

Fair Taxation for Pittsburgh

A Foundation for a More Just City Beyond American Rescue Plan Dollars

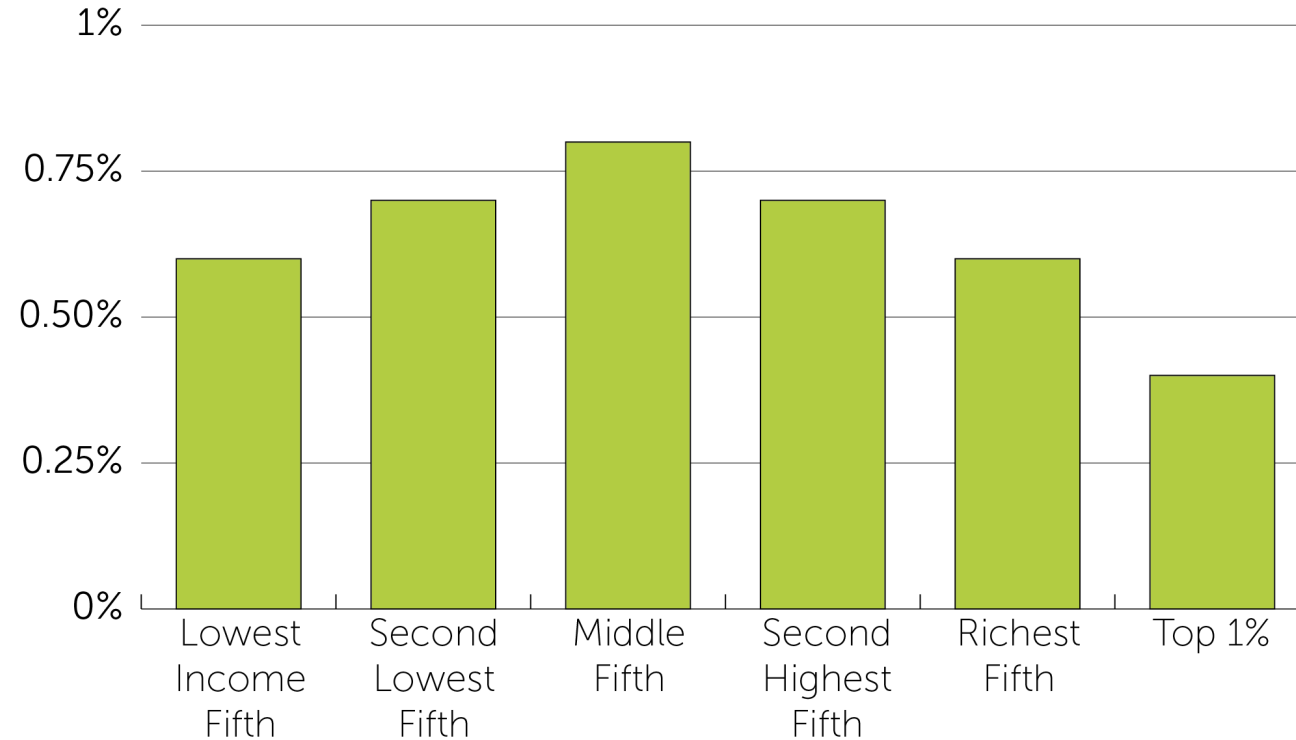
Nthando Thandiwe
4.27.23



Pittsburgh Unfair Current Tax System

- Local taxes in Pittsburgh, as in other localities, fall more heavily on working and low-income people than the rich.
- City sales & property taxes are “regressive” —take more from those with less.
- Also, the City 1% income tax and the school district’s 2% income tax:
 - Tax wage & salary income but not some kinds of income received mostly by the rich, such as dividends and capital gains: “income from wealth.”
 - The City’s current income tax thus takes nearly twice as big a share of income from middle-income taxpayers as from the top 1%.
 - The City (and school district) also takes 50% more as a share of income from the lowest-income taxpayers than from the rich.

The Top 1% Under Pittsburgh's Current Income Tax Pay a Lower Share of Their Income than Middle- and Low-Income Taxpayers



Note: This chart shows the incidence of the City of Pittsburgh's "on the books" 1% income tax rate. If we added the 0.25% portion of the 2% "on the books" Pittsburgh school district tax remitted to the city, each bar would be 20% higher. The relative tax rate for different income groups would be unchanged.

Source: Pennsylvania Budget and Policy Center based on estimates by the Institute on Taxation and Economic Policy.

Pittsburgh Taxing Authority



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Pittsburgh's Taxing Authority

- Many Pennsylvanians think our state constitution's "uniformity clause" requires that income taxes be "flat"—i.e., the same tax rate must be imposed on all taxpayers and kinds of income.
- As explained in the legal memo in the Appendix to this brief, however, tax rates do not have to be the same for each kind, or "class," of income.
- Moreover, Pittsburgh has the authority to make its income taxes fairer in two distinct ways *without new legislation from Harrisburg*.

The Solution



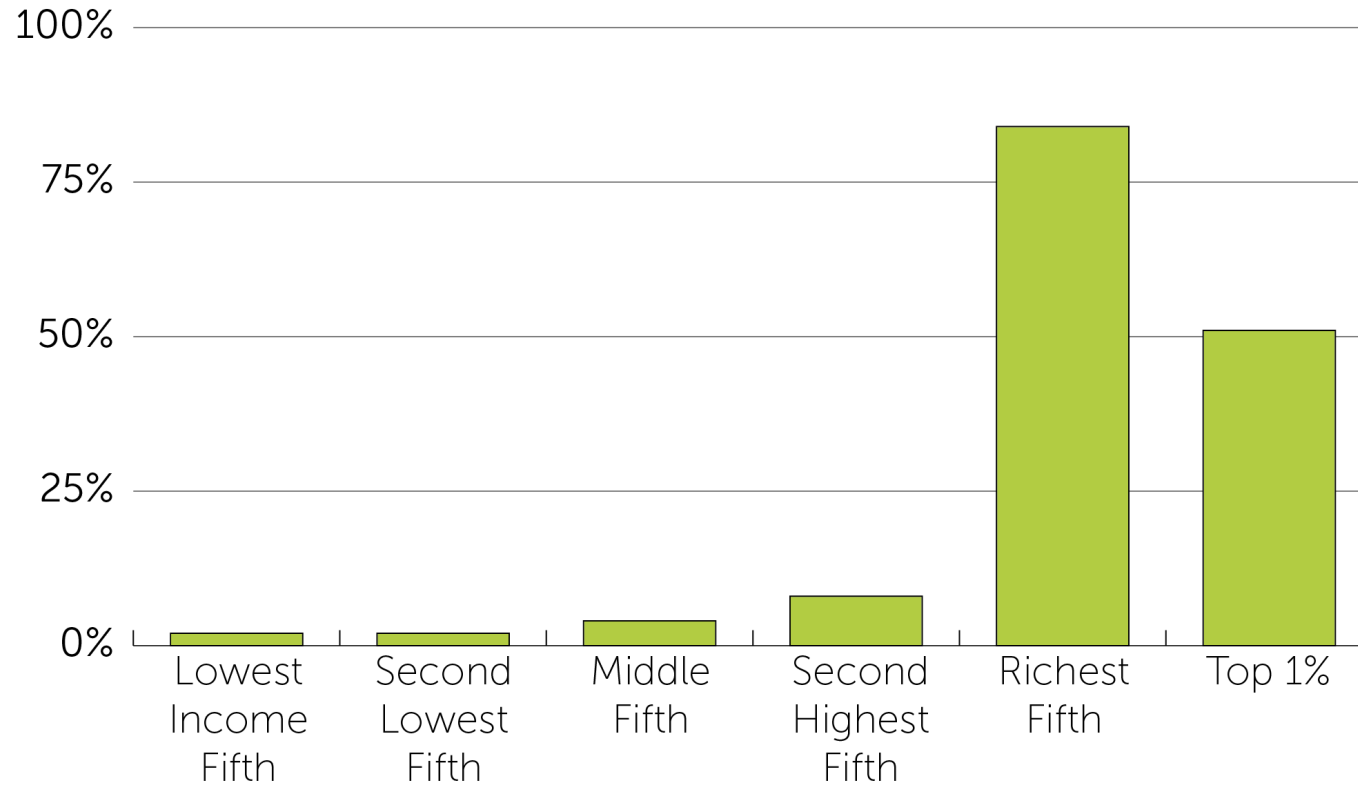
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SCENARIO 1: Broaden Tax Base to Include Untaxed Income from Wealth at Current City and School District Tax Rates

If Pittsburgh were to broaden the base of its earned income tax to include untaxed income from wealth (such as dividends and capital gains):

- each one percentage point tax on dividends and capitals would raise, conservatively, \$7 million in revenue annually.
- a 3% tax on dividends and capital gains would thus raise \$21 million.
- the rich would pay most of this additional revenue, half coming from the top 1% and 84% from the richest fifth.

The Richest Pittsburghers Would Pay Most of the Revenue Raised by Tax on Income From Wealth



Note: This chart shows incidence of a 1% tax on dividends and capital gains. It does not include additional revenue from taxing net gains or income from rents, royalties, patents, and copyright; or income derived through estates or trust.

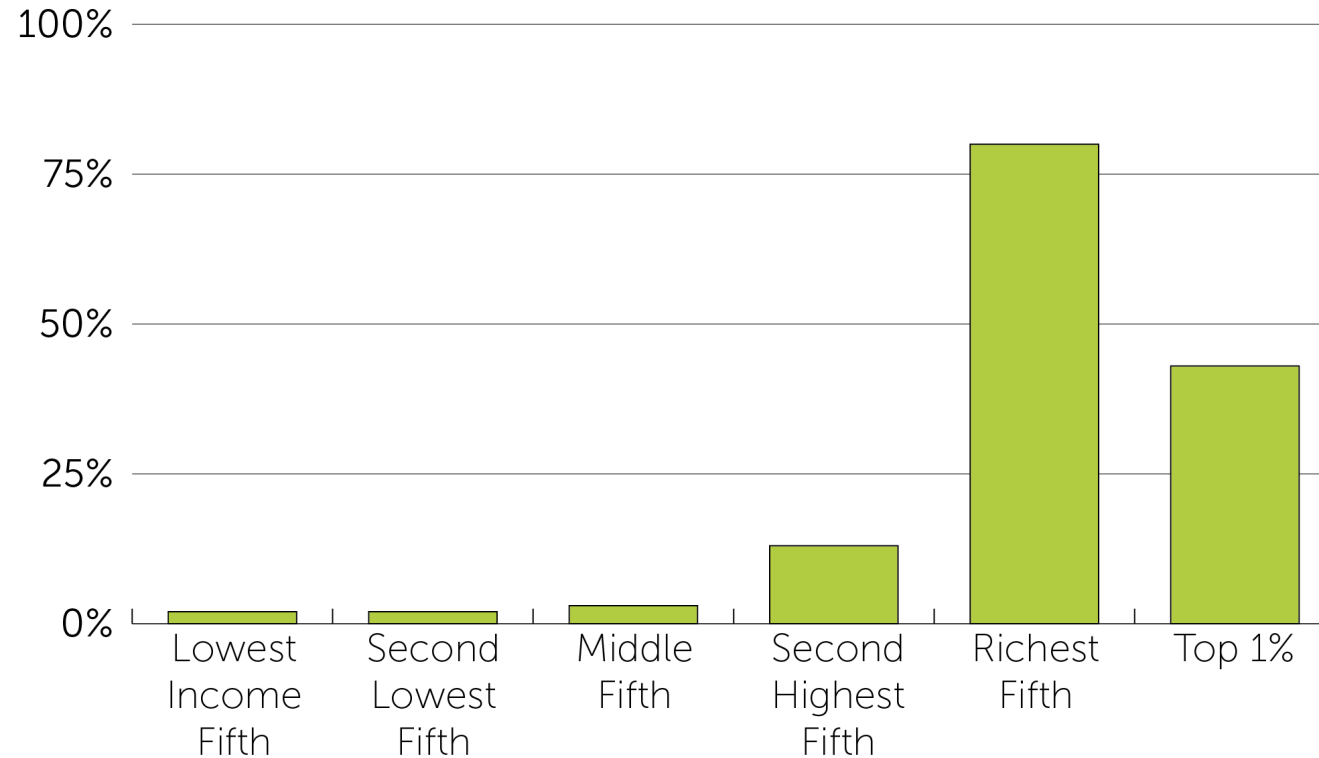
Source: Pennsylvania Budget and Policy Center based on estimates by the Institute on Taxation and Economic Policy.

SCENARIO 2: A 6% Tax Rate on Income from Wealth

If the City taxed currently untaxed income from dividends and capital gains at 2% and raised the tax rate on income from net profits to 2%, it would raise an estimated \$19 million more.

- If the City and School District raised the combined tax rate on net profits to 6% (from 3%) and imposed a 6% tax rate on (currently untaxed) dividends and capital gains, the increase in local revenue would equal \$57 million.
- Pittsburghers with the greatest ability to pay would pay most of these tax increases.

Rich Pittsburghers Would Pay Most of the Increase in Revenue From a 6% Income Tax on Income From Wealth



Note: This chart shows how much of the \$57 million increase in tax revenue (from imposing a combined city and school district income tax of 6% on dividends, capital gains, and net profits) falls on each part of the income distribution. It does not include the impact of taxing net gains or income from rents, royalties, patents, and copyright or income derived through estates or trusts. It DOES include the impact of taxing net profits of sole proprietors at 6%.
Source: Pennsylvania Budget and Policy Center based on estimates by the Institute on Taxation and Economic Policy.

Pittsburgh Anchor Institutions Contributions to the City Budget



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Contributions from Anchor Nonprofits

Another reason that Pennsylvania and Pittsburgh taxes are regressive is that corporations do not pay their fair share. In the city, these corporations include anchor nonprofit institutions, such as UPMC, Carnegie-Mellon, the University of Pittsburgh, and Highmark.

- If UPMC were not exempt as a “purely public charity,” it would pay an estimated \$50 million annually to the City and School District in property taxes.
- To tax anchor nonprofit institutions, including UPMC, the City could seek to negotiate PILOT payments as other municipalities have. It could also reinstate a court suit challenging UPMC’s status as a purely public charity.

Making large nonprofits pay a fair share

- If UPMC were not exempt as a “purely public charity,” it would pay an estimated \$50 million annually to the City and School District in property taxes.
- In four Pennsylvania communities, UPMC does pay “payments in lieu of taxes” (“PILOT” payments) that can amount to roughly half of what it would pay in property taxes without its exemption.
 - Lock Haven: Lock Haven City Council, Clinton County and Keystone Central School District have all accepted PILOT’s.
 - Williamsport: negotiated a PILOT in 2021.

Questions?

For follow-up questions for the authors, please contact:

Nthando Thandiwe at
Thandiwe@pennbpc.org or
678-793-7062

