Who Pays For An Increase in the PIT to 4% on Income From Wealth

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By Stephen Herzenberg & Mark Price[1] June 16, 2015

Executive Summary

After a nine-month delay in agreeing on a state budget for the current fiscal year, 2015-2016, Pennsylvania legislators are facing an almost $2 billion structural deficit as they work to complete a budget for the fiscal year that begins on July 1. Absent new revenues to close this deficit, the state will be forced to make drastic reductions to education funding and human services. And absent additional revenues, increasing state support for local school districts this year in order to forestall another round of local property tax increases will be impossible.[2]

Yet raising taxes is always difficult in Pennsylvania and is especially so in an election year. Part of that difficulty is driven by the uniformity clause of the state Constitution, which has resulted in a tax system that puts far more of the state and local tax burden on low- and middle-income families.

One constitutional way to make our tax system fairer would be to tax income from wealth (dividends, business profits, capital gains and a few other categories) at a higher rate than income from wages and interests. This briefing paper examines the impact on individual taxpayers (tax incidence) and the geographic distribution of revenue generated from a May proposal by lawmakers to raise $788 million with a higher personal income tax (PIT) on the income earned from wealth. Our findings in brief:

- On average, the typical middle-income family (with income between $41,000 and $65,000 per year) would see its state income taxes increase in 2016-17 by $31 dollars.
- Families in the second-lowest-income fifth, with incomes between $22,000 and $41,000, would see their income tax bills rise by $12 dollars on average next year.
- The bottom 20% of families (those with incomes less than $22,000 a year) would see their income tax bills rise by $4 on average.
- Even for families with incomes near the top (in the 80th to 95th percentile earning between $101,000 and $201,000 per year), a 4% tax on the income from wealth would increase the average tax bill by only $119 next year.
- A 4% tax on the income earned from wealth would have the largest impact on the top 1% of earners, with incomes of $463,000 or more. This group's average tax bill would rise $5,305.
- All together 82% of new tax revenue generated by a 4% tax on the income earned from wealth would come from families with annual incomes of $101,000 or greater.

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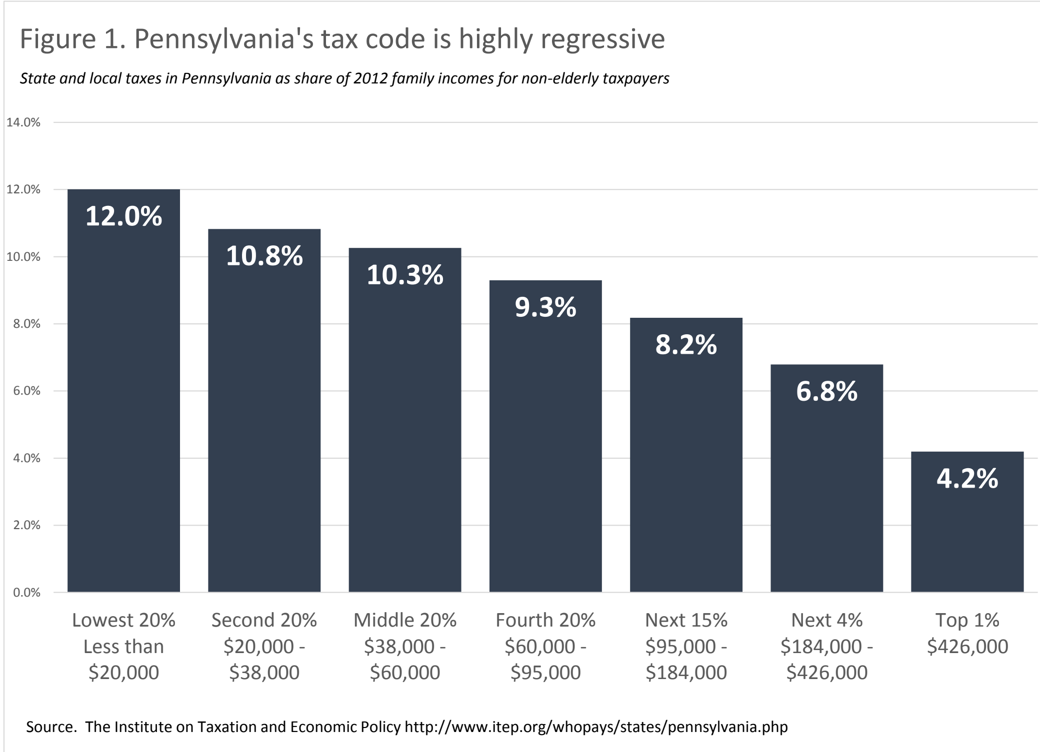
[1] This analysis would have not been possible without the careful work of the Institute on Taxation and Economic Policy (ITEP) (http://itep.org/) and its Senior Policy Analyst, Aidan Davis.

[2] The Pennsylvania Association of School Business Officials (PASBO) and the Pennsylvania Association of School Administrators (PASA) reported recently that 85% of school districts are planning to increase local property taxes. http://www.pasbo.org/blog_home.asp?Display=78

- Because a higher tax on income from wealth primarily impacts high-income families, 53% of the revenue raised from this tax will come from six relatively high-income, and largely suburban Pennsylvania counties (Montgomery, Chester, Delaware, Bucks, Allegheny, and Lancaster).
- In 42 of Pennsylvania's 67 counties, the average increase in revenue (taxes) per taxpayer would be $104 or less—i.e., $2 per week or less. All but six of these 42 counties are rural counties.
- Seven rural counties with significant shale drilling (Bradford, Butler, Greene, Sullivan, Susquehanna, Washington, and Wyoming) would see taxes rise per family by more than the statewide average $140 per family. In these counties, royalty income from gas drilling is high. Only a small share of the population in these counties, however, receives royalties or other income from wealth. Most of the population in these rural counties would pay small increases in taxes – similar to taxpayers in other rural counties – because most of its income comes from wages/salaries and interest payments.

To sum up, if Pennsylvania's lawmakers want to raise revenue but largely spare middle- and low-income families, rural counties, and urban neighborhoods from higher taxes, it can increase taxes on income from wealth to 4%. Most specifically, rural areas with lower incomes, and with lower shares of income from wealth, have the most to gain from making Pennsylvania's income system less regressive, including by raising income tax revenue through raising tax rates on income from wealth rather than compensation (wages and salaries) and interest.

Introduction



With lawmakers in Harrisburg facing a structural budget deficit approaching two billion dollars, there is wide agreement that absent deep cuts in support for education and human services, the 2016-17 state budget will need to include additional revenues in order to achieve balance.

One persistent difficulty in advocating for an income or sales tax increase is constitutional limits on policy that make it difficult to shield middle income tax payers from bearing a disproportionate share of the burden of higher taxes.

State and local taxes in Pennsylvania are already among the most regressive in the country, with the typical middle-class family in 2012 (earning between $38,000 and $60,000) paying more than twice as much of its income in state and local taxes as the top 1% of taxpayers (Figure 1).[3]

The primary reason middle-income households bear a disproportionate state and local tax burden are that the state combines a steeply regressive sales tax and somewhat less regressive local property tax with a flat income tax that taxes high-income households that pay the same tax rate as middle- and low-income families. As a result, a middle-income family on average pays 10.3% of its income in state and local taxes and a low-income family on average pays even more, 12%. In contrast, households with incomes over $400,000 pay just 4.2% of their income in taxes.

In many other states, a progressive personal income tax, which taxes those with high incomes at higher rates than those with low incomes, compensates for regressive sales and property taxes. But a progressive personal income tax is prohibited by Pennsylvania's constitutional requirement that every tax be uniform on the same class of subjects.[4]

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[3] Because most states including Pennsylvania provide special consideration for elderly taxpayers it can skew the incidence that most taxpayers face and thus for ITEP's *Who Pay's* analysis presented in Figure 1 (http://www.itep.org/whopays/full_report.php) tax incidence figures are presented only for non-elderly taxpayers.

[4] "All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws." Pa. Const., Art. VIII, sec. 1.

Legal experts on the Pennsylvania tax system, however, agree that the state Constitution *does* permit different tax rates on different classes of income.[5] In April of this year we put forward a proposal to raise $1.46 billion in new revenue to help close the states' ongoing structural budget deficit that included an increase in the PIT on compensation and interest, but a larger increase in the tax rate on income derived from wealth.[6]

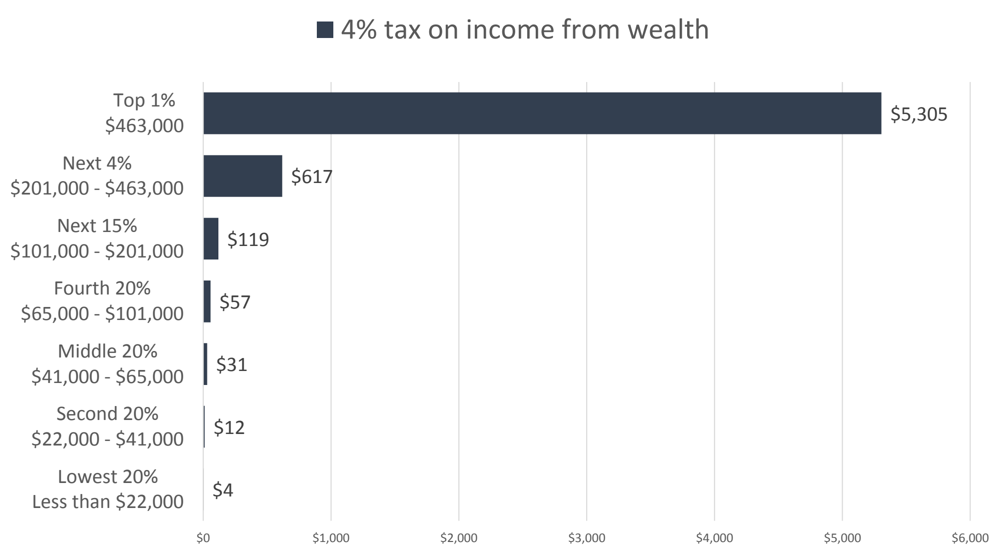
In early May, Senators Art Haywood, Vincent Hughes, Jay Costa, and Daylin Leach introduced their own proposal to tax income from wealth at 4%, which they estimate will raise $788 million.[7] In this briefing paper we analyze the overall tax incidence for Pennsylvania taxpayers of this proposal as well its implications for the revenue collected by county.

Tax Incidence by Income Level

In this section we present estimates by the Institute on Taxation and Economic Policy on the tax incidence of a 4% tax on the income from wealth.[8]

On average, the typical middle-income family (with an income between $41,000 and $65,000 a year) would see its tax bill increase in 2016-17 by $31 dollars (Figure 2).[9]

Figure 2. The typical middle-class family in Pennsylvania would pay an additional $31 in taxes under a proposal to tax income from wealth at 4%



Source. Institute on Taxation and Economic Policy, June 2016

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[5] According to the Department of Revenue (*Pennsylvania Personal Income Tax Guide*, revised March 7, 2014, p. 9 of 53; online at http://goo.gl/hpXrg6) there are eight classes of income subject to the current 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.

[6] Under our proposal, the higher tax rate would apply to the following six of Pennsylvania's eight classes of income: 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. See Stephen Herzenberg and Mark Price, *PA Should Raise Needed Revenues in Fair Ways: Short- and Long-term Approaches to Fixing Pennsylvania's Unfair Tax System*, Pennsylvania Budget and Policy Center, Pennsylvania Budget and Policy Center, April 11, 2016; https://goo.gl/lOA4jy

[7] Senate Co-Sponsorship Memoranda http://goo.gl/oCqF56; see also http://thirdandstate.org/2016/may/pbpc-research-prompts-senators-introduce-tax-fairness-legislation

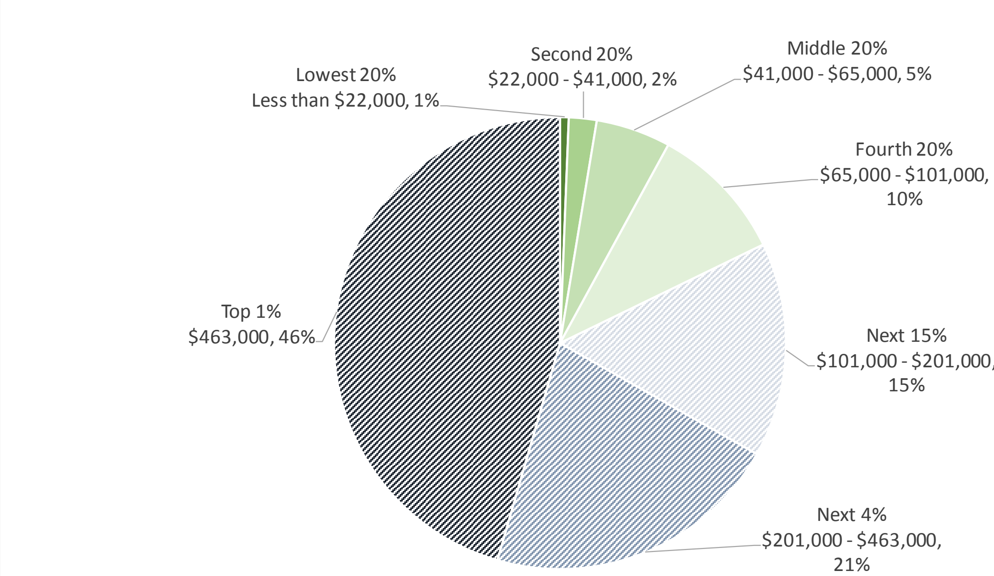
[8] Incidence figures are for all taxpayers and 2016 incomes. The ITEP tax model estimates that in 2016 a 4% tax on all classes of income other than compensation and interest would raise $698.9 million. The House Democratic Appropriations Committee estimates such a tax would raise $787.9 million or about 12% more than the ITEP model.

[9] A PIT increase that raises the same amount of revenue (to 3.26%) would raise taxes by more than twice as much ($71) on a typical middle-income family. See Table A2 in the appendix for a comparison for each income group.

Families with incomes between $22,000 and $41,000 (the second-lowest income fifth) would see their tax bills rise by $12 dollars on average next year, and the bottom 20% of families (those with incomes less than $22,000 a year) would see their income tax bill rise by $4 on average.

Although this proposal is decidedly more progressive than Pennsylvania's current tax code, the increased tax burden for high-income households is still quite modest. For families earning between $101,000 and $201,000 a year (the 80th to 95th percentile), a 4% tax on income from wealth would increase the average tax bill by $119 next year (roughly the equivalent of a cup of coffee each week). A 4% tax on income earned from wealth would have the largest impact on the top 1% of earners in Pennsylvania, those earning $463,000 or more per year: the average tax bill in this group would rise $5,305, certainly a large amount for most families but a figure for this group that averages less than 1% of annual income.

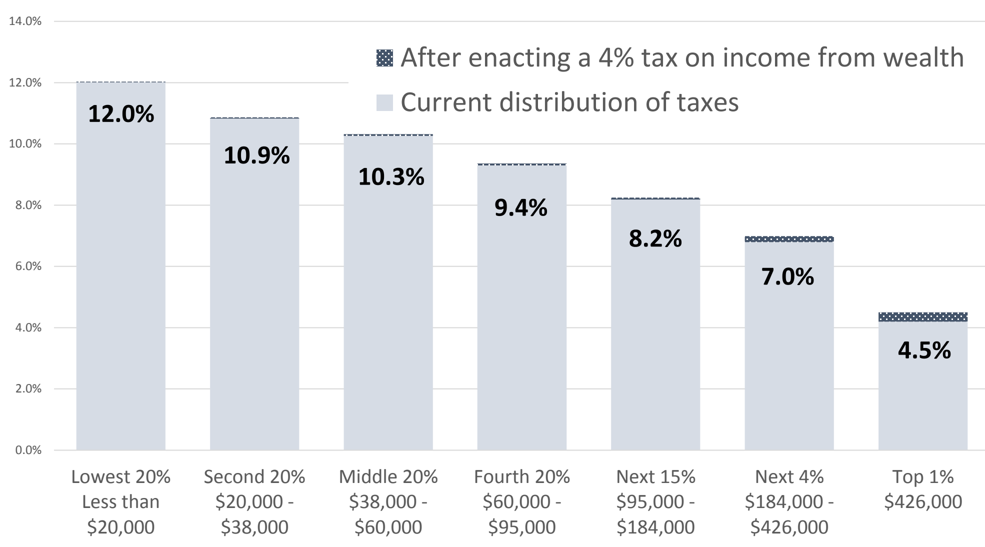
Figure 3. 82% of the revenue generated by a 4% tax on the income from wealth would come from families earning $101,000 or more



Source. The Institute on Taxation and Economic Policy, June 2016

Figure 4. Even after accounting for a higher tax on the income from wealth, high income families still pay a smaller share of their income in taxes than most

State and local taxes in Pennsylvania as share of 2012 family income for non-elderly taxpayers before and after a 4% tax on income from wealth



Source. The Institute on Taxation and Economic Policy, June 2016

All together, 82% of the new tax revenue generated by a 4% tax on income earned from wealth would come from families with annual incomes of $101,000 or greater.

As Figure 4 and Table 1 (below) illustrate, despite paying a disproportionate share of the higher taxes from a 4% tax on income from wealth, the top 20% of families would still face a much lower overall tax burden than most (the bottom 80%) families.[10] These taxpayers would also pay far below the top overall tax rate than the top 20% in all of our neighboring states (as you can see by putting your cursor over each of our neighboring states in the online ITEP map at http://www.itep.org/whopays/).

Table 1.
State and local taxes in Pennsylvania as share of family income for non-elderly taxpayers

2012 Income Group	Current Law	Current law plus a 4% tax on income from wealth	Difference
Lowest 20% Less than $20,000	12.01%	12.04%	0.03%
Second 20% $20,000 - $38,000	10.83%	10.87%	0.04%
Middle 20% $38,000 - $60,000	10.26%	10.32%	0.06%
Fourth 20% $60,000 - $95,000	9.30%	9.36%	0.06%
Next 15% $95,000 - $184,000	8.18%	8.25%	0.07%
Next 4% $184,000 - $426,000	6.79%	6.99%	0.20%
Top 1% $426,000	4.20%	4.50%	0.30%

Note: Figures show current law in Pennsylvania enacted through December 31, 2014 at 2012 income levels, with the addition of a 4.0% tax rate on all income that is not wages or interest. Figure represents total state and local taxes as a share of income, post- federal offset.

Source. The Institute on Taxation and Economic Policy, June 2016

In the next section we examine the implications for taxpayers in each Pennsylvania county of a 4% tax on income from wealth.

[10] ITEP's incidence analysis reflects 2012 incomes and thus the income thresholds are slightly different from the thresholds in Figure 2 and Figure 3 which present the increase in taxes for 2016 incomes.

Table 2.
New annual tax revenue by county with a 4% tax on income from wealth (3.07% on compensation & interest)

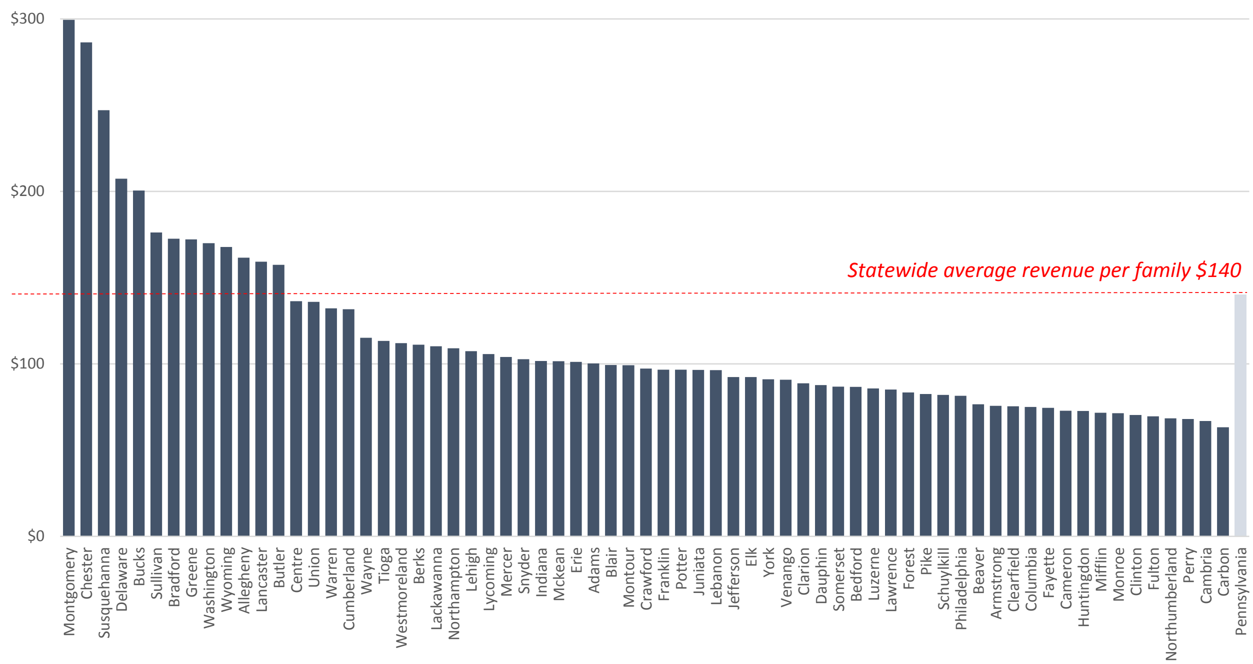
County	Rural (=1)	Total new revenue	New revenue per family	County	Rural (=1)	Total new revenue	New revenue per family
Montgomery	0	$115,394,016	$299	Franklin	1	$6,613,242	$97
Chester	0	$65,530,224	$286	Potter	1	$695,775	$97
Susquehanna	1	$4,540,374	$247	Juniata	1	$1,023,787	$96
Delaware	0	$50,725,308	$207	Lebanon	0	$6,178,325	$96
Bucks	0	$60,588,916	$201	Jefferson	1	$1,917,085	$92
Sullivan	1	$496,395	$176	Elk	1	$1,467,789	$92
Bradford	1	$4,697,671	$173	York	0	$18,421,880	$91
Greene	1	$2,494,052	$172	Venango	1	$2,107,656	$91
Washington	1	$16,760,860	$170	Clarion	1	$1,448,802	$89
Wyoming	1	$2,219,855	$168	Dauphin	0	$11,076,205	$88
Allegheny	0	$91,499,776	$162	Somerset	1	$2,925,980	$87
Lancaster	0	$39,181,580	$159	Bedford	1	$1,890,895	$87
Butler	1	$13,828,310	$157	Luzerne	0	$12,418,826	$86
Centre	1	$7,640,518	$136	Lawrence	1	$3,397,897	$85
Union	1	$2,263,057	$136	Forest	1	$183,381	$83
Warren	1	$2,375,664	$132	Pike	1	$1,885,865	$83
Cumberland	0	$15,232,028	$132	Schuylkill	1	$5,286,646	$82
Wayne	1	$2,651,296	$115	Philadelphia	0	$44,098,000	$81
Tioga	1	$2,007,821	$113	Beaver	0	$6,056,725	$77
Westmoreland	0	$18,849,634	$112	Armstrong	1	$2,353,885	$76
Berks	0	$20,814,320	$111	Clearfield	1	$2,605,684	$75
Lackawanna	0	$10,462,936	$110	Columbia	1	$2,120,521	$75
Northampton	0	$14,933,484	$109	Fayette	1	$4,486,678	$75
Lehigh	0	$17,770,360	$107	Cameron	1	$164,210	$73
Lycoming	1	$5,542,856	$106	Huntingdon	1	$1,325,595	$73
Mercer	1	$5,201,440	$104	Mifflin	1	$1,435,253	$72
Snyder	1	$1,769,137	$103	Monroe	1	$4,841,221	$71
Indiana	1	$3,555,563	$102	Clinton	1	$1,104,582	$70
Mckean	1	$1,840,530	$102	Fulton	1	$453,101	$70
Erie	0	$12,254,102	$101	Northumberland	1	$2,827,567	$68
Adams	1	$4,728,311	$100	Perry	1	$1,463,852	$68
Blair	1	$5,464,366	$99	Cambria	1	$4,073,592	$67
Montour	1	$866,898	$99	Carbon	1	$1,801,831	$63
Crawford	1	$3,566,044	$97	Pennsylvania		$787,900,000	$140

Source. Pennsylvania Budget and Policy Center analysis based on tax data from the Pennsylvania Department of Revenue, House Democratic Appropriations Committee

Tax Incidence by County

Figure 5. Because a 4% tax on the income earned from wealth primarily impacts the highest income families the revenue generated in 54 of 67 counties is below the statewide average

New tax revenue per family by county



Source. Pennsylvania Budget and Policy Center analysis based on tax data from the Pennsylvania Department of Revenue, House Democratic Appropriations Committee

Table 2 (previous page) and Figure 5 (above) distribute the $788 million that the House Democratic Appropriations Committee estimates a 4% tax on income from wealth would generate to the individual counties based on each county's share of the statewide total of income earned from wealth.[11]

In 42 of Pennsylvania's 67 counties, the average annual increase in revenue (taxes) per taxpayer would be $104 or less – i.e., $2 per week or less. All but six of these 42 counties are rural counties (as defined by the Center of Rural Pennsylvania). This finding drives home a common sense message – rural areas with lower incomes, and with lower shares of income from wealth, have the most to gain from making Pennsylvania's income system less regressive, including by raising income tax revenue through raising tax rates on income from wealth rather than compensation (wages and salaries) and interest. Looking at the opposite end of the county distribution, we find that 13 counties would generate more than the statewide average of $140 in revenue per family.[12] Ordered from highest-to-lowest revenue

[11] In the preceding incidence analysis ITEP's tax model assumed a 4% tax on the income from wealth would generate $698 million in new revenue. The difference in estimates is driven mostly by the House Democratic Appropriations Committee relying on an estimate by the Independent Fiscal Office (IFO) that assumes more income growth than is assumed in the ITEP tax model. Specifically ITEP's analysis assumed total taxable income would rise 13% above 2013 (the most current year of tax data available) levels; based on IFO figures, the House Democratic Appropriations Committee assumed 2016 incomes would be 25% above their 2013 levels.

[12] As the incidence analysis in the previous section made clear, the typical middle class family will pay much less than $140 as the figures in this section simply divide the total revenue generated by the number of taxpayers.

per family generated, these counties are Montgomery, Chester, Susquehanna, Delaware, Bucks, Sullivan, Bradford, Greene, Wyoming, Allegheny, Lancaster and Butler.

These 13 counties fall into two groups. The first group includes high-income urban and suburban counties – Allegheny County, the four suburban counties that ring the City of Philadelphia (Montgomery, Chester, Delaware and Bucks) and Lancaster County. These six counties would generate 53% of the new revenue from a higher tax on the income earned from wealth.

The second group includes rural counties – Susquehanna, Sullivan, Bradford, Green, Washington, Wyoming and Butler – that generate a higher-than-average revenue per family because of royalty income from oil and gas drilling, which would be subject to the 4% tax on the income from wealth. Because the income generated from royalties is highly concentrated among a few families in these counties,[13] most middle-income families in rural drilling communities will face only a modest increase in taxes, similar to their counterparts in other rural counties. All together these seven rural counties would generate 5.7% of the new revenue statewide from a 4% tax on income from wealth. It is only a bit more than a tenth of the revenue generated from the six suburban/urban counties because these rural counties only have a small fraction of the states total taxpayers.

Another useful way of understanding the geographic impact of this tax proposal is to compare it to a flat tax increase on all income that generates the same amount of revenue statewide. As explained more fully in Appendix B on page 15, 45 of 67 counties would see taxes per family increase less with a higher tax rate only on income from wealth than with an increase in the tax rate on all classes of income (that generates the same amount of revenue statewide).

Conclusion

Pennsylvania in recent weeks has made historic progress towards limiting substantially the influence of backroom politics from determining the distribution of state support for classroom funding by implementing, with broad bipartisan support, a school funding formula. The formula that will apply to new state funds going forward is both transparent and need-based.

The main obstacle remaining to guaranteeing a high quality public education to every child in the Commonwealth is sufficient state support for education. On this front, the challenge going forward is substantial: after years of austerity budgets, corporate tax cuts and shifting demographics, the commonwealth faces a structural budget deficit approaching two billion dollars. Absent new revenues lawmakers will be hard pressed to boost education funding. As demonstrated in the nine-month standoff over the 2015-16 state budget, there is wide bipartisan support for additional school funding, but the difficult vote for lawmakers of either party is for additional revenue. This is the case even though new data from school districts suggest a vote against higher taxes in the General Assembly is a vote for another round of local property tax increases.

[13] Table A4 in the appendix presents the share of county income captured by taxpayers with incomes of $100,000 or more in each of 13 counties most impacted by a 4% tax on the income earned from wealth. On average in the rural counties taxpayers with incomes of $100,000 or more account for 74% of the income generated from wealth in 2013 but just 41% of all income from wages and interest. This is compared to a statewide average for taxpayers with an annual income of $100,000 or more who capture 77% the income from wealth and 50% of the income from compensation and interest.

The reluctance of lawmakers to support higher sales taxes and/or personal income taxes is understandable in the context of tax incidence in Pennsylvania. As a share of income, the Pennsylvania tax burden rises the lower a family's income is, giving the state one of the most regressive state and local tax codes in the country. A higher sales tax[14] would exacerbate the regressive nature of the current tax code, and an increase in Pennsylvania's flat income tax would fall equally heavily on most low- and middle-income Pennsylvania families as it would affluent ones. Increases in sales and personal income taxes allow the top 1% of Pennsylvania earners to continue enjoying one of the lowest top tax rates in the nation, even though they have benefited disproportionately from economic growth in Pennsylvania.[15] In addition, other recent tax policy changes have benefitted mainly high-income households. For example, the current Pennsylvania structural budget deficit is in part driven by cuts in corporate taxes including the elimination of the Capital Stock and Franchise tax, which would have raised over $2 billion in tax revenue last year.[16]

The Pennsylvania Constitution strictly prohibits the simplest fix to this dilemma – a progressive income tax that asks more from those who have benefited most from tax policy and economic growth over the last several decades. The Constitution does, however, permit different tax rates on different classes of income. A higher tax on income from wealth, which tends to be concentrated in the hands of the highest earners, is one way to raise additional revenue for schools that doesn't disproportionately burden middle-income families. By raising more revenue from high-income households, we have also shown here that a higher tax on the income earned from wealth would modestly shift the tax burden away from struggling rural and urban communities.

[14] Mark Price, *Who pays for an increase in the sales tax: Analysis of tax incidence of an increase in the sales tax from 6% to 7.25%*, Pennsylvania Budget and Policy Center, November 2016; http://pennbpc.org/Budget1516_WhoPaysSalesTax

[15] Estelle Sommeiller and Mark Price, *What about the rest of us? Top 1% take home all the income in Pennsylvania income in Current Economic Recovery*, Keystone Research Center, January 2015; http://keystoneresearch.org/increasingly_unequal2015

[16] This revenue estimate assumes a Capital Stock and Franchise tax rate of 7.24 mills.

Appendix A

Table A1.
County shares of taxpayers, income from compensation and interest, income from wealth and total income

County	Rural	Number of taxpayers	Share of statewide total: Taxpayers	Income from compensation & interest	Income from wealth	Total income
Adams	1	47,161	0.8%	0.7%	0.6%	0.7%
Allegheny	0	566,469	10.1%	10.9%	11.6%	11.0%
Armstrong	1	31,106	0.6%	0.4%	0.3%	0.4%
Beaver	0	79,110	1.4%	1.2%	0.8%	1.2%
Bedford	1	21,811	0.4%	0.3%	0.2%	0.3%
Berks	0	187,351	3.3%	3.1%	2.6%	3.0%
Blair	1	54,993	1.0%	0.7%	0.7%	0.7%
Bradford	1	27,232	0.5%	0.4%	0.6%	0.4%
Bucks	0	302,162	5.4%	7.4%	7.7%	7.4%
Butler	1	87,843	1.6%	1.8%	1.8%	1.8%
Cambria	1	60,911	1.1%	0.8%	0.5%	0.8%
Cameron	1	2,253	0.0%	0.0%	0.0%	0.0%
Carbon	1	28,488	0.5%	0.4%	0.2%	0.4%
Centre	1	56,024	1.0%	1.0%	1.0%	1.0%
Chester	0	228,864	4.1%	6.6%	8.3%	7.0%
Clarion	1	16,337	0.3%	0.2%	0.2%	0.2%
Clearfield	1	34,546	0.6%	0.4%	0.3%	0.4%
Clinton	1	15,685	0.3%	0.2%	0.1%	0.2%
Columbia	1	28,253	0.5%	0.4%	0.3%	0.4%
Crawford	1	36,662	0.7%	0.5%	0.5%	0.5%
Cumberland	0	115,636	2.1%	2.1%	1.9%	2.1%
Dauphin	0	126,264	2.2%	2.1%	1.4%	2.0%
Delaware	0	244,622	4.4%	5.6%	6.4%	5.7%
Elk	1	15,896	0.3%	0.2%	0.2%	0.2%
Erie	0	121,191	2.2%	1.7%	1.6%	1.7%
Fayette	1	60,171	1.1%	0.8%	0.6%	0.8%
Forest	1	2,197	0.0%	0.0%	0.0%	0.0%
Franklin	1	68,436	1.2%	1.0%	0.8%	1.0%
Fulton	1	6,511	0.1%	0.1%	0.1%	0.1%
Greene	1	14,489	0.3%	0.2%	0.3%	0.2%
Huntingdon	1	18,247	0.3%	0.2%	0.2%	0.2%
Indiana	1	34,957	0.6%	0.5%	0.5%	0.5%
Jefferson	1	20,756	0.4%	0.3%	0.2%	0.2%
Juniata	1	10,616	0.2%	0.1%	0.1%	0.1%

Table A1 (cont).

County shares of taxpayers, income from compensation and interest, income from wealth and total income

County	Rural	Number of taxpayers	Share of statewide total: Taxpayers	Income from compensation & interest	Income from wealth	Total income
Lackawanna	0	94,927	1.7%	1.4%	1.3%	1.4%
Lancaster	0	246,073	4.4%	3.8%	5.0%	4.0%
Lawrence	1	39,904	0.7%	0.6%	0.4%	0.5%
Lebanon	0	64,099	1.1%	1.0%	0.8%	0.9%
Lehigh	0	165,608	2.9%	2.9%	2.3%	2.8%
Luzerne	0	144,752	2.6%	2.0%	1.6%	1.9%
Lycoming	1	52,472	0.9%	0.7%	0.7%	0.7%
Mckean	1	18,119	0.3%	0.2%	0.2%	0.2%
Mercer	1	49,986	0.9%	0.7%	0.7%	0.7%
Mifflin	1	20,036	0.4%	0.2%	0.2%	0.2%
Monroe	1	67,802	1.2%	1.0%	0.6%	1.0%
Montgomery	0	385,380	6.9%	10.1%	14.6%	11.0%
Montour	1	8,743	0.2%	0.2%	0.1%	0.2%
Northampton	0	136,896	2.4%	2.5%	1.9%	2.4%
Northumberland	1	41,303	0.7%	0.5%	0.4%	0.5%
Perry	1	21,506	0.4%	0.3%	0.2%	0.3%
Philadelphia	0	541,481	9.6%	7.8%	5.6%	7.4%
Pike	1	22,834	0.4%	0.3%	0.2%	0.3%
Potter	1	7,203	0.1%	0.1%	0.1%	0.1%
Schuylkill	1	64,491	1.1%	0.9%	0.7%	0.8%
Snyder	1	17,227	0.3%	0.2%	0.2%	0.2%
Somerset	1	33,711	0.6%	0.4%	0.4%	0.4%
Sullivan	1	2,818	0.1%	0.0%	0.1%	0.0%
Susquehanna	1	18,381	0.3%	0.2%	0.6%	0.3%
Tioga	1	17,716	0.3%	0.2%	0.3%	0.2%
Union	1	16,651	0.3%	0.3%	0.3%	0.3%
Venango	1	23,208	0.4%	0.3%	0.3%	0.3%
Warren	1	17,970	0.3%	0.2%	0.3%	0.2%
Washington	1	98,648	1.8%	1.8%	2.1%	1.9%
Wayne	1	23,038	0.4%	0.3%	0.3%	0.3%
Westmoreland	0	168,177	3.0%	2.7%	2.4%	2.7%
Wyoming	1	13,228	0.2%	0.2%	0.3%	0.2%
York	0	202,243	3.6%	3.4%	2.3%	3.2%

Source. Pennsylvania Budget and Policy Center analysis based on tax data from the Pennsylvania Department of Revenue

Table A2.

Average Tax Change

2016 Income Group	3.26% tax on all income	4% tax on income from wealth	Difference	Percent Difference
Lowest 20% Less than $22,000	$9	$4	-$6	-61%
Second 20% $22,000 - $41,000	$36	$12	-$25	-68%
Middle 20% $41,000 - $65,000	$70	$31	-$39	-56%
Fourth 20% $65,000 - $101,000	$113	$57	-$55	-49%
Next 15% $101,000 - $201,000	$210	$119	-$91	-43%
Next 4% $201,000 - $463,000	$425	$617	$192	45%
Top 1% $463,000	$1,966	$5,305	$3,339	170%

Source. Institute on Taxation and Economic Policy, June 2016

Table A3.

Share of income from wealth, income from wages and interest and all income captured by taxpayers with $100,000 or more in income for selected counties

County	wealth	compensation and interest	total	rural (=1)
Montgomery	86%	69%	74%	0
Chester	86%	74%	77%	0
Susquehanna	73%	33%	48%	1
Delaware	83%	63%	67%	0
Bucks	81%	67%	69%	0
Sullivan	64%	31%	42%	1
Bradford	66%	35%	43%	1
Greene	82%	41%	51%	1
Washington	80%	53%	59%	1
Wyoming	71%	33%	43%	1
Allegheny	81%	54%	60%	0
Lancaster	69%	42%	48%	0
Butler	78%	58%	62%	1
Pennsylvania	77%	50%	55%	

Source. Pennsylvania Budget and Policy Center based on Department of Revenue data

Appendix B

Another way to illustrate the geographic shift in the tax revenue generated from raising revenue through a higher tax on income from wealth is to compare it to an increase in the personal income tax (PIT) on all classes of income.

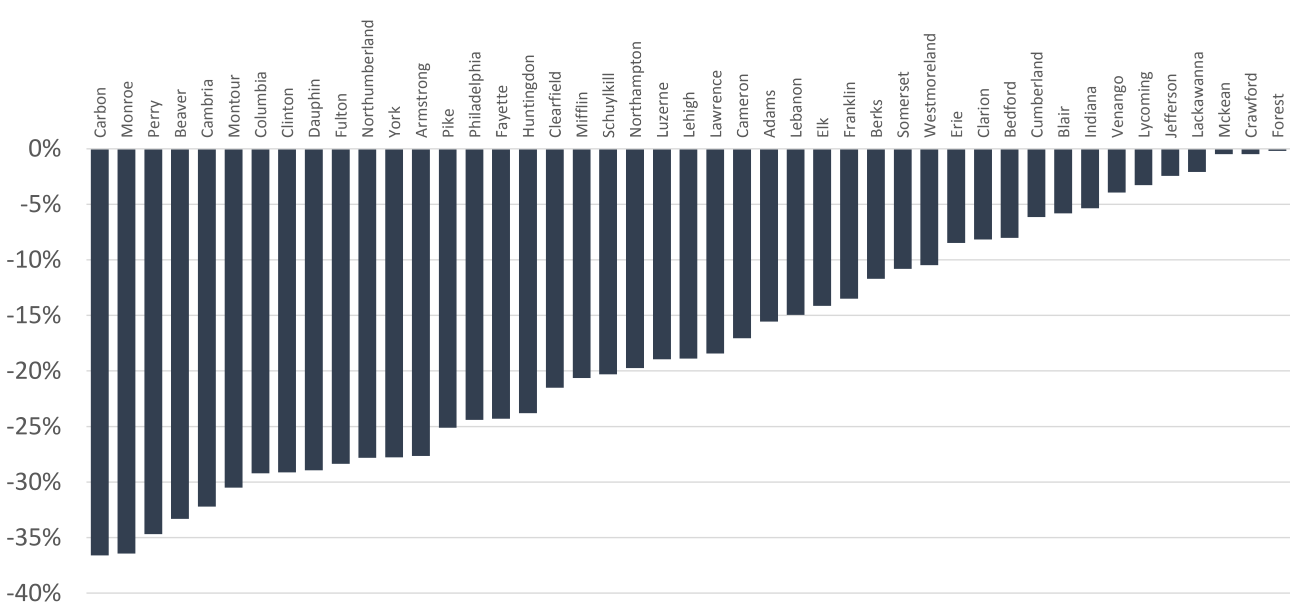
Using data from the Department of Revenue and the House Democratic Appropriations C~~c~~ommittee we estimate that increasing~~e~~ ~~in~~ the PIT from 3.07% to 3.26% would generate the same amount of revenue ~~to~~ as an increase in the PIT for the income earned from wealth from 3.07% to 4%.

Whenever a county share of Pennsylvania income from wealth is below a county share of income from compensation and interest, residents of that county pay a smaller increase in taxes if a given amount of revenue is raised from an increase in taxes on income from wealth than if the same amount were raised from an increase in taxes on income from middle-class income.

Figure B1 (below) presents the 45 counties that would see their total taxes with a higher tax on income earned wealth increase by less than if Pennsylvania the same amount of revenue from a tax of 3.26% on all classes of income (Table B1 on the next two pages presents revenue differences for all 67 counties).

Figure B1. In 45 rural and urban counties the total revenue generated from a 4 percent tax on the income earned from wealth will be lower than under an increase in the PIT to 3.26 percent on all classes of income

Counties with a decline in revenue generated from a 4% tax on income earned from wealth relative to a 3.26% tax on all income



Note. See Table B1 for data for all counties

Source. Pennsylvania Budget and Policy Center analysis based on tax data from the Pennsylvania Department of Revenue and the House Democratic Appropriations Committee

Table B1.

New tax revenue per family by county under a 3.26% PIT on all income compared to a 3.07% PIT on compensation and interest and 4% on income from wealth

County	Rural (=1)	3.26% on all income	3.07% on compensation & interest and 4% on other income from wealth	Per family difference	Per family% difference
Adams	1	$119	$100	-$18	-16%
Allegheny	0	$154	$162	$8	5%
Armstrong	1	$105	$76	-$29	-28%
Beaver	0	$115	$77	-$38	-33%
Bedford	1	$94	$87	-$8	-8%
Berks	0	$126	$111	-$15	-12%
Blair	1	$106	$99	-$6	-6%
Bradford	1	$118	$173	$54	46%
Bucks	0	$194	$201	$7	4%
Butler	1	$157	$157	$0	0%
Cambria	1	$99	$67	-$32	-32%
Cameron	1	$88	$73	-$15	-17%
Carbon	1	$100	$63	-$37	-37%
Centre	1	$134	$136	$2	2%
Chester	0	$239	$286	$47	20%
Clarion	1	$97	$89	-$8	-8%
Clearfield	1	$96	$75	-$21	-22%
Clinton	1	$99	$70	-$29	-29%
Columbia	1	$106	$75	-$31	-29%
Crawford	1	$98	$97	$0	0%
Cumberland	0	$140	$132	-$9	-6%
Dauphin	0	$123	$88	-$36	-29%
Delaware	0	$185	$207	$23	12%
Elk	1	$108	$92	-$15	-14%
Erie	0	$110	$101	-$9	-8%
Fayette	1	$98	$75	-$24	-24%
Forest	1	$84	$83	$0	0%
Franklin	1	$112	$97	-$15	-13%
Fulton	1	$97	$70	-$28	-28%
Greene	1	$133	$172	$39	29%
Huntingdon	1	$95	$73	-$23	-24%
Indiana	1	$107	$102	-$6	-5%
Jefferson	1	$95	$92	-$2	-2%
Juniata	1	$96	$96	$0	0%

Table B1 (cont).

New tax revenue per family by county under a 3.26% PIT on all income compared to a 3.07% PIT on compensation and interest and 4% on income from wealth

County	Rural (=1)	3.26% on all income	3.07% on compensation & interest and 4% on other income from wealth	Per family difference	Per family% difference
Lackawanna	0	$113	$110	-$2	-2%
Lancaster	0	$129	$159	$30	23%
Lawrence	1	$104	$85	-$19	-18%
Lebanon	0	$113	$96	-$17	-15%
Lehigh	0	$132	$107	-$25	-19%
Luzerne	0	$106	$86	-$20	-19%
Lycoming	1	$109	$106	-$4	-3%
Mckean	1	$102	$102	-$1	0%
Mercer	1	$103	$104	$1	1%
Mifflin	1	$90	$72	-$19	-21%
Monroe	1	$112	$71	-$41	-36%
Montgomery	0	$224	$299	$75	34%
Montour	1	$143	$99	-$44	-31%
Northampton	0	$136	$109	-$27	-20%
Northumberland	1	$95	$68	-$26	-28%
Perry	1	$104	$68	-$36	-35%
Philadelphia	0	$108	$81	-$26	-24%
Pike	1	$110	$83	-$28	-25%
Potter	1	$96	$97	$0	0%
Schuylkill	1	$103	$82	-$21	-20%
Snyder	1	$100	$103	$3	3%
Somerset	1	$97	$87	-$11	-11%
Sullivan	1	$107	$176	$69	65%
Susquehanna	1	$124	$247	$123	99%
Tioga	1	$103	$113	$11	10%
Union	1	$122	$136	$14	11%
Venango	1	$95	$91	-$4	-4%
Warren	1	$107	$132	$25	24%
Washington	1	$151	$170	$19	13%
Wayne	1	$101	$115	$14	14%
Westmoreland	0	$125	$112	-$13	-10%
Wyoming	1	$117	$168	$51	44%
York	0	$126	$91	-$35	-28%
Pennsylvania		$140	$140	$0	0%

Source. Pennsylvania Budget and Policy Center analysis based on tax data from the Pennsylvania Department of Revenue, House Democratic Appropriations Committee