FOR IMMEDIATE RELEASE: March 11, 2015
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Report: Inequitable Tax Code Costs Pennsylvania up to $6.9 Billion

_Taxing Top Incomes at the Same Rate as the Middle-Class Could Fund Critical State Priorities such as Restoring Education Cuts and Paying Down Pension Debt_

HARRISBURG, Pa. – As Pennsylvania confronts a nearly a $2 billion budget gap and pressing needs for revenue to invest in education, job creation and other needs, a new report out today shows that Pennsylvania could generate up to $6.9 billion in revenue by fixing inequities in the state tax code.

Pennsylvania’s highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution – 4.2 percent to 10.3 percent, respectively. The report, _Tax Fairness: An Answer to Pennsylvania’s Budget Problems_, released by the Keystone Research Center and the Pennsylvania Budget and Policy Center, finds that if Pennsylvania taxed the highest-income one percent of taxpayers at the same rate as the middle 20 percent, the state could raise $3.75 billion per year. Similarly, if the top 20 percent of income earners paid the same as the middle 20 percent, Pennsylvania could raise $6.93 billion per year.

“Revenue lost because of the one-two punch of rising income inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of aging infrastructure,” said KRC economist and executive director, Dr. Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of taxpayers received 9.3 percent of the total income in Pennsylvania. By 2012, their share of Pennsylvania’s total income more than doubled, to 19.8% percent. This shift means that every year $73 billion in income now goes to just one percent of Pennsylvanians.

For context: $73 billion is roughly two-and-a-half times the Pennsylvania state (General Fund) budget and 47 times the annual cost of paying down the state’s pension debt.

Taxing upper-income groups at the same overall tax rate as middle-class Pennsylvanians would relieve enormous pressure on the state’s budget. With just the $3.75 billion raised from applying tax fairness to the one percent, Pennsylvania could fill the state’s current budget hole, restore $1 billion in education funding, and leave most of another billion dollars to invest in job creation and infrastructure, restore other funding cuts and pay down Pennsylvania’s pension debt.

“There are many ways to increase tax fairness,” Herzenberg added, “notwithstanding the state’s constitutionally mandated flat tax.” Large scale property-tax relief that most benefits middle- and low-income families, as
proposed by Gov. Wolf, is one way. Other proposals that increase tax fairness in Gov. Wolf’s proposed budget include a severance tax, closing corporate tax loopholes (such as the Delaware loophole), and raising the income tax below which taxpayers pay no income tax. Other possible routes to tax fairness include increasing tax rates on non-compensation income such as dividends, capital gains, and profits, or a small flat (or “uniform”) wealth tax.

The loss of revenue because top income groups pay low tax rates is not unique to Pennsylvania. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Applying tax fairness to the one percent would generate $68 billion nationally, while taxing the top 20 percent at the same rate as the middle class would generate $128 billion.

“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Greg LeRoy, executive director of Good Jobs First, which partnered with KRC on the national companion report to the Pennsylvania brief. “The middle class won’t recover—and states won’t get their finances in order—until they fix their tax codes.”

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