

**PENNSYLVANIA**  
Budget and Policy Center

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# **A Fair Share Tax to Support Public Investment in Pennsylvania**

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1 While Marc Stier wrote the text, Stephen Herzenberg and Mark Price initially developed the ideas in the paper and provided the first analysis of it We are very much indebted to Aidan Davis of the Institute for Tax and Economic Policy for her work in analyzing the impact of the Fair Share Tax and to the Pennsylvania Department of Revenue for the data we use in this paper to evaluate it.

## Executive Summary

This paper puts forward a plan, which we call the Fair Share Tax, that would take a major step toward fixing Pennsylvania's broken tax system and raise the revenues we need to invest in the public goods that are critical to creating thriving communities and individual opportunity in our state: education, infrastructure, protection for our air and water, and human services.

- The Fair Share Tax divides our Personal Income Tax into two parts: 1.) a tax on wages and interest, and 2.) a tax on income from wealth (dividends; net income [from a business, profession, or farm]; capital gains; net income from rents, royalties, patents, and copyrights; gambling and lottery winnings; and income from estates or trusts.)
- The Fair Share Tax increases the tax on income from wealth from 3.07% to 6.5% and decreases the tax on wages and interest from 3.07% to 2.8%.
- Under the Fair Share Tax, 58.3% of taxpayers will see their taxes go down, 26.2% will see no change in their taxes, and only 15.4% will see their taxes go up.
- The Fair Share Tax brings in \$2 billion in new revenue. Of that \$2 billion, 50% comes from the top 1% of families, 72% comes from the top 5% of families, and 88% comes from the top 20% of families.
- Out-of-state taxpayers will pay 15.6% of the \$2 billion increase in revenues.
- There is little variation in the impact of tax from one county to another or one legislative district to another. The percentage of taxpayers in a county that see a decrease or no change in their taxes ranges from 71% to 90%, with all but nine counties in the 80% to 89% range. In both rural and urban counties, an average of 85% of taxpayers will see their taxes go down or remain unchanged under the Fair Share Tax. Much the same is true in state legislative districts.
- Even after implementation of the Fair Share Tax, the effective rate on the top 1% of Pennsylvania taxpayers will be only 3.6%, less than that of any neighboring state and only 45% of the rate found in New York and New Jersey.

## Introduction

This paper puts forward a plan, which we call the Fair Share Tax, to take a major step toward fixing Pennsylvania's broken tax system and raise the revenues Pennsylvania needs to invest in the public goods that are critical to creating thriving communities and individual opportunity in our state: education, infrastructure, protection for our air and water, and human services.

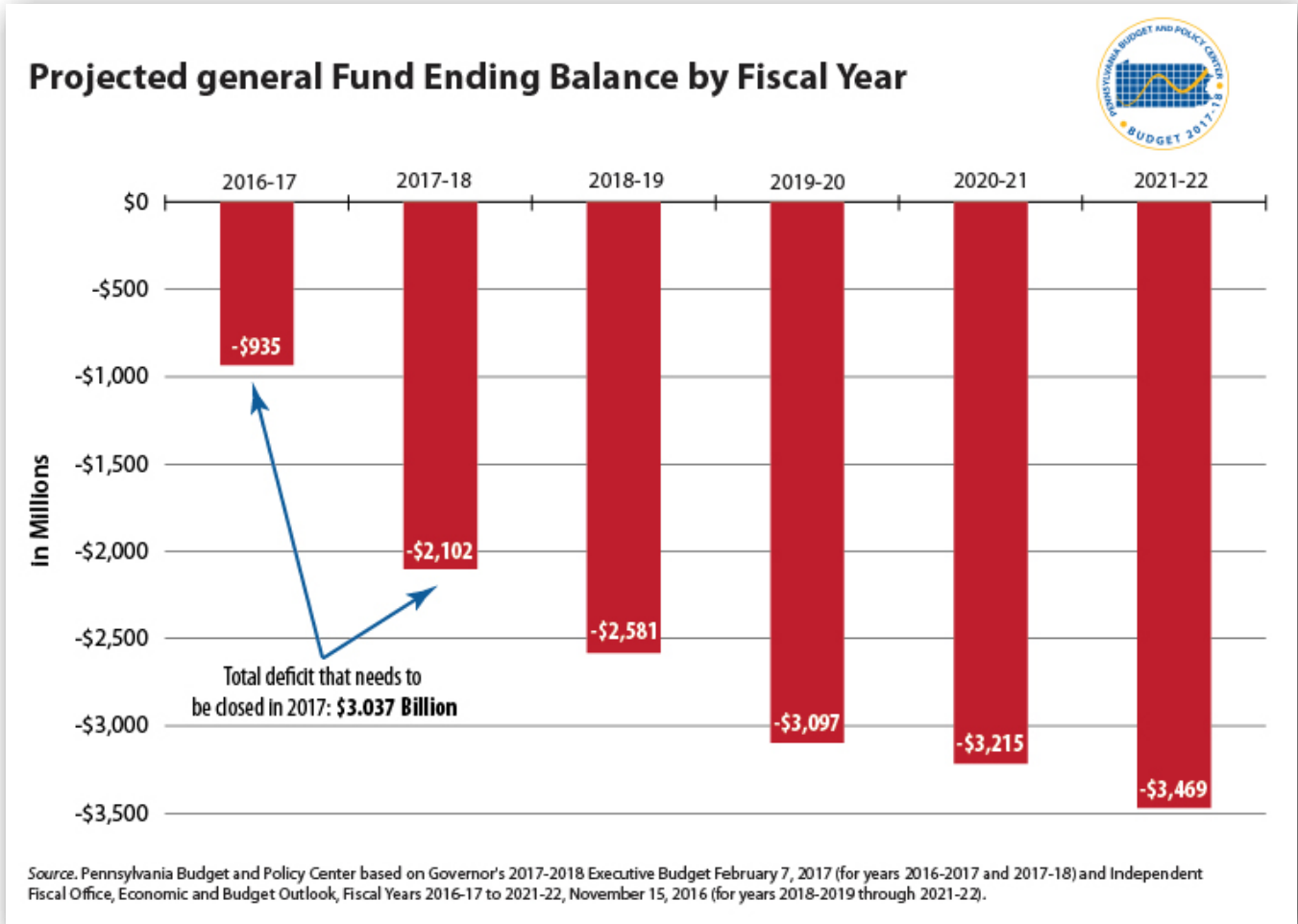
## The Need for Revenues in the Commonwealth Budget

No one who understands Pennsylvania's budget can doubt that we need new, recurring revenues, not just to secure fiscal stability, but to create the commonwealth that meets our long-term needs and aspirations.

### The Structural Deficit

One reason we need new revenue is that we face a deep and growing structural deficit as show in Figure 1.

Figure 1.



The state will not be able to provide the level of services it does now without addressing that deficit.

### The Public Investment Deficit

Governor Wolf has put forward a budget plan, which we have analyzed in detail, that calls for \$2 billion in reforms to the structure and operation of the government and \$1 billion in new taxes, almost entirely on corporations, businesses, and natural gas drilling, to close the deficit. Our detailed analysis leads us to support the plan and especially its call for new recurring revenues. But, some parts of the plan are not yet fully specified, some parts may not save as much as expected, and it's not at all clear whether the General Assembly will endorse all elements of that plan – especially the taxes called for by the Governor.

But those are not the main problems with the Governor's plan. The structural deficit will be closed because it must be under the Constitution. The most serious problem this state faces is not our structural deficit, but instead it is our public investment deficit – our failure to invest in the public goods we need to create thriving communities and individual opportunity.

We have identified some of those key public investments in our previous work:

- When funded well, our schools do an excellent job in providing our children with opportunities to grow and thrive and creating the educated citizens and workers Pennsylvania needs. But we have the most unequally funded schools in the country, and too many of our children, in both low-income rural and urban areas, are being cheated out of a good education.
- Pre-K education has been shown to give children a head start in life. Yet too few Pennsylvania three and four year olds receive high quality Pre-K education.
- We have some of the best public and private institutions of higher learning in the country and the benefit to individuals and communities of having a larger number of college graduates is clear. Yet state support for higher education is substantially below what it was ten years ago, our state ranks fourth from the bottom nationally in per capita spending on higher education and the percentage of Pennsylvania adults with a BA in Pennsylvania ranks 41st out of 50 states.<sup>1</sup>
- Our extensive highway and public transit systems contribute a great deal to our prosperity. But they are deteriorating, and we need billions to replace and repair them.
- The human services we provide to those who need our help make it possible for people to live better lives in their own homes and contribute to their families and communities. But waiting lists for services for those who have opioid addictions, mental health problems or need support because of the physical or intellectual disabilities are far too long.
- We all depend on clean air and water and many of us enjoy our extensive system of parks and recreation centers. Yet public investment in protecting our air and water has dropped 32% since 2007-2008 even while the threats to them from fracking is growing.<sup>2</sup>

Governor Wolf's budget goes as far as it can with limited resources to meet these needs. But we need new revenues to make the public investments that are critical to making our commonwealth a better place for all of us.

## The Source of the Deficits

Our structural and investment deficits did not just happen. And they certainly are not the result of a government that is growing in Pennsylvania. Just the opposite is true.

### *Government is shrinking in Pennsylvania*

Government is shrinking in Pennsylvania. As Figure 2 shows, state government spending in Pennsylvania has fallen from a height of 4.84% of the state's GDP in 1996 to 4.35% now. And as Table 1 shows, a large part of this shrinkage took place under the administration of Governor Corbett and continues under Governor Wolf.

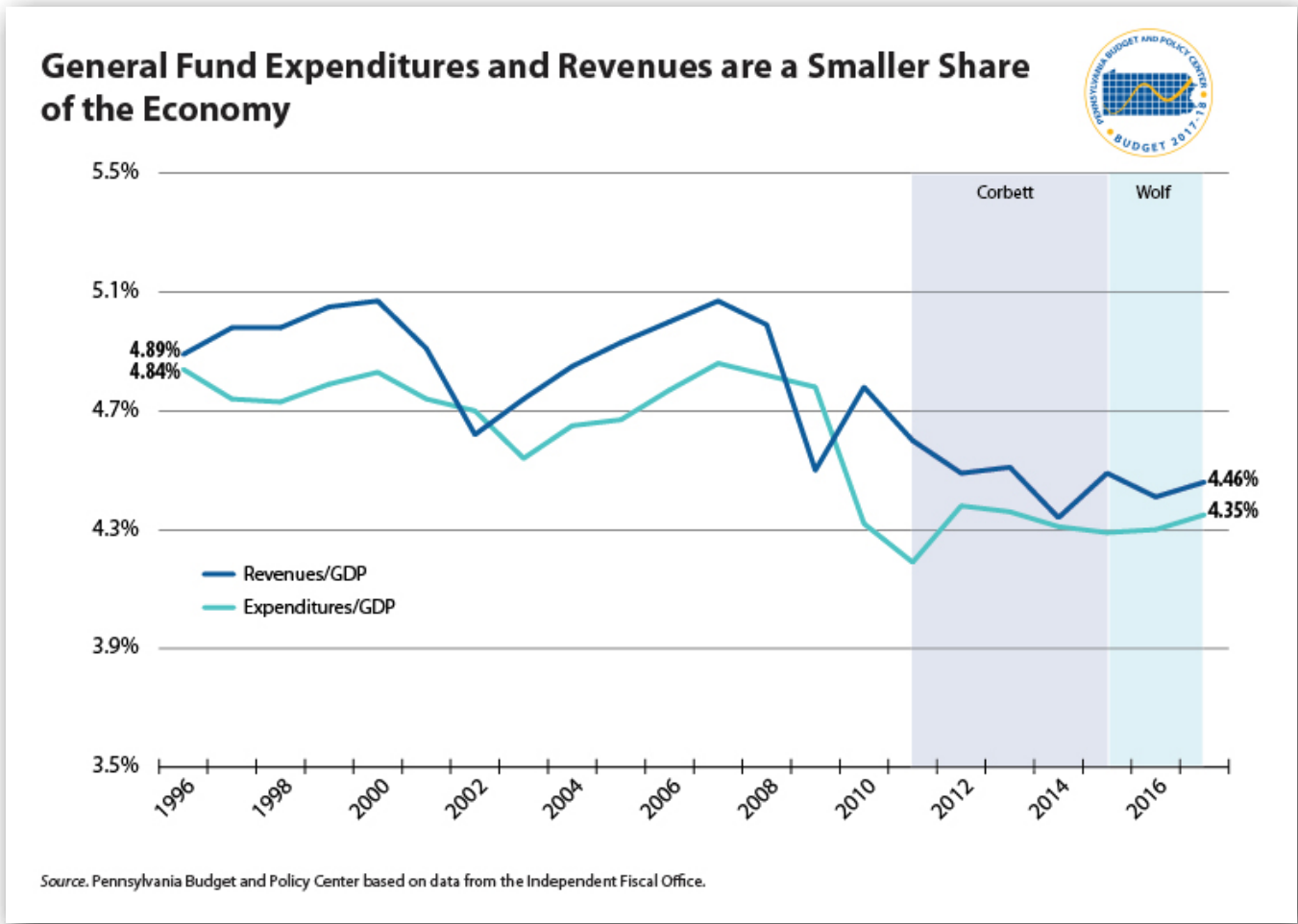
State government expenditures dropped during the Governor Corbett years (2011-2015) to 4.37% of GDP, substantially below the 4.71% average between 1994 and 2011. Expenditures have dropped slightly during Governor Wolf's first two years in office to 4.32%, and his proposed budget for this year would reduce state expenditures to 4.29% of GDP.

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1 Stephen Herzenberg, Mark Price, and Michael Wood, [A Must-Have for Pennsylvania Part Two: Investment in Higher Education for Growth and Opportunity](#), Pennsylvania Budget and Policy Center, October 2014.

2 Marc Stier, [Restoring Confidence in Government: An Overview of the Governor's Proposed 2017-18 Budget](#), Pennsylvania Budget and Policy Center, March 2017.

Figure 2.



Of course, while state spending is declining as a percent of GDP, it has grown in absolute terms. But an increase in spending is necessary to maintain the same level of government services. The population of the state grows in most years, and inflation requires higher levels of spending to maintain the same level of services. And that is especially true in government because inflation in services – which is mainly what government provides – and especially in health care services, tends to be higher than inflation in goods. Technological innovation makes it possible to produce goods, such as computers and cars, that are both cheaper and/or much more capable than they were in the past. But services are far more likely to be labor intensive. That is why we pay relatively more for haircuts and concert tickets today than 20 years ago, even while our computers become cheaper and more capable. To maintain the same level of service, government has to slowly grow as a share of GDP over time. Instead, it has shrunk in Pennsylvania.

Table 1.

Pennsylvania General Fund Expenditures and Revenues as a Percent of GDP (nominal figures in millions)		
Fiscal year ending	Expenditures / GDP	Revenues / GDP
Average 1994 to 2011	4.71%	4.89%
Average 2012 to 2015	4.37%	4.49%
Average 2016 to 2017	4.32%	4.33%
Proposed 2018	4.29%	4.47%

### The Problem is Revenues but the Solution is Not General Tax Increases

As expenditures shrink in Pennsylvania, our investment deficit grows. But the state cannot spend more than it brings in, so the ultimate source of both the structural and investment deficits is that we have been reducing revenues. Look again at Figure 2 and Table 1. Not only our expenditures, but our revenues, have dropped substantially as a share of State GDP.<sup>3</sup>

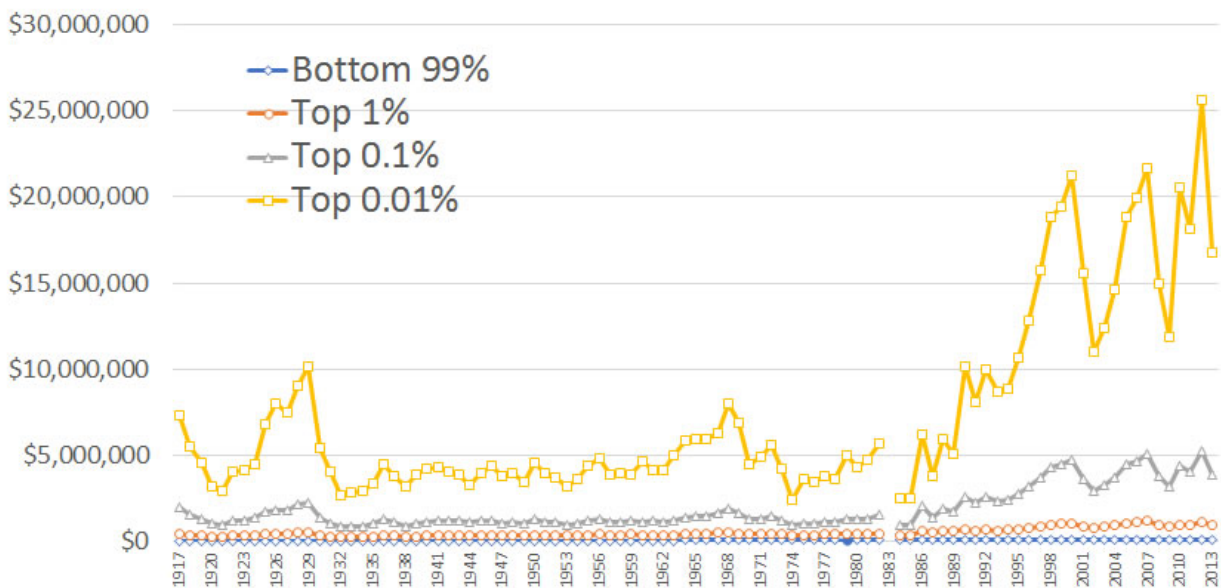
But while our investment and structural deficits arise because the state brings in less revenue than it needs, the solution to this problem is not to raise taxes on everyone. As Figure 3 shows, incomes for most Pennsylvanians have been flat for the last 30 years. But incomes for the top 1%, and even more, for those in the stratospheric heights, have grown fast. The burden for new revenues should fall on those who have been doing well in the economy, not those who are just scraping by.

But that is exactly the opposite of where Pennsylvania has been securing tax revenue.

Figure 3.

### The higher your income in Pennsylvania the more you have benefited from economic growth since 1979

Average market incomes adjusted for inflation (2014 dollars)



Note: Due to scaling it is difficult to see the average income of the bottom 99%. In 1979 this group earned \$40,761 a year, in 2013 on average the bottom 99% earned \$45,780 a year, growth of 12%. Over the same time period the average income of the top 1% grew 125%.

Source: Estelle Sommeiller, Mark Price and Ellis Wazeter. Income inequality in the U.S. by state, metropolitan area, and county. Economic Analysis Research Network (EARN) Report 2016.

<sup>3</sup> Careful readers will note that in all three periods under consideration, revenues exceed expenditures as a percent of GDP. So why has the state not been accumulating surpluses? The answer is that revenues each year must exceed expenditures to provide a reserve for tax refunds to those whose withheld tax payments exceed their tax obligation. The refund reserve is, on average, 4% of expenditures or .18% of state GDP.

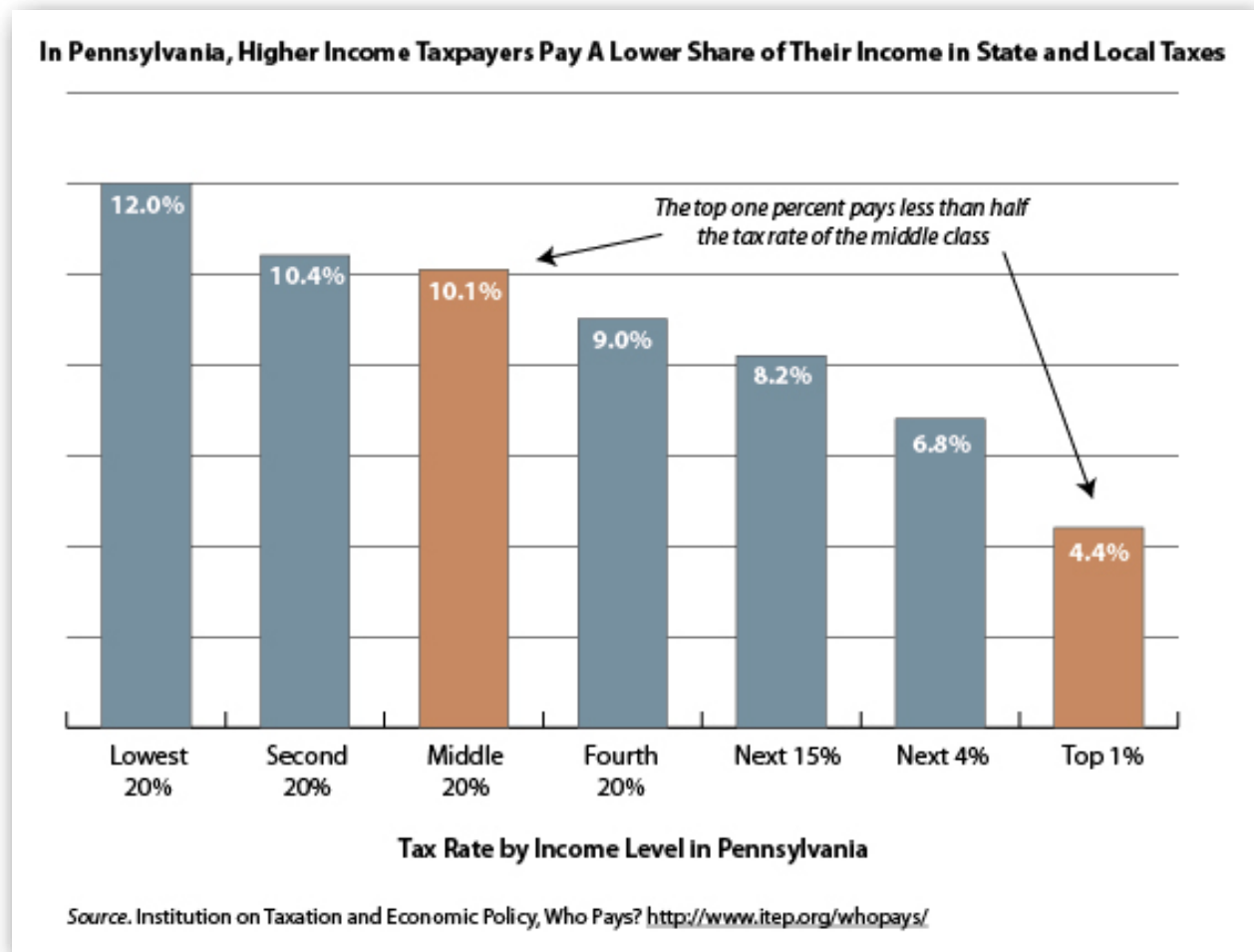
## Our Broken Tax System

The revenue problem in Pennsylvania is a result of decisions made in the past, in both distant and more recent times.

### The Uniformity Clause

The greatest limitation on our tax system is the “uniformity clause” of the Pennsylvania Constitution. This clause, which was added to the Constitution created in 1884 at a time when the power of corporations, especially those engaged in railroad and mining industries, was at its greatest. While many states have similar clauses, the uniformity clause in Pennsylvania has been interpreted by our Supreme Court in a way that strictly limits the kinds of taxation the General Assembly can enact. In particular, it requires that Pennsylvania have a flat income tax, prohibiting the introduction of graduated income taxation rates, in which the percentage of income taxed is higher at higher levels of income.

Figure 4.



Our uniformity clause makes it almost impossible to increase taxes on those whose incomes are rising fast without also taxing those whose incomes are unchanged. And it turns our whole tax system upside-down. Sales taxes and property taxes in every state take a larger share of the income from those at the bottom than those at the top.<sup>4</sup> But in most other states, graduated income tax rates reduce the disparity. Because

<sup>4</sup> Sales taxes do so for two reasons. First, those at middle and top of the income scale save some part of their income but those at the bottom spend all of it in order to meet the necessities of life. Second, sales taxes in many state, including Pennsylvania tax most goods (except food and medicine) but don't tax services. As incomes rise, however, families tend to spend more on services. For example,



our uniformity clause prohibits graduated tax rates, state and local taxes in Pennsylvania take far more from low income than from high income families. As Figure 4 shows, the 20% of Pennsylvania families with the lowest incomes pay 12% of their income in state and local taxes, while those in the middle 20% pay 10.3%. But the top 1% of families pay only 4.2% of their income in state and local taxes.

Our upside-down tax system is unjust. Indeed, Pennsylvania’s tax system is so bad that Pennsylvania is one of the “terrible ten” states with the most unfair tax systems in the country as identified by the Institute on Tax and Economic Policy (ITEP).<sup>5</sup>

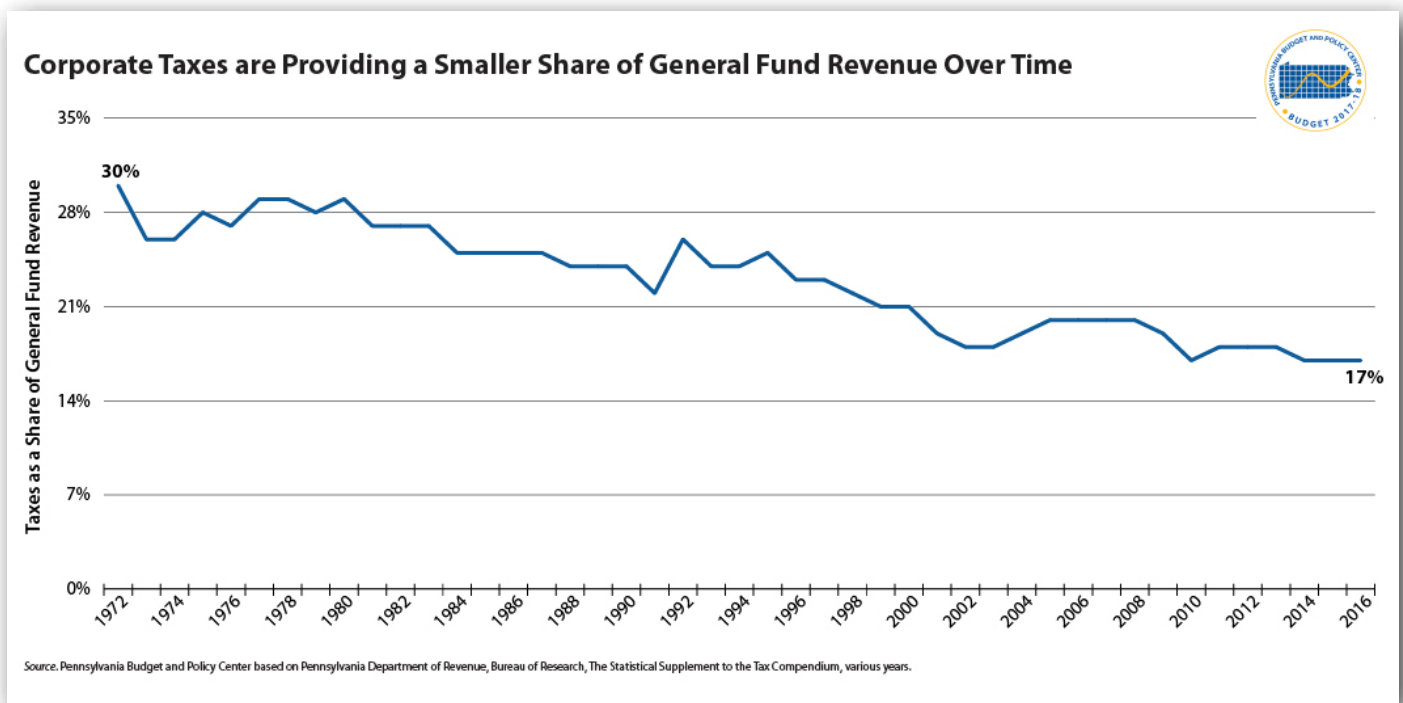
But the unfairness of our taxes may not be the worst thing about them. We simply can’t raise enough revenue if we are not willing to tax those who have higher incomes. Our broken tax system makes it difficult to solve the structural deficit and impossible to solve the investment deficit.

### Corporate Tax Cuts

This long term problem has been exacerbated by decisions made by the General Assembly in more recent years, supported by members of both political parties, to cut corporate taxes. One corporate tax, the Capital Stock Franchise Tax, has been entirely phased out. Meanwhile, changes in the Corporate Net Income Tax have reduced revenues as well.

The dramatic decline in the contribution of corporate taxes to general fund revenues can be seen in

**Figure 5.**



they go out to eat more (and at more expensive restaurants) and partake in more expensive forms of entertainment. Property taxes on average take a larger percentage of the income of families at the bottom or middle than the top because the value of property owned by families does not tend to rise in proportion to their income. Real estate is generally the only wealth held by those in the middle. Only the rich own substantial intangible property like stocks and bonds.

<sup>5</sup> Institute on Taxation and Economic Policy, *Who Pays*, Fifth Edition, January 2015. <http://www.itep.org/pdf/whopaysreport.pdf>, accessed May 7, 2016.

If corporate taxes brought in the same percentage of general fund revenues that they did between 1988-89 and 2002-03, total general revenue would be \$2.39 billion higher than projected in 2016-2017 and a bit more than that in 2017-2018. Not only would there be no structural deficit problem, but there would be additional funds available to invest in education, human services, infrastructure, and protecting our air and water.<sup>6</sup>

Again, if we are not willing to tax those with higher income, and if we continue to allow our tax system to be twisted by the influence of the rich and powerful, we won't raise the revenues we need to fund the public investments that make our communities thrive.

## A Tax on Income from Wealth

We most recently put forward our proposal for fixing our broken tax system by creating a tax on income from wealth in the spring of 2016.<sup>7</sup> But it is an idea we have but examining for a long time.<sup>8</sup>

### *The Basic Idea*

Our basic idea is to bifurcate the current personal income tax. Currently, eight classes of income, which are defined under federal law, are subject to the Pennsylvania Personal Income Tax: gross compensation (mostly wages, salaries, and tips); interest; dividends; net income (from a business, profession, or farm); capital gains; net income from rents, royalties, patents, and copyrights; gambling and lottery winnings; and income from estates or trusts.<sup>9</sup> We propose taxing two classes of income, wages and salaries, at a lower rate and the other seven classes of income, which would be taxed at a higher rate. We call those other seven categories "income from wealth" because they mostly include income that is earned from the ownership of some kind of wealth (including, among other things, intangible and real property) as opposed to income from work.

Most people under the age of retirement have income from compensation, that is, wages, salaries, tips and interest. But what we call "income from wealth" is mostly earned by those with higher incomes. Thus, the advantage of taxing income from wealth at a higher rate is that we can simulate the effects of graduated tax rates.

### *The Tax on Income from Wealth and the Constitution*

While an increase in the tax on income from wealth would simulate the effects of graduated tax rates, it still meets the requirement of the uniformity clause, which requires that a tax must be "uniform upon same class of subjects." The different classes of income are well-defined in both federal and state law. And variations in the tax on different classes of income is a long standing tradition in federal tax law and that of many states.

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<sup>6</sup> Corporate tax cuts were made on the assumption that they would lead to increased economic growth and the creation of new jobs. This did not happen, as we have shown in Ellis Wazeter and Mark Price, "The Final Verdict: A Cuts-Only Approach to the Budget Doesn't Work", Pennsylvania Budget and Policy Center, June 23 2015. See also Mark Price "Pennsylvania at Another Crossroads," Pennsylvania Budget and Policy Center, October 6 2015. State and local taxes are only a small fraction of business costs. While tax reductions for businesses have large impacts on the state budget and public employment, they are a small share of business costs and do little to change the market forces that shape employment growth in the commonwealth over the long term. Since one of the primary roles of public spending is investment in education and training, which makes workers more productive, our failure to invest adequately in our children now will undercut future prosperity.

<sup>7</sup> Stephen Herzenberg and Mark Price, PA Should Raise Needed Revenues in Fair Ways: Short-term and Long-term Approaches to Fixing Pennsylvania's Tax System, Pennsylvania Budget and Policy Center, April 11, 2016. [https://pennbpc.org/sites/pennbpc.org/files/PBPC\\_Tax%20Fairness%20Brief\\_2016\\_Final\\_1.pdf](https://pennbpc.org/sites/pennbpc.org/files/PBPC_Tax%20Fairness%20Brief_2016_Final_1.pdf)

<sup>8</sup> Stephen Herzenberg, Income Tax Reform in Pennsylvania, Pennsylvania Budget and Policy Center / Keystone Research Center, July 23, 2009.

<sup>9</sup> Pennsylvania Department of Revenue, *Pennsylvania Personal Income Tax Guide*, revised March 7, 2014, p. 9 of 53; online at <http://www.revenue.pa.gov/FormsandPublications/PAPersonalIncomeTaxGuide/Pages/default.aspx>

### **Misconceptions: Seniors and Small Business**

Two misconception often arise about the impact of increasing the tax on income from wealth. The first is that this the tax would disproportionately affect seniors. This might be true if Social Security benefits and pensions were to fall under the tax. But they are not taxed at all in Pennsylvania. It is true that some seniors do rely on the income from wealth to sustain them during retirement. But this is primarily true among the wealthiest seniors.

The second is a concern that small businesses would be hurt by an increase in the tax on income from wealth because that tax includes business profits. However, under current Pennsylvania law and regulations, if owners of small businesses classified as “S” corporations are employees of the corporation, they can receive “compensation” income that would be taxed at the lower rate.

## **A Fair Share Tax**

Given how upside-down our taxes are, we need to start raising more revenue from those whose incomes are going up and give those whose incomes are static or declining a break. That’s why our Fair Share Tax proposal calls for increasing the tax on income from wealth from the current 3.07% to 6.5% while reducing the tax on wages and interest from 3.07% to 2.8%, back to where it was when Tom Ridge was Governor.

The Fair Share Tax will raise roughly \$2 billion, money that we can put towards education, human services, infrastructure, and clean air and water, as well as to closing the structure deficit.

## **Who Pays the Fair Share Tax Statewide?**

As we look at the impact of the Fair Share Tax on Pennsylvania households, we will see that it raises that \$2 Billion mostly from those who have the ability to do so.

As Table 2 shows, only 15.4% of Pennsylvania taxpayers will pay more under the Fair Share Tax. The majority of taxpayers, 58.3% will see their taxes go down. And 26.2% will see their total tax bill unchanged.

**Table 2.**

<b>Impact of Fair Share Tax on Pennsylvania Taxpayers</b>	
Decrease	58.3%
No Change	26.2%
Increase	15.4%
Source: PBPC based on data provided by the Pennsylvania Department of Revenue	

### **Whose taxes are increased under the Fair Share Tax?**

Table 3 and Figure 6 look at whose taxes are decreased by the Fair Share Tax, compared to the current Personal Income Tax. (Figure 6 looks at just those taxpayers who would see an increase in their taxes and groups them according to their relative income among all taxpayers.) Given what we said about the distribution of income from wealth, it should come as no surprise that most of the increase in taxes would be on taxpayers with the greatest income. Fifty percent of the \$2 billion raised by the Fair Share Tax comes from taxpayers in the top 1% of income, with earnings of \$535,000 or more and an average income of \$1.7 million. Another 22% of taxes raised by the plan comes from taxpayers in the next 4%, from the 95th to 99th percentile, with incomes of \$215,000 to \$535,000 and an average income of \$318,000. Thus, taken together, 72% of the new revenue comes from families with incomes in the top 5%. Just 16% of revenues

comes from taxpayers from the 80th to 95th percentile, with incomes between \$104,000 and \$215,000, and an average income of \$142,000. And only 12% of revenues comes from the bottom 80% of families. Note that, according to Table 2, even though the average taxpayer in the bottom 80% will pay more, only 15% of those families will see a tax increase. (Those 15% raise the average for everyone above 0.) Most people with low and moderate incomes do not have the kinds of wealth that is taxed by a tax on income from wealth. But a small portion do. Some of them may be small business owners who could adjust their compensation to reduce the tax. Others may be young people who have inherited some intangible wealth, or older people whose Social Security and pension income is not taxed and thus who have low taxable incomes except for income they earn from investments.

Note that the data in Table 3 and Figure 6 does not show one further feature of the Fair Share Tax: over 15% of the Pennsylvania taxpayers who will see their taxes go up are from out of state. Details about this are in Appendix III.

**Table 3.**

<b>Impact of Various Tax Policy Changes</b>							
<b>All Pennsylvanians, 2017 income levels</b>							
2017 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$22,000	\$22,000 – \$40,000	\$40,000 – \$63,000	\$63,000 – \$104,000	\$104,000 – \$215,000	\$215,000 – \$535,000	\$535,000 – Or More
Average Income in Group	\$ 13,000	\$ 31,000	\$ 50,000	\$ 80,000	\$ 142,000	\$ 318,000	\$ 1,737,000
<b>Tax income that is not wages or interest at 6.5% (up from 3.07%); Reduce rate on salaries and interest to 2.8% (down from 3.07%)</b>							
Tax Change as a % of Income	-0.0%	-0.0%	0.0%	0.1%	0.2%	0.7%	1.2%
Average Tax Change	-1	-5	+11	+84	+343	+2,158	+20,979
% Receiving Tax Cut	32%	47%	53%	62%	44%	20%	11%
% Facing Tax Increase	7%	9%	17%	27%	24%	43%	87%
Share of Tax Cut Among Taxpayers Receiving Cut	4%	11%	18%	29%	27%	9%	2%
Share of Tax Increase Among Taxpayers Facing Increase	0%	1%	3%	8%	16%	22%	50%
Source: PBPC based on data from the Institute on Taxation and Economic Policy, February 2017							

***Whose taxes are decreased under the Fair Share Tax?***

The distribution of tax reductions is also presented in Table 3 and Figure 7. (Again, Figure 7 includes just those taxpayers who would see their taxes go down under the Fair Share Tax and groups them according to their relative income among all taxpayers). We can see that 68% the tax reductions go to families in the middle three quintiles, from the 20th to the 80th percentile. Family incomes in these three groups range from \$22,000 to \$104,000. Some families in the top 20% would see their taxes reduced under the Fair Share Tax, presumably because they have more wage and interest income than income from wealth. Relatively little tax reduction goes to the bottom 20% with incomes less than \$22,000 in part because their

incomes are low to begin with and, in part, because many families in this group benefit from the state's income tax forgiveness program.

Figure 6.

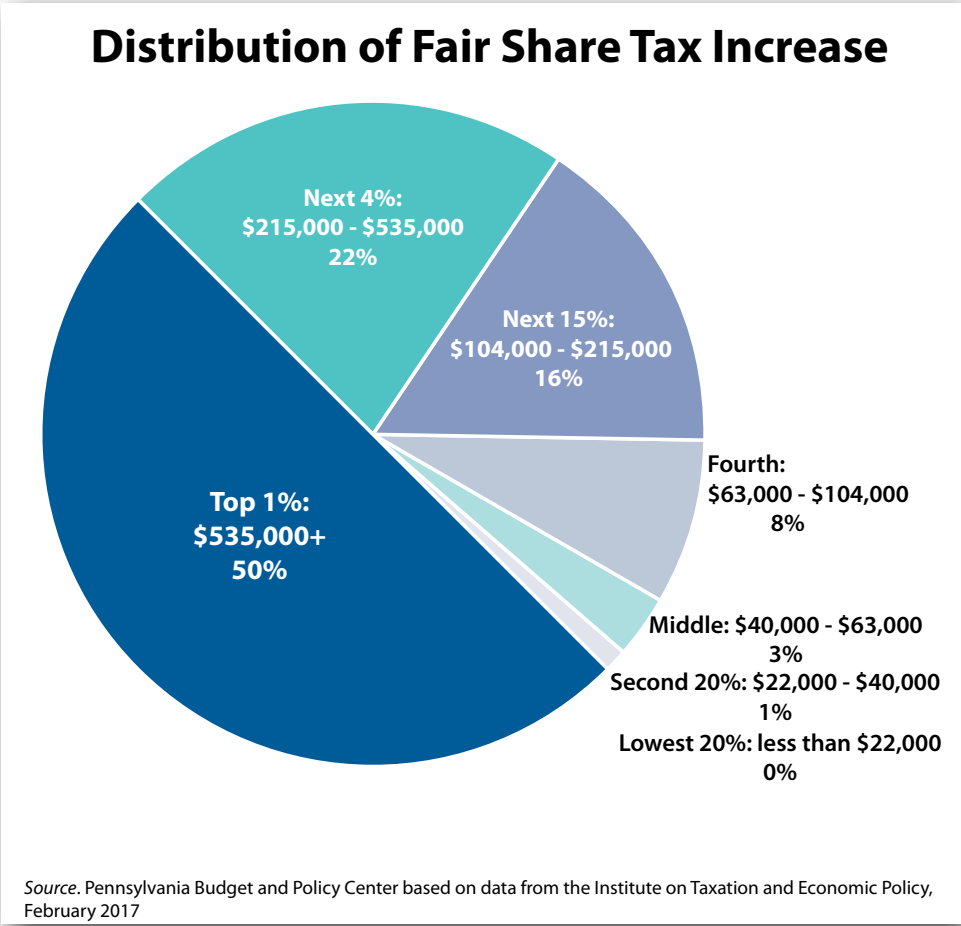
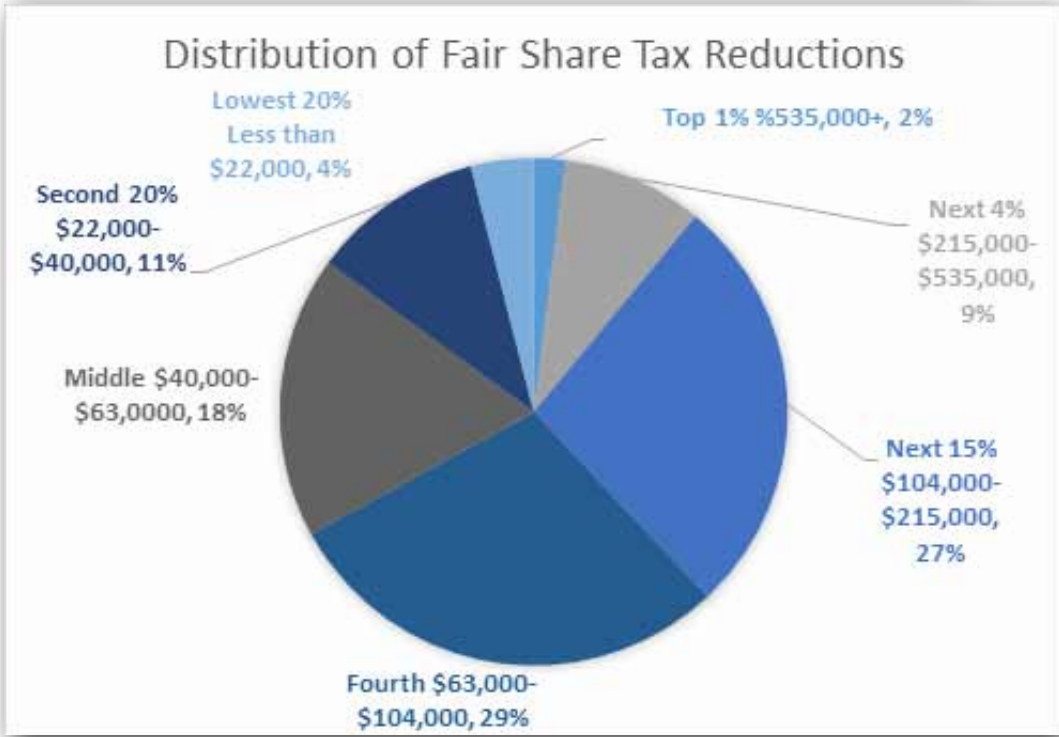


Figure 7.

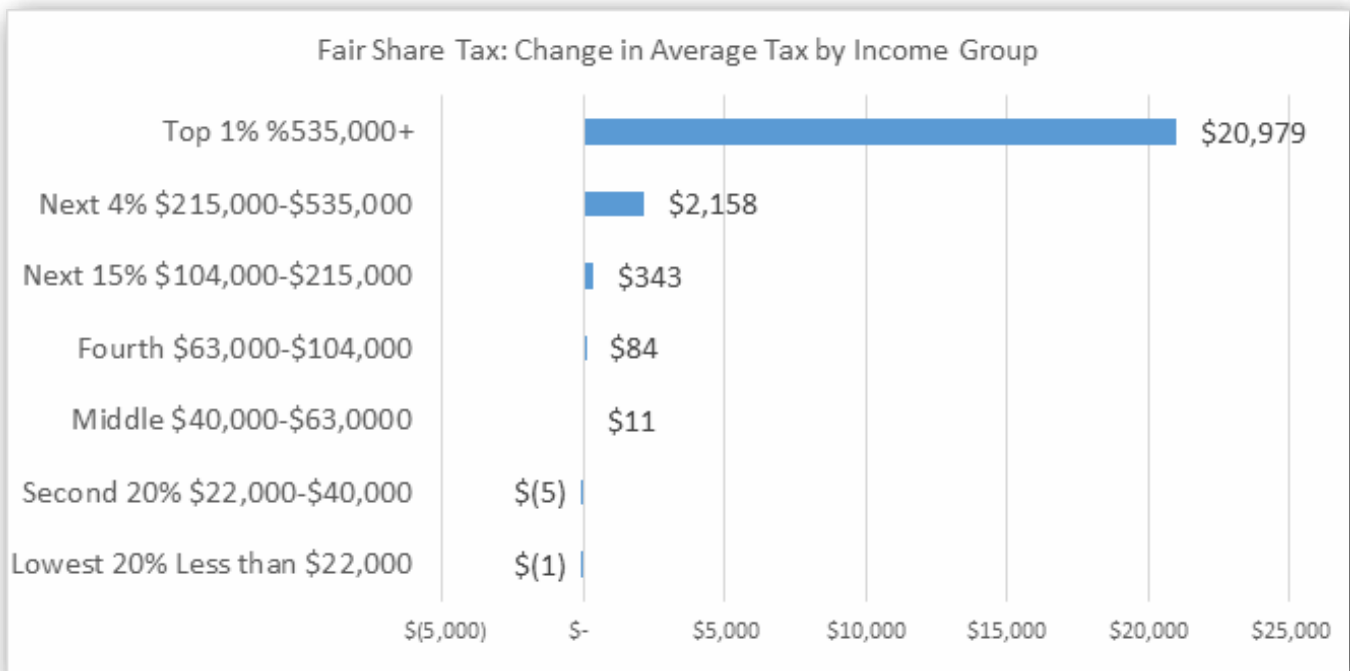


### What each income group pays in the Fair Share Tax

Figure 8 gives details on how much the average taxpayer in each category would pay or save under the Fair Share Tax.

The top 1% of families would pay substantially more – on average \$20,079. Yet this increase is relatively small considering that average income in this group is \$1.7 million. In the next group, from the 95th to the 99th percentile – with incomes between \$215,000 and \$535,000 – the additional tax is only \$2,158. In the group with incomes between \$104,000 and \$215,000, from the 80th to the 94th percentile, the average tax increase is only \$343. Below the top 20%, the average tax increase becomes quite small. In the fourth quintile, it is \$84 – less than cost of a cup of coffee a week – and in the third, middle quintile it is only \$11. Remember that these are averages for a large class of families. Only 8% of taxpayers in the fourth quintile receive an increase at all, while in the third, middle quintile, only 3% of taxpayers will see an increase in their taxes under the Fair Share Tax.

**Figure 8.**



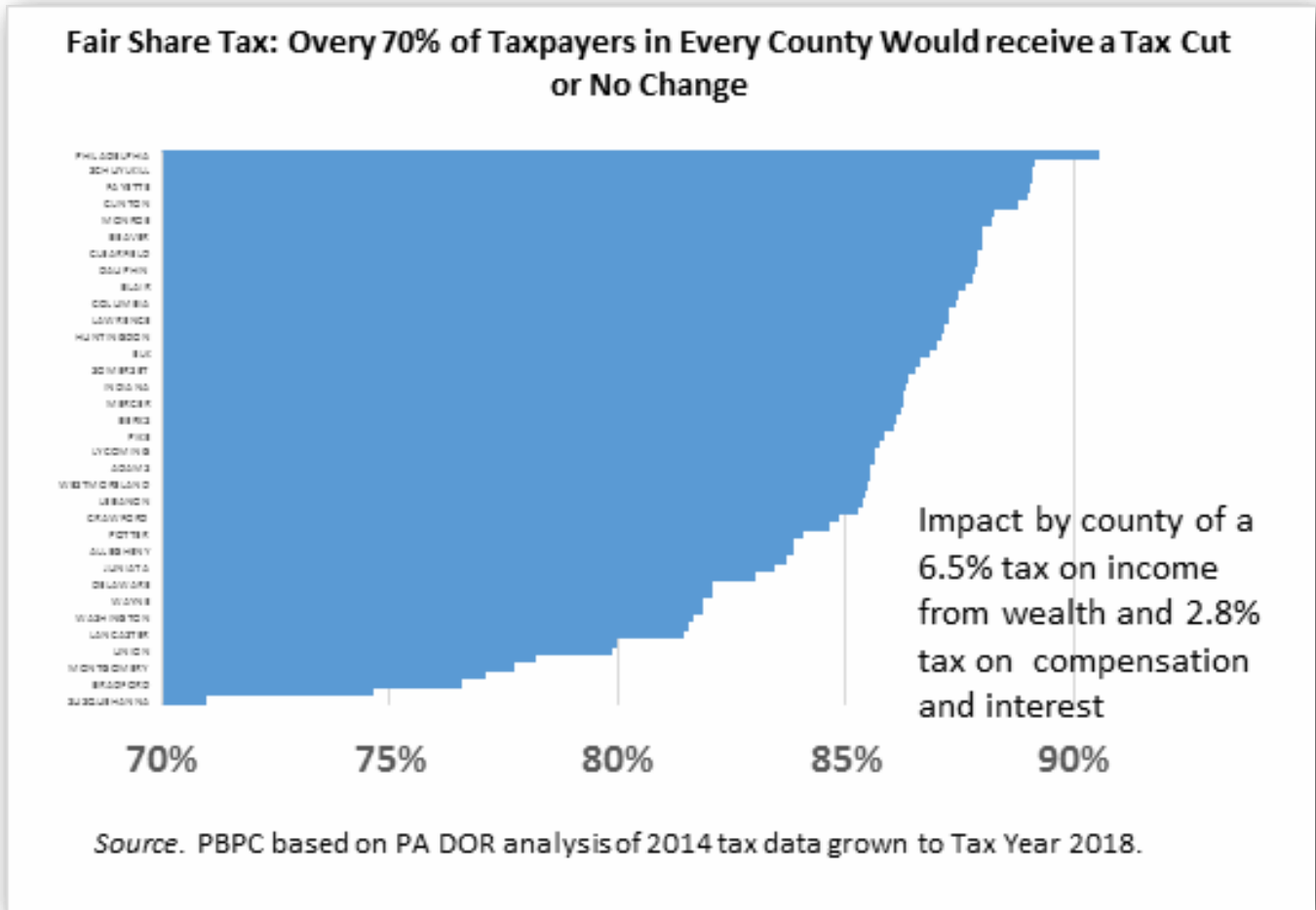
Source: PBPC based on data from the Institute on Taxation and Economic Policy, February 2017

Taxpayers in the bottom two quintiles will, on average, see a small decrease in their taxes. The averages in both quintiles is quite small, although recall that the lowest quintile benefits from income tax forgiveness and, thus, does not pay substantial income taxes under current law.

### Who Pays the Fair Share Tax? Counties

There is some, but not a great deal, of variation in the impact of the Fair Share Tax on a county-by-county basis. As Figure 9 shows, the range in the percent of taxpayers who would see their taxes reduced or remain unchanged runs from 71% to 90%. In all but nine counties, the percent of taxpayers whose taxes are reduced or unchanged ranges from 80% to 89%.

**Figure 9.**



There is also not much variation in the impact of the tax on families in different types of counties. In the average county, 85% of taxpayers will see a reduction in their taxes, and that number is the same for urban and rural counties. The number drops a bit, to 80%, in the five rural counties where there is substantial fracking, as royalties are taxed at the higher rate. But in the rural counties where there is no fracking, the percentage of taxpayers who will see a reduction or no change in their taxes increases to 86%.

**Table 4.**

Impact of Fair Share Tax on Families		
Type of County	Number of Counties	Percentage of taxpayers whose taxes are reduced or unchanged
Urban	19	85%
Rural	48	85%
Rural fracking	5	80%
Rural non-fracking	43	86%
All Counties		85%

Source: PBPC based on data provided by the Pennsylvania Department of Revenue

### Impact by House and Senate Districts

We also looked at the impact of the Fair Share Tax in each state Representative and state Senate district. Again, variation from district to district is quite low. In the vast majority of Senate and House districts, 80% to 89% of taxpayers will see a reduction or no change in their taxes under the Fair Share Tax. That data is in Tables 5 and 6 in Appendix 2.

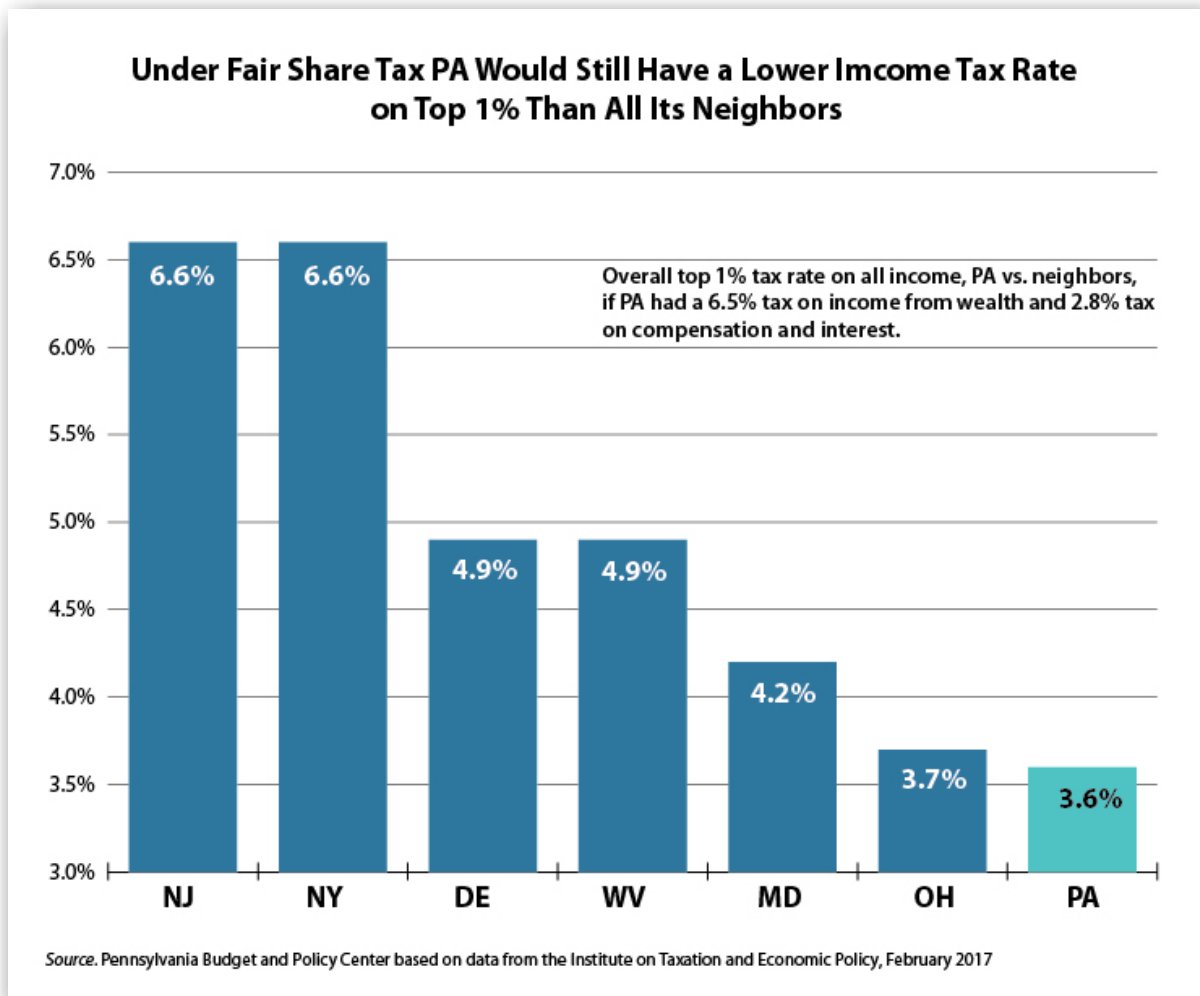
## Pennsylvania Taxes on the Top 1% Would Remain Below Neighboring States

Some politicians, pundits, and citizens always point out that an increase in state taxes will undermine economic activity in the state or drive people to move away. We think this fear is unjustified when tax increases are relatively small since, as we pointed out above, taxes are a very small portion of business costs.

At any rate, there is little to worry about when it comes to the Fair Share Tax. While an increase in the rate on income from wealth to 6.5% sounds like a big jump, keep in mind that the rate is applied to six categories of income, but not to the largest category: wages. Thus, the impact of the higher rate on the overall tax rate, even on the top 1%, is minimized.

As Figure 10 shows, even after implementation of the Fair Share Tax, the overall tax rate on the top 1% of families in Pennsylvania would be only 3.6%. This remains the lowest rate of any of our neighboring states and only 45% of the rate found in New York and New Jersey.

**Figure 10.**





## Conclusion

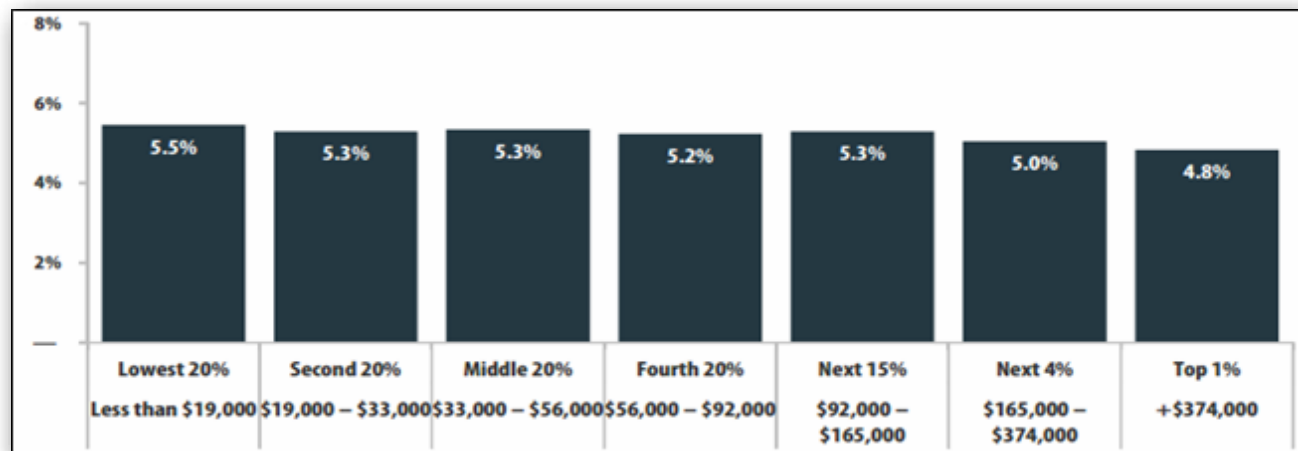
The idea of dividing Pennsylvania's Personal Income Tax into two parts is not new. People have been talking about it as a way to get around the limits of the uniformity clause for twenty or thirty years. We began to investigate it in detail seven years ago. And last year, we revisited the issue and secured new data to show that the intuitions about the impact of the tax were correct: it is a way to raise more revenue from those with higher incomes and, in doing so, fix our broken tax system. Senators Haywood, Hughes and Costa introduced legislation embodying the idea as well.

The proposal we put forward here, which we call the Fair Share Tax, is a further development of this approach. It calls for an increase in the tax on income from wealth and a small decrease on the tax on wages and interest. Our goal is to generate substantial revenues with which to close our structural deficit and investment deficit while taking a large step toward turning our upside-down tax system right side up.

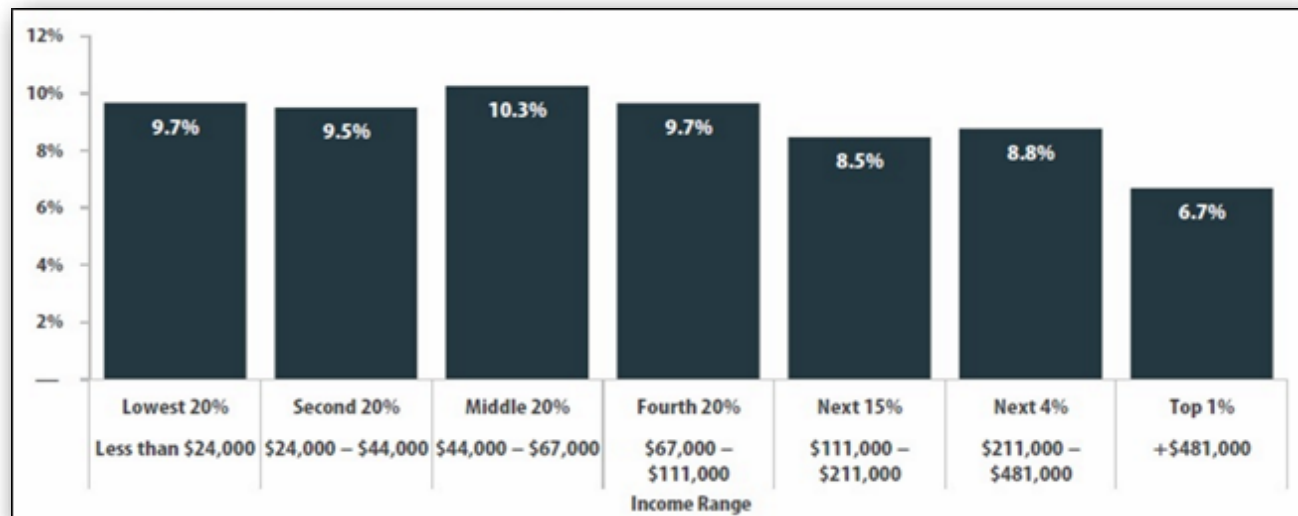
## Appendix 1: Distribution of the Tax Burden in Neighboring States

Figure 11.

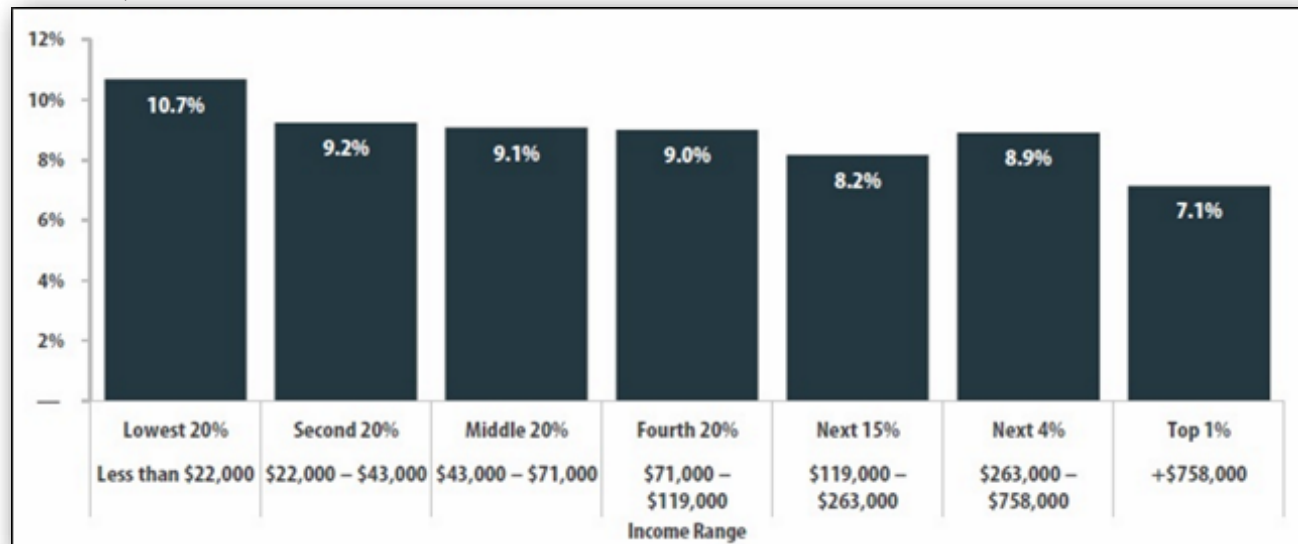
Delaware



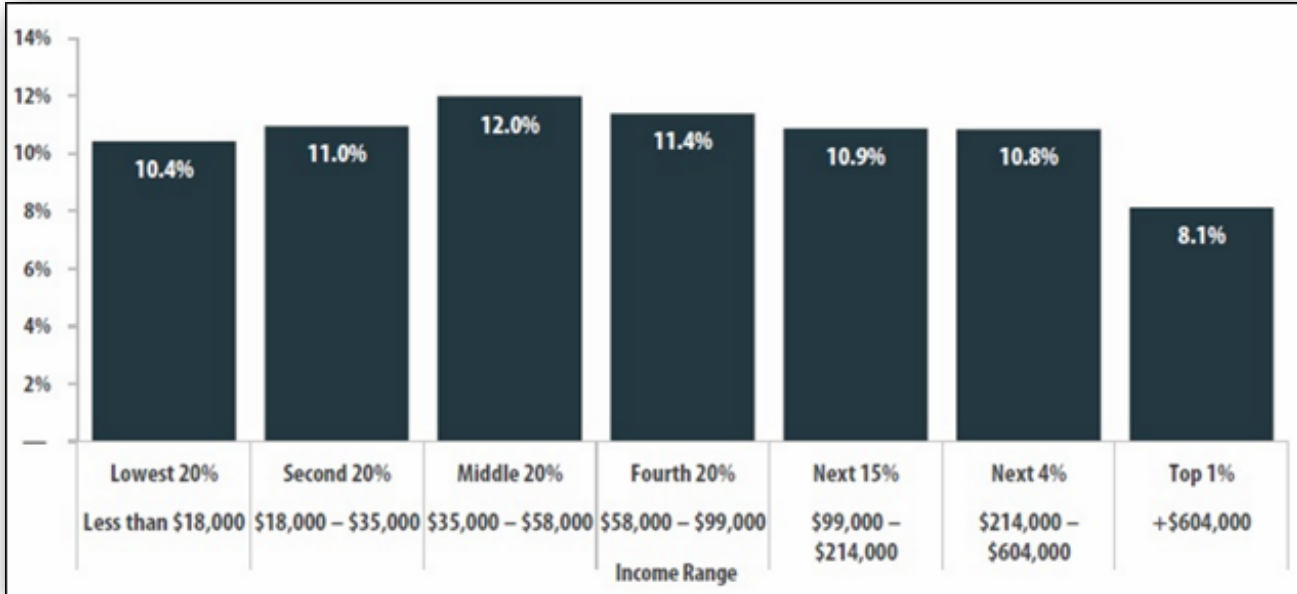
Maryland



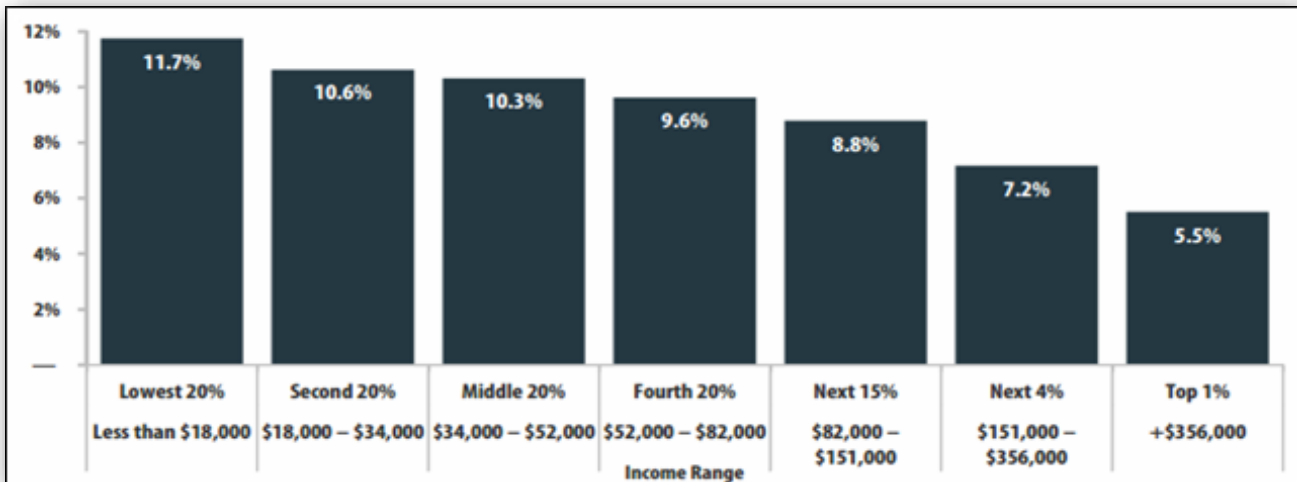
New Jersey



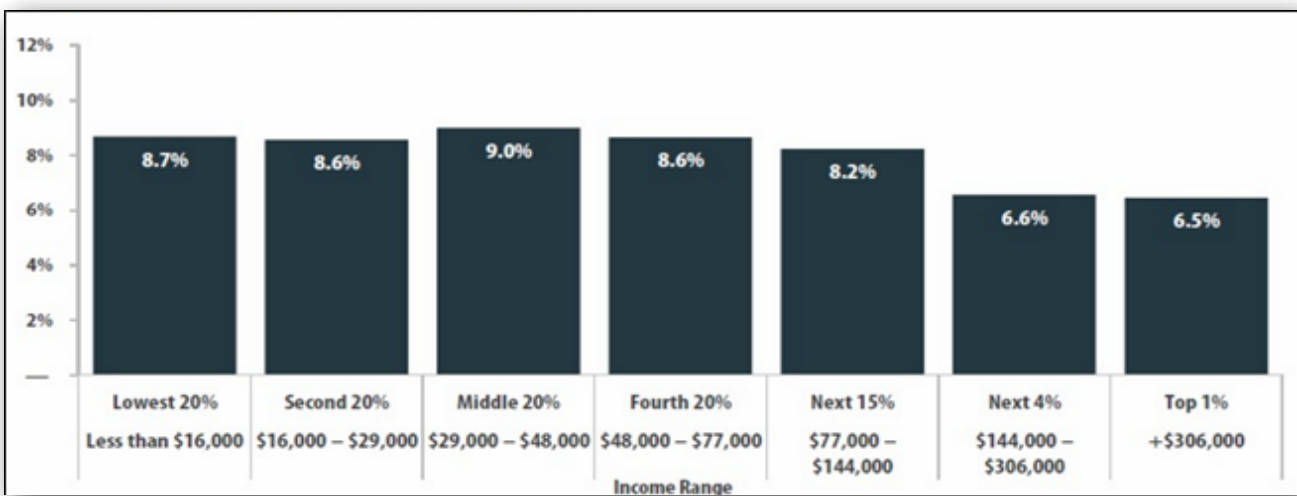
New York



Ohio



West Virginia



## Appendix 2: The Fair Share Tax and Legislative Districts

**Table 5: Senate Districts**

Impact of Fair Share Tax by State Senate District			
Senator	Senate Legislative District	Percent of taxpayers with unchanged or reduced taxes	Percent of taxpayers with higher taxes
Lawrence Farnese	1	90.55%	9.45%
Christine Tartaglione	2	90.55%	9.45%
Sharif Street	3	90.55%	9.45%
Arthur Haywood	4	84.66%	15.34%
John Sabatina	5	90.55%	9.45%
Robert M. Tomlinson	6	79.97%	20.03%
Vincent Hughes	7	87.90%	12.10%
Anthony Hardy Williams	8	88.11%	11.89%
Thomas Killion	9	80.38%	19.62%
Charles McIlhinney	10	79.97%	20.03%
Judith Schwank	11	86.11%	13.89%
Stewart Greenleaf	12	78.38%	21.62%
Scott Martin	13	81.44%	18.56%
John Yudichak	14	88.24%	11.76%
John DiSanto	15	87.71%	12.29%
Patrick Browne	16	85.36%	14.64%
Daylin Leach	17	79.08%	20.92%
Lisa Boscola	18	85.31%	14.69%
Andrew Dinniman	19	77.11%	22.89%
Lisa Baker	20	83.06%	16.84%
Scott Hutchinson	21	84.12%	15.78%
John Blake	22	86.79%	13.11%
Gene Yaw	23	81.16%	18.84%
Bob Mensch	24	79.24%	20.66%
Joseph Scarnati	25	85.90%	14.20%
Thomas McGarrigle	26	81.69%	18.31%
John Gordner	27	87.33%	12.77%
Scott Wagner	28	87.01%	12.99%
David Argall	29	87.86%	12.14%
John Eichelberger	30	86.57%	13.43%
Mike Regan	31	84.60%	15.40%
Patrick Stefano	32	87.74%	12.26%
Richard Alloway	33	85.76%	14.34%
Jake Corman	34	83.69%	16.31%
Wayne Langerholc	35	88.10%	11.90%
Ryan Aument	36	81.44%	18.56%
Guy Reschenthaler	37	83.69%	16.31%
Randy Vulakovich	38	83.86%	16.14%

Kim Ward	39	85.47%	14.53%
Mario Scavello	40	86.83%	13.17%
Donald White	41	85.70%	14.30%
Wayne Fontana	42	83.86%	16.14%
Jay Costa	43	83.86%	16.14%
John Rafferty	44	78.06%	21.94%
Jim Brewster	45	84.14%	15.86%
Camera Bartolotta	46	82.70%	17.30%
Elder Vogel	47	87.36%	12.64%
Mike Folmer	48	86.42%	13.68%
Dan Laughlin	49	87.29%	12.71%
Michele Brooks	50	85.92%	14.08%

**Table 6: House Districts**

<b>Impact of Fair Share Tax by PA House District</b>			
<b>House Member</b>	<b>House Legislative District</b>	<b>Percent of taxpayers with unchanged or reduced taxes</b>	<b>Percent of taxpayers with higher taxes</b>
Patrick Harkins	1	87.29%	12.71%
Flo Fabrizio	2	87.29%	12.71%
Ryan Bizzarro	3	87.29%	12.71%
Curtis Sonney	4	87.29%	12.71%
Barry Jozwiak	5	86.11%	13.89%
Brad Roae	6	85.42%	14.58%
Mark Longietti	7	86.27%	13.73%
Tedd Nesbit	8	84.56%	15.44%
Chris Sainato	9	87.25%	12.75%
Aaron Bernstine	10	86.77%	13.23%
Brian Ellis	11	81.87%	18.13%
Daryl Metcalfe	12	81.87%	18.13%
John Lawrence	13	77.43%	22.57%
Jim Marshall	14	86.69%	13.31%
Jim Christiana	15	85.41%	14.59%
Robert Matzie	16	87.82%	12.18%
Parke Wentling	17	86.22%	13.78%
Gene DiGirolamo	18	79.97%	20.03%
Jake Wheatley	19	83.86%	16.14%
Adam Ravenstahl	20	83.86%	16.14%
Dom Costa	21	83.86%	16.14%
Peter Schweyer	22	85.36%	14.64%
Dan Frankel	23	83.86%	16.14%
Ed Gainey	24	83.86%	16.14%
Joseph Markosek	25	83.86%	16.14%
Tim Hennessey	26	77.20%	22.80%
Daniel Deasy	27	83.86%	16.14%

Mike Turzai	28	83.86%	16.14%
Bernie O'Neill	29	79.97%	20.03%
Hal English	30	83.86%	16.14%
Perry Warren	31	79.97%	20.03%
Anthony DeLuca	32	83.86%	16.14%
Frank Dermody	33	84.33%	15.67%
Paul Costa	34	83.86%	16.14%
Marc Gergely	35	83.86%	16.14%
Harry Readshaw	36	83.86%	16.14%
Mindy Fee	37	81.44%	18.56%
William Kortz	38	83.86%	16.14%
Rick Saccone	39	83.43%	16.57%
John Maher	40	83.10%	16.90%
Brett Miller	41	81.44%	18.56%
Daniel Miller	42	83.86%	16.14%
Keith Greiner	43	81.44%	18.56%
Mark Mustio	44	83.86%	16.14%
Anita Kulik	45	83.86%	16.14%
Jason Ortitay	46	82.69%	17.31%
Keith Gillespie	47	87.01%	12.99%
Brandon Neuman	48	81.65%	18.35%
Bud Cook	49	82.94%	17.06%
Pam Snyder	50	85.17%	14.83%
Matthew Dowling	51	88.58%	11.42%
Ryan Warner	52	88.61%	11.39%
Robert Godshall	53	77.75%	22.25%
Eli Evankovich	54	85.06%	14.94%
Joseph Petrarca	55	85.73%	14.27%
George Dunbar	56	85.47%	14.53%
Eric Nelson	57	85.47%	14.53%
Justin Walsh	58	85.47%	14.53%
Mike Reese	59	85.69%	14.31%
Jeffrey Pyle	60	86.60%	13.40%
Kate M. Harper	61	77.75%	22.25%
Dave Reed	62	86.33%	13.67%
Donna Oberlander	63	85.57%	14.33%
R. Lee James	64	86.92%	13.08%
Kathy Rapp	65	85.87%	14.13%
Cris Dush	66	86.12%	13.88%
Martin Causer	67	85.46%	14.54%
Matthew Baker	68	80.23%	19.77%
Carl Walker Metzgar	69	86.33%	13.67%
Matt Bradford	70	77.75%	22.25%
Bryan Barbin	71	89.10%	10.90%
Frank Burns	72	89.14%	10.86%

Thomas Sankey	73	88.17%	11.83%
Harry Lewis	74	77.11%	22.89%
Matt Gabler	75	87.36%	12.64%
Michael Hanna, Sr.	76	86.20%	13.80%
H. Scott Conklin	77	82.07%	17.93%
Jesse Topper	78	85.68%	14.32%
John McGinnis	79	87.62%	12.38%
Judith Ward	80	87.62%	12.38%
Richard Irvin	81	85.81%	14.09%
C. Adam Harris	82	85.87%	14.13%
Jeff Wheeland	83	85.67%	14.33%
Garth Everett	84	84.81%	15.19%
Fred Keller	85	81.29%	18.71%
Mark Keller	86	86.11%	13.89%
Greg Rothman	87	83.69%	16.31%
Sheryl Delozier	88	83.69%	16.31%
Rob Kauffman	89	85.62%	14.38%
Paul Schemel	90	85.62%	14.38%
Dan Moul	91	85.55%	14.45%
Dawn Keefer	92	86.69%	13.31%
Kristin Hill	93	87.01%	12.99%
Stanley Saylor	94	87.01%	12.99%
Carol Hill-Evans	95	87.01%	12.99%
P. Michael Sturla	96	81.44%	18.56%
Steven Mentzer	97	81.44%	18.56%
David Hickernell	98	81.97%	18.03%
David Zimmerman	99	81.44%	18.56%
Bryan Cutler	100	81.44%	18.56%
Frank Ryan	101	85.36%	14.64%
Russ Diamond	102	85.36%	14.64%
Patty Kim	103	87.83%	12.17%
Susan Helm	104	87.63%	12.37%
Ron Marsico	105	87.83%	12.17%
Thomas Mehaffie	106	87.83%	12.17%
Kurt Masser	107	87.98%	12.12%
Lynda Schlegel Culver	108	88.02%	11.98%
David Millard	109	87.44%	12.56%
Tina Pickett	110	75.60%	24.40%
Jonathan Fritz	111	75.94%	24.06%
Kevin Haggerty	112	86.64%	13.36%
Marty Flynn	113	86.64%	13.36%
Sid Michaels Kavulich	114	86.64%	13.36%
Maureen Madden	115	88.20%	11.80%
Tarah Toohil	116	87.99%	12.01%
Karen Boback	117	83.37%	16.63%

Mike Carroll	118	87.58%	12.42%
Gerald Mullery	119	87.99%	12.01%
Aaron Kaufer	120	87.99%	12.01%
Eddie Day Pashinski	121	87.99%	12.01%
Doyle Heffley	122	89.00%	11.00%
Neal Goodman	123	89.09%	10.91%
Jerry Knowles	124	88.10%	11.90%
Mike Tobash	125	88.82%	11.18%
Mark Rozzi	126	86.11%	13.89%
Thomas Caltagirone	127	86.11%	13.89%
Mark Gillen	128	85.57%	14.43%
Jim Cox	129	85.20%	14.80%
David Maloney	130	86.11%	13.89%
Justin Simmons	131	83.49%	16.51%
Michael Schlossberg	132	85.36%	14.64%
Daniel McNeill	133	85.36%	14.64%
Ryan Mackenzie	134	85.57%	14.43%
Steve Samuelson	135	85.28%	14.72%
Robert Freeman	136	85.28%	14.72%
Joe Emrick	137	85.28%	14.72%
Marcia Hahn	138	85.28%	14.72%
Michael Peifer	139	84.32%	15.68%
John Galloway	140	79.97%	20.03%
Tina Davis	141	79.97%	20.03%
Frank Farry	142	79.97%	20.03%
Marguerite Quinn	143	79.97%	20.03%
Katharine Watson	144	79.97%	20.03%
Craig Staats	145	79.97%	20.03%
Thomas Quigley	146	77.75%	22.25%
Marcy Toepel	147	77.75%	22.25%
Mary Jo Daley	148	77.75%	22.25%
Tim Briggs	149	77.75%	22.25%
Michael Corr	150	77.75%	22.25%
Todd Stephens	151	77.75%	22.25%
Thomas Murt	152	78.81%	21.19%
Madeleine Dean	153	77.75%	22.25%
Stephen McCarter	154	77.75%	22.25%
Becky Corbin	155	77.11%	22.89%
Carolyn Comitta	156	77.11%	22.89%
Warren Kampf	157	77.24%	22.76%
Eric Roe	158	77.11%	22.89%
Brian Kirkland	159	82.11%	17.89%
Stephen Barrar	160	80.36%	19.64%
Leanne Krueger-Braneky	161	82.11%	17.89%
Nick Miccarelli	162	82.11%	17.89%



James Santora	163	82.11%	17.89%
Margo Davidson	164	82.11%	17.89%
Alexander Charlton	165	82.11%	17.89%
Greg Vitali	166	81.40%	18.60%
Duane Milne	167	77.11%	22.89%
Christopher Quinn	168	82.11%	17.89%
Kate Klunk	169	87.01%	12.99%
Martina White	170	90.55%	9.45%
Kerry Benninghoff	171	83.36%	16.64%
Kevin Boyle	172	90.03%	9.97%
Michael Driscoll	173	90.55%	9.45%
Ed Neilson	174	90.55%	9.45%
Michael O'Brien	175	90.55%	9.45%
Jack Rader	176	88.20%	11.80%
John Taylor	177	90.55%	9.45%
Scott Petri	178	79.97%	20.03%
Jason Dawkins	179	90.55%	9.45%
Angel Cruz	180	90.55%	9.45%
W. Curtis Thomas	181	90.55%	9.45%
Brian Sims	182	90.55%	9.45%
Zachary Mako	183	85.32%	14.68%
William Keller	184	90.55%	9.45%
Maria Donatucci	185	88.98%	11.02%
Jordan Harris	186	90.55%	9.45%
Gary Day	187	85.52%	14.48%
James Roebuck, Jr.	188	90.55%	9.45%
Rosemary Brown	189	87.50%	12.50%
Vanessa Lowery Brown	190	90.55%	9.45%
Joanna McClinton	191	88.17%	11.83%
Morgan Cephas	192	90.55%	9.45%
Will Tallman	193	84.82%	15.18%
Pamela DeLissio	194	88.59%	11.41%
Donna Bullock	195	90.55%	9.45%
Seth Grove	196	87.01%	12.99%
VACANT VACANT	197	90.55%	9.45%
Rosita Youngblood	198	90.55%	9.45%
Stephen Bloom	199	83.69%	16.31%
Christopher Rabb	200	90.55%	9.45%
Stephen Kinsey	201	90.55%	9.45%
Jared Solomon	202	90.55%	9.45%
Isabella Fitzgerald	203	90.55%	9.45%

### Appendix 3: In-state and Out-of-State Taxpayers

The data in Table 3 and Figures 6-8 come from the Institute on Tax and Economic Policy (ITEP) and are generated by their model of the state. To check ITEP's results and to secure the county by county data presented in the paper. We asked the Pennsylvania Department of Revenue (DOR) to project the impact of the Fair Share Tax based on actual tax returns. The results, which are in Figure 12, are broadly similar to the ITEP data. We used the ITEP data above for two reasons. DOR can't give us information for the top 1% and 5% of taxpayers and it can't classify taxpayers according to their total income as opposed to their taxable income.

Figure 12 does point to one striking result: 15.6% of taxpayers who will see their taxes increase as a result of the Fair Share Tax are not citizens of Pennsylvania. Presumably, they are citizens who work part-time in Pennsylvania or own intangible property that generates income they have to report on Pennsylvania tax returns

**Figure 12.**

