

# POLICY WATCH

FROM THE KEYSTONE RESEARCH CENTER

## If Fairness Matters, Raise the Income Tax

One standard by which Americans judge the fairness of taxes by ability to pay. On this standard Pennsylvania has one of the most unfair tax systems in the nation. Raising the state's sales tax will make the system even less fair. The most equitable way to raise state revenue would be to raise the state's personal income tax.

Here are the often overlooked facts.

The poorest Pennsylvanians pay 11.4% of their income in combined taxes. The richest Pennsylvanians, those with incomes in the top one percent, pay 4.8%. Middle income Pennsylvanians pay 9.0%.

If one considers the offset in Federal taxes received by those who itemize deductions on their Federal tax return, the top 1 percent pays only 3.5% of their income in state and local taxes; **less than a third** of the tax rate of the bottom fifth of taxpayers.

Overall, according to an analysis by the Institute on Taxation and Economic Policy (ITEP), the ratio of the tax rates on the bottom and middle fifth of taxpayers relative to the top fifth makes Pennsylvania one of the ten states with the most regressive tax systems (see Table 1).

The ITEP analysis also shows that the state's sales and excise taxes are extremely regressive, that is, they place the greatest burden on the poorest Pennsylvanians – those least able to pay.

The richest Pennsylvanians pay 0.7% percent of their income in sales tax. The poorest Pennsylvanians pay 6% of their income, or **about nine times more** than the richest Pennsylvanians. The middle fifth pays 3.8% and the top fifth only 1.6%.

Pennsylvania's property taxes are a little fairer than its sales tax, but not by much.

ITEP found that the richest Pennsylvanians, the top one percent, pay 1.25% of their income in property taxes. The poorest Pennsylvanians pay 4% or **about three times more** than the richest Pennsylvanians. The middle fifth pays 2.9% and the top fifth pays only 1.2% of their income in property taxes.

State	Poorest 20%	Middle 60%	Top 1%
Washington	17.6%	11.2%	3.3%
Florida	14.4%	9.8%	3.0%
Tennessee	11.7%	8.9%	3.4%
South Dakota	10.0%	8.4%	2.3%
Texas	11.4%	8.4%	3.5%
Illinois	13.1%	11.1%	5.8%
Michigan	13.3%	11.1%	6.7%
<b>Pennsylvania</b>	<b>11.4%</b>	<b>9.0%</b>	<b>4.8%</b>
Nevada	8.3%	6.5%	2.0%
Alabama	10.6%	9.6%	4.9%
<b>United States</b>	<b>11.4%</b>	<b>9.9%</b>	<b>7.3%</b>

Source: Institute for Taxation and Economic Policy, *Who Pays?* Washington D.C. 2002. Available on line at: [www.ctj.com/itep/whopays.htm](http://www.ctj.com/itep/whopays.htm)

***The personal income tax is Pennsylvania's most progressive tax.***

In fact, it's the only major state and local tax type (income, property, and sales) that higher income Pennsylvanians pay in proportion to their ability to pay.

Counting local wage and income taxes, the top one percent of Pennsylvanians pays a 2.9% tax rate in income taxes. The middle fifth pays 2.4% and the bottom fifth, the poorest Pennsylvanians, pays 1.4%.

The fact is, then, that middle and low income Pennsylvanians pay higher shares of their income in combined state and local taxes than do the most affluent Pennsylvanians. In this circumstance the state's fairest tax, the personal income tax, should be used to raise revenues for immediate or long-term budget needs. Using a PIT increase to lower property taxes in an equitable way would make Pennsylvania's tax system even more fair.

A budget compromise raising the state's sales tax is a compromise of America's long-held principle that taxes should be based on ability to pay. A modest rise in the PIT — especially one linked to property tax relief — would be an important step toward a tax system that works for all

Pennsylvanians.

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Policy Watch is issued periodically by the

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