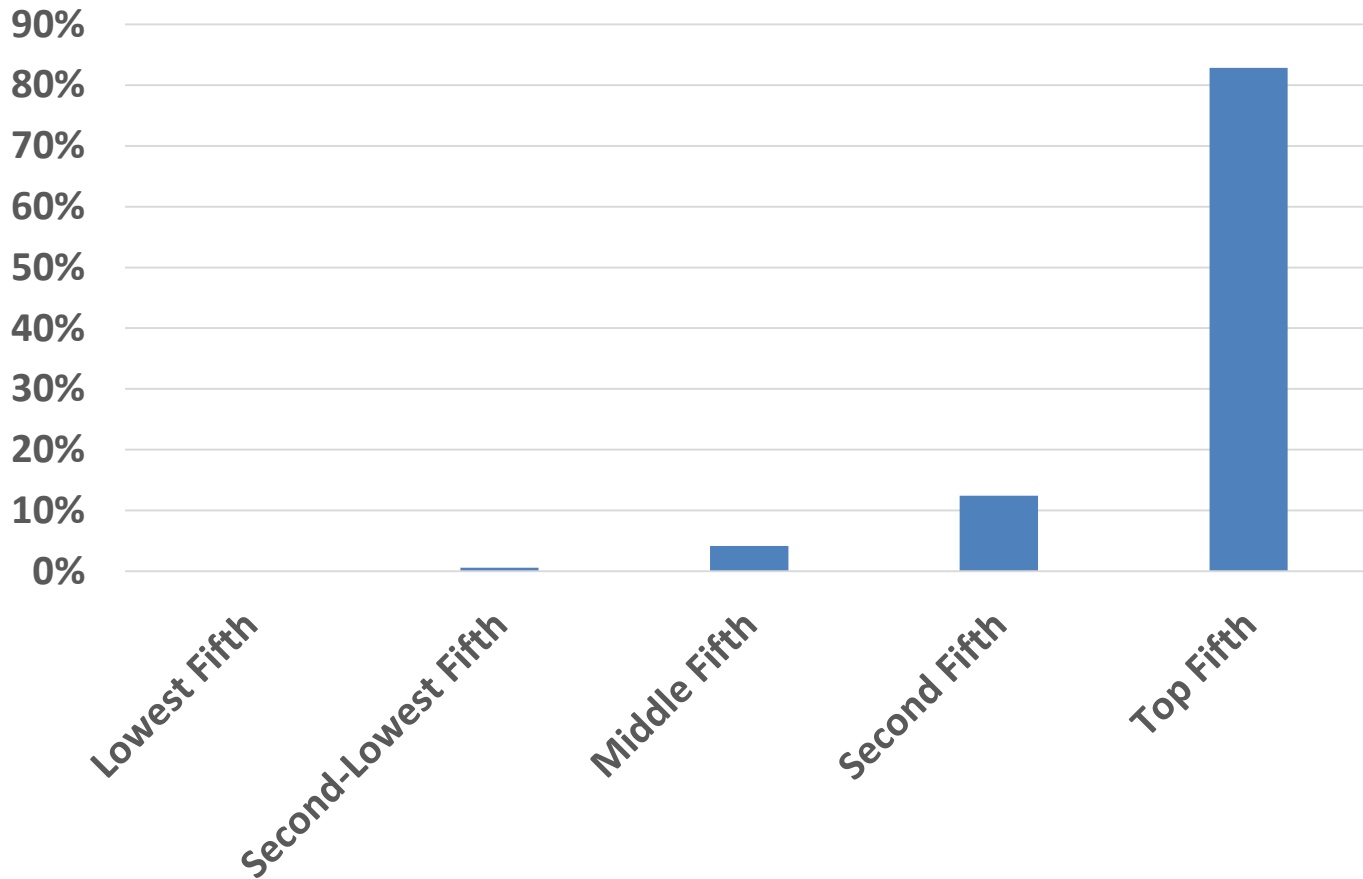


Source. Pennsylvania Budget and Policy Center based on preliminary analysis by Institute for

What About a “Wealth Tax”?

- Wealth is six times personal income: [\\$85.7 trillion in the second quarter of 2014](#)
- PA already has wealth taxes – [two thirds of middle-class wealth is residential property](#)
- PA does not tax 90% of wealth of affluent families – financial wealth
- Who does tax financial wealth?
 - European countries (see Thomas Piketty, *Capital in the Twenty-First Century*, pages 517, 522, 528-529, 533)
 - [Florida until the 1990s](#)
 - PA counties until the 1990s

Incidence of Flat Wealth Tax by Fifth



The Big Picture Repeated

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- We can get tax fairness w/o constitutional change
- ...or with constitutional change
- Build a coalition of low-income rural and urban areas, and suburban progressives, for tax fairness and...
 - ...for a stronger economy/higher living standards
 - ...upward mobility/the American Dream

Questions and Answers

