

Funding Pittsburgh's Future

How a 2% Tax on Income From Wealth Could Raise \$51 Million a Year and Make the City's Tax System More Fair

By Diana Polson

Executive Summary

Pittsburgh needs additional revenue to sustain essential services and to invest in our communities. Meanwhile, the city's current income tax distributes tax responsibility unequally, asking too little of the city's wealthiest residents. By passing a Fair Share Tax, or taxing income generated from wealth at a rate of 2%, the City of Pittsburgh could generate \$51 million a year in new revenue.

A Pittsburgh Fair Share Tax would tax forms of income not currently taxed in the city. While Pittsburgh taxes income from work (wages and profits from a business), income generated from wealth is not taxed at all. By taxing capital gains, dividends, and income generated from rents, royalties, patents, copyrights, estates, and trusts, Pittsburgh could generate substantial revenue, while also making our tax system more fair. Pennsylvania already taxes these categories of income, but Pittsburgh does not. ²

This report finds:

- **The current tax system asks poor and middle-income families to contribute a larger share of their income.** With Pittsburgh's existing income tax, middle-income households pay 75% more as a share of their income than the top 1% do.
- **A 2% Pittsburgh Fair Share Tax would raise an additional \$51 million per year.**
- **Most revenue generated from a Fair Share Tax would come from the highest income residents.** The top 20% of income earners in Pittsburgh would pay 92% of the revenue generated from the tax. The top 1% alone would pay 52% of the revenue generated.
- **Most lower- and middle-income households would see no increase.** Among the lowest-income 80% of households, 87% would pay no additional tax—including 96% of households in the lowest-income fifth. The entire bottom 80% of income earners would see a \$20 average annual increase across the entire group.

The Pittsburgh Fair Share Tax will generate much-needed revenue for the City of Pittsburgh, while also making our local tax system more fair by asking those with the greatest ability to pay to contribute more.

Introduction

Today, cities face financial instability and uncertainty due to an unstable economy, state and federal budget unpredictability, threats of a recession, the decline of federal COVID relief funds, and the growing austerity and funding cuts of the second Trump administration. In Pittsburgh, the financial strain is accentuated by significant changes in the real estate tax base.¹ The good news: there are options for Pittsburgh to raise additional revenue locally, without asking more from low- and middle-income workers who already pay a greater share of their income in local taxes, and who are most impacted by rising prices and federal social safety net changes.

One way Pittsburgh can raise revenue fairly is by implementing the “Pittsburgh Fair Share Tax.”² The Pittsburgh Fair Share Tax is a simple idea: instead of just taxing income from wages (active income earned from working), a fair share tax would also tax investment income generated from wealth (also often referred to as unearned income or passive income). Unearned income is income that is passively earned by the ownership of some kind of wealth, including dividends, capital gains, and rents, royalties, patents, copyrights, estates, and trusts. Pennsylvania’s income tax taxes all of these categories, but Pittsburgh only taxes earned income. By taxing income from wealth, the city can raise an additional fifty-one million dollars a year. This tax ensures that those with the greatest ability to pay contribute their fair share to city revenues, as opposed to an across-the-board tax increase that asks more of working families.³ A Pittsburgh Fair Share Tax would NOT tax retirement income, social security, unemployment benefits, or federal active duty pay for military service.

¹ A 2022 court ruling reduced the Common Level Ratio (CLR) for tax appeal cases in Allegheny County, an obscure yet significant calculation that has led to commercial property owners who file successful tax appeals paying taxes on 63.5% of the assessed value of their property instead of 81.1%. (The CLR is an estimate of the average value of assessed to market value in the county since its last property tax reassessment in 2012.) The Hal D. Coffey, Joshua M. Farber, Adam Ventura, “Allegheny County Property Owners Can Challenge 2022 and 2023 Taxes.” Clark Hill, February 10, 2023. Accessed at: <https://www.clarkhill.com/news-events/news/allegheny-county-property-owners-can-challenge-2022-and-2023-taxes/>

² The Keystone Research Center introduced this idea in [2022](#) and [2024](#). See “Fair Taxation for Pittsburgh—A Foundation for a More Just City Beyond American Rescue Plan Dollars,” by Stephen Herzenberg, Diana Polson, Nthando Thandiwe (Pittsburgh Budget and Policy Center, April 14, 2022) and “Fair Taxation Can Help Achieve a More Just Pittsburgh,” Nthando Thandiwe and Stephen Herzenberg (Pittsburgh Budget and Policy Center, December 12, 2023).

³ The City of Philadelphia has had an unearned income tax in place since 1967, called the School Income Tax (SIT). This is a city tax currently set at 3.735% on certain unearned income (from dividends, royalties, S-Corp distributions, gambling winnings, short-term capital gains, certain types of interest, etc.). The SIT helps to fund the School District of Philadelphia. As of yet, no other municipality in Pennsylvania has passed an unearned income tax, even though having the legal authority to do so. For a detailed legal analysis, see Richie Feder’s “The Legal Case for a Pittsburgh Fair Share Tax,” which can be found here: <https://keystoneresearch.org/wp-content/uploads/The-Legal-Case-for-Pitt-FST-.pdf>.

This brief provides data on the expected revenue a Pittsburgh Fair Share Tax would generate, and who would pay for such an increase. Estimates were generated by the Institute on Taxation and Economic Policy (ITEP) and corroborated by Pennsylvania's Department of Revenue.⁴

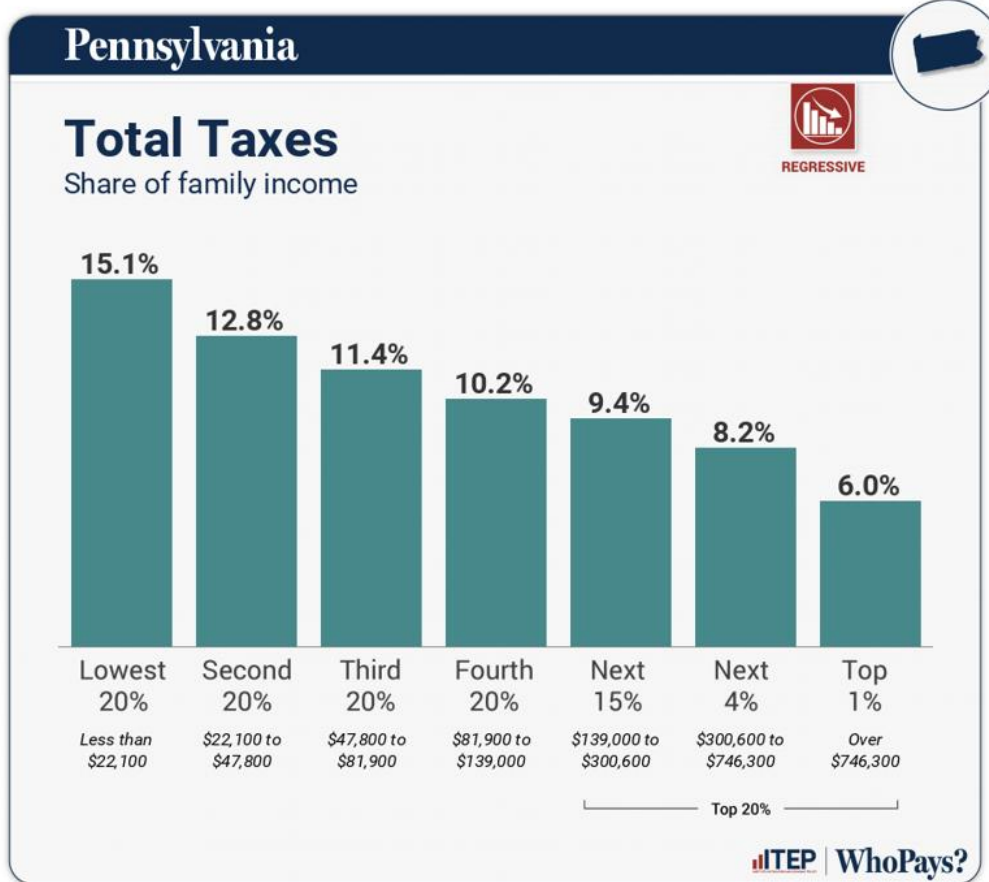
The Problem: Pittsburgh's Unfair Tax System

State and local governments typically rely on three types of taxes to raise revenues: sales, property, and income taxes. Taken all together, as shown in figure 1, these taxes are regressive, meaning they take a larger share of the incomes of low- and middle-income people than of the rich. In fact, Pennsylvania households in the lowest income bracket, those making less than \$22,100 a year, pay 15% of their income on state and local taxes. The top 1 percent, who earn above \$746,300 a year, pay just 6 percent. The lowest-income households are paying local and state taxes as a share of their income at an effective rate that is 2.5 times that of the wealthiest 1 percent. Because of this regressive system, income disparities are even larger in Pennsylvania *after* state and local taxes are collected than before.⁵

Figure 1

⁴ Our estimates were generated by the Institute on Taxation and Economic Policy (ITEP) and validated by the Pennsylvania Department of Revenue.

⁵ Institute on Taxation and Economic Policy (ITEP). "Pennsylvania: Who Pays? 7th Edition." Accessed on October 7, 2026 at: <https://itep.org/whopays/pennsylvania-who-pays-7th-edition/>



Some states and cities respond to the regressivity of these taxes by implementing graduated income taxes where richer individuals pay a higher rate for their income taxes, offsetting the regressive nature of property and sales taxes. Pennsylvania cities, however, don't have this option due to the uniformity clause in Pennsylvania's constitution. The uniformity clause in the Pennsylvania Constitution (Article VIII, Section 1) states: "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."⁶ This means that taxes must be applied equally to the same class of subjects, which prevents Pennsylvania lawmakers from passing graduated income taxes in the state or in Pennsylvania's cities. What makes matters worse is that in many localities in Pennsylvania, only "earned income" or income of wage and salary earners is taxed, while other types of income typically enjoyed by wealthier individuals, or "unearned income," is not taxed at all. Box 1 gives more detail on Pennsylvania's and Pittsburgh's income taxes.

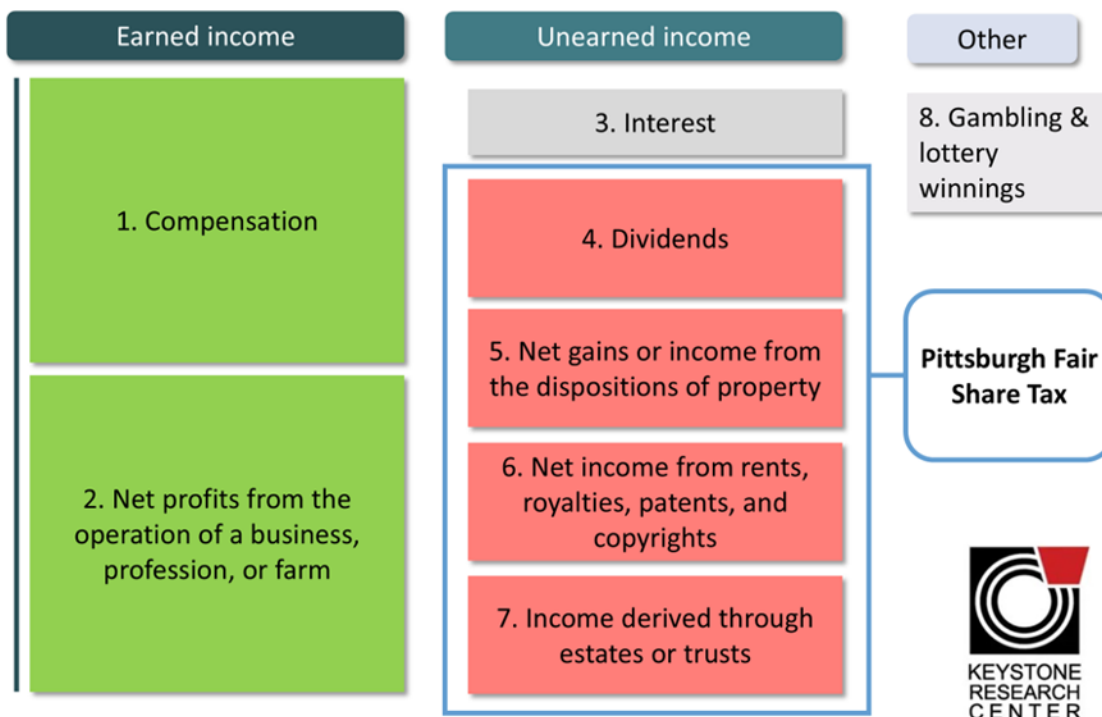
⁶ Pennsylvania Constitution, art. VIII, § 1, "Uniformity of Taxation," Pennsylvania General Assembly.
<https://www.legis.state.pa.us/WU01/LI/LI/CT/HTM/00/00.008..HTM>

Figure 2

Pennsylvania taxes all eight categories of income

Currently taxed under Pittsburgh's income tax (Green)

Would be taxed under a Pittsburgh Fair Share Tax (Red)



Box 1. Pittsburgh and Pennsylvania Income Taxation

Classes of income in Pennsylvania under current state law: As figure 2 shows, Pennsylvania taxes eight classes of income: (1) compensation; (2) net profits from the operation of a business, profession, or farm; (3) interest; (4) dividends; (5) net gains or income from the dispositions of property; (6) net gains or income from rents, royalties, patents, and copyrights; (7) income derived through estates or trusts; and (8) gambling and lottery winnings.⁷

⁷ Pennsylvania Department of Revenue, <https://www.revenue.pa.gov/TaxTypes/PIT/Pages/default.aspx>; for more detail, see Pennsylvania Department of Revenue, The Tax Compendium, p. 21-25, https://www.pa.gov/content/dam/copapwp-pagov/en/revenue/documents/news-and-statistics/reportsstats/taxcompendium/documents/2025_tax_compendium.pdf. For the statutory language, see 72 P.S. § 7303, "Classes of income," <https://govt.westlaw.com/pac/Document/N769E590079C211EFBB15D94360F2241F?contextData=%28sc.Default%29&transitionType=Default>

Income currently taxed in Pittsburgh:⁸ The City of Pittsburgh currently imposes a 1% city income tax on categories (1) and (2) of income above (in green on figure 2): compensation defined the same way as the state (“wages, salaries, tips compensation that is earned, bonuses, stock options...”)⁹ and “...net profit from businesses or professions.”⁹ (Note: while on paper the city’s and school district’s income tax rates are 1 percent and 2 percent, respectively, for most of the past two decades, 0.25 percentage points of the school district’s 2% income tax have been remitted to the city each year.¹⁰)

Who is taxed? Residents of Pittsburgh pay both city and school district income tax. Pennsylvania residents who work in the city but live outside of it do not pay the taxes. Non-Pennsylvania residents who work within the city pay 1%.¹¹

Additional classes of income could be taxed in Pittsburgh under current law: Pittsburgh could tax currently untaxed dividends, interest, capital gains, rents, royalties, patents, copyrights, estates, and trusts. Because taxing interest may affect low- and middle-income people more than other categories of wealth, we excluded it from our proposed Pittsburgh Fair Share Tax.¹²

Pittsburgh could also tax different classes of income at different rates: Different kinds of income can be taxed at different rates in Pittsburgh and Pennsylvania, respectively, under the Pennsylvania constitution and current state law.¹³

⁸ Pittsburgh Tax Descriptions, <https://www.pittsburghpa.gov/City-Government/Finance-Budget/Taxes>. For another list of what Pittsburgh does not currently tax, in addition to interest, dividends, and capital gains (i.e., Social Security benefits, unemployment compensation, pensions, public assistance, death benefits, etc.), see 2021 Taxpayer Annual Local Earned Income Tax Return page 5, “B. Regulations/Line by Line Instructions,” Line 1, <https://www.jordantax.com/files/resources/finalreturninstructionsdcgedgclgs%2d32%2d1%2d2024.pdf>. This tax form does not specifically address whether classes of income (6) to (8) are currently taxable in Pittsburgh.

⁹ See this Pittsburghpa.gov link for more information about Pittsburgh’s earned income tax:

<https://www.pittsburghpa.gov/City-Government/Finance-Budget/Taxes>

¹⁰ Bob Bauder, “Pittsburgh Mayor Calls for State Oversight of Public Schools,” Governing Magazine, November 12, 2019, <https://www.governing.com/news/headlines/pittsburgh-mayor-calls-for-state-oversight-of-public-schools.html#:~:text=City%20residents%20pay%20a%203,the%20district%20is%20audited%20annually>.

¹¹ Mt. Oliver Borough residents pay the School Earned Income Tax of 2% to the city which acts as the tax collector for the school district. Mt. Oliver residents must also file directly with the Mt. Oliver Borough tax office to report the borough’s earned income tax.

¹² For more discussion on the legality of a fair share tax, please see: Richie Feder’s analysis, “The Legal Case for a Pittsburgh Fair Share Tax,” found here: <https://keystoneresearch.org/wp-content/uploads/The-Legal-Case-for-Pitt-FST-.pdf>.

¹³ Under uniformity clause case law, governments in PA may tax different categories of wealth and income if those categories are usual and customary. “The test of uniformity is whether there is a reasonable distinction and difference between the classes of taxpayers sufficient to justify different tax treatment. So long as the classification imposed is based upon some standard capable of reasonable comprehension, be that standard based upon ability to produce revenue or some other legitimate distinction, [the Uniformity Clause is satisfied]” Appeal of Borough of

Pittsburgh’s income inequality is notable, as figure 3 shows. While the bottom 20% of income earners have an average income of \$15,600 a year, the top 1% in Pittsburgh earn 141 times that—on average, \$2.2 million a year. The top 1% earn 36 times as much as the bottom 80% of income earners in Pittsburgh (who have an average income of \$61,100 a year).¹⁴

Figure 3

The top 1% in Pittsburgh have average incomes 141 times those of the bottom 20%

Average income by income group in Pittsburgh, 2026

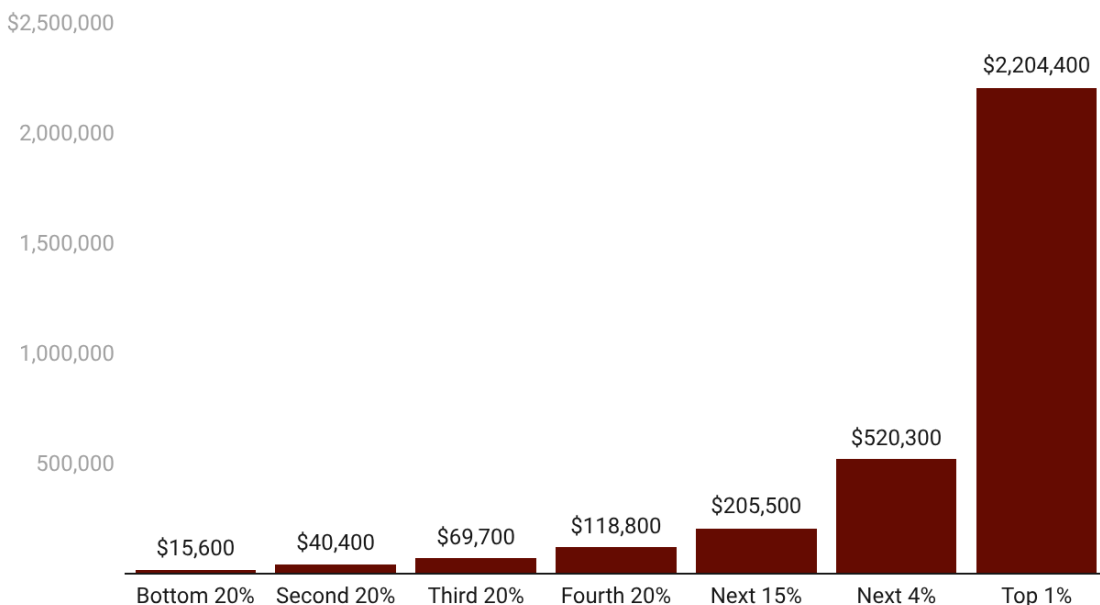


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

Despite receiving income that is far above low and middle-class families in Pittsburgh, the top 1% pay a lower share of their income in local income tax. Figure 4 shows the shares of income that are paid under Pittsburgh’s current 1% income tax by working age (18 or over, non-elderly) taxpayers of different incomes. As you can see, the top 1% pay a significantly lower share of their income on Pittsburgh income taxes than middle- or low-income workers. This is because high-income Pittsburghers often derive their income from a combination of wages (taxed) and

Aliquippa, 175 A.2d 856, 862-63 (Pa. 1961). See Richard Feder, “The Fair Share Tax Proposal Is Uniform Under the PA Constitution,” January 13, 2022, <https://keystoneresearch.org/wp-content/uploads/Fair-Share-Tax-memo.pdf>.

¹⁴ This is a broad measure of income, including wages, salaries, retirement, income from wealth, like dividends, capital gains, etc.

investment income (untaxed), whereas middle- and low-income workers' income comes almost exclusively from wages.

Figure 4

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

Pittsburgh municipal income tax as a share of annual income

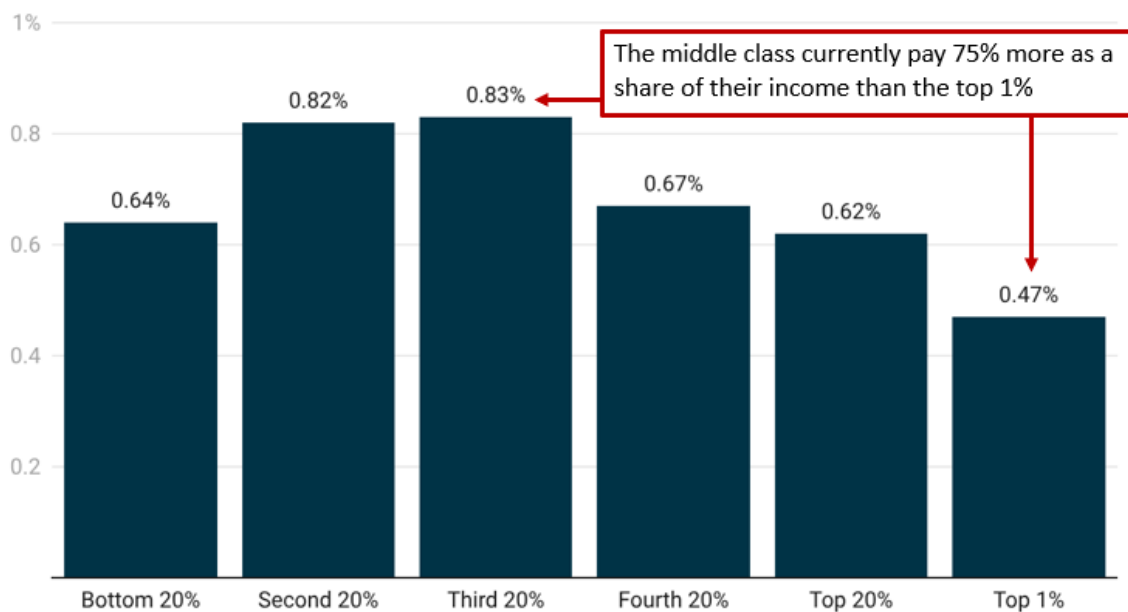


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

A Fair Share Tax Would Raise Significant Revenue in Pittsburgh and Make Our Tax System More Fair

While Pittsburgh has a revenue problem, the solution is not broad-based tax increases. Low and middle-income taxpayers in Pittsburgh already pay a greater share of their income in taxes than the rich. A simple way to address this inequity is by taxing investment income. We modeled a 2% Fair Share Tax, which would tax income from dividends, capital gains, and income generated from rents, royalties, patents, copyrights, estates, and trusts. We excluded interest because it is generally associated with prudent savings practices as opposed to riskier investments aimed at

maximizing returns.¹⁵ [Note: A Pittsburgh Fair Share Tax would NOT tax retirement income, social security, unemployment benefits, or federal active duty pay for military service.]

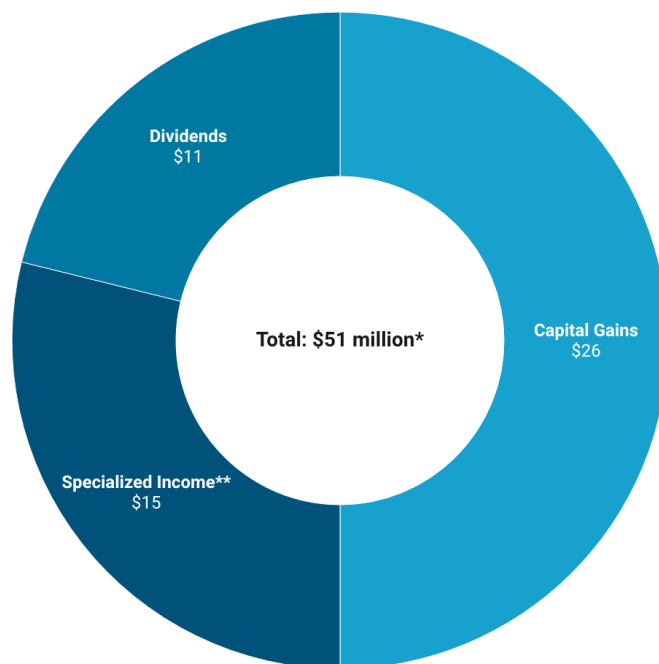
This 2% Fair Share Tax would raise approximately \$51 million a year for the City of Pittsburgh. Approximately half of the revenue raised (\$26 million) would come from capital gains. The rest would come from specialized income including rents, royalties, patents, copyrights, estates, and trusts (\$15 million), and from dividends (\$11 million).¹⁶

Figure 5

A Pittsburgh Fair Share Tax Would Bring in \$51 Million Annually in Revenue

Estimated Revenue Sources (in millions)

Capital Gains Specialized Income** Dividends



*Components do not add to total due to rounding. **Specialized income includes rents, royalties, patents, copyrights, estates, trusts.

Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy • Created with Datawrapper

¹⁵ The Institute on Taxation and Economic Policy (ITEP) generated these estimates and the estimates were validated by the Pennsylvania Department of Revenue. ITEP is a nationally respected nonpartisan tax research organization whose analysis is widely used by policymakers, researchers, and journalists across the country. ITEP used their Microsimulation Tax Model to generate estimates—it combines IRS tax data, Census microdata, and other public datasets to represent millions of tax units in every state and many cities. Each record in the model is weighted to reflect real populations and income distributions in a particular tax jurisdiction.

¹⁶ This total is greater than \$51 million due to rounding.

Below, we examine the impact of this Fair Share Tax option on Pittsburghers in different income brackets. Figure 6 shows who will pay for the tax increase. Highlighted in shades of blue is the top 20% of income earners (who earn an average of \$368,600 a year). The richest 20% will pay 92% of the Pittsburgh Fair Share Tax. In fact, the top 1% of income earners who earn an average of \$2.2 million a year will pay 52% of the total Fair Share Tax revenue. As you can see, the bottom 80% of income earners in Pittsburgh (in yellow) will only pay 7.6% of the tax increase. This figure shows clearly that the Fair Share Tax is structured to shield most lower- and middle-income households from bearing the brunt of the tax—those with the most ability to contribute will pay for most of the revenue raised.

Figure 6

Who will pay for the tax increase?

The top 20% of income earners (in shades of blue) will pay for 92% of a Pittsburgh Fair Share Tax

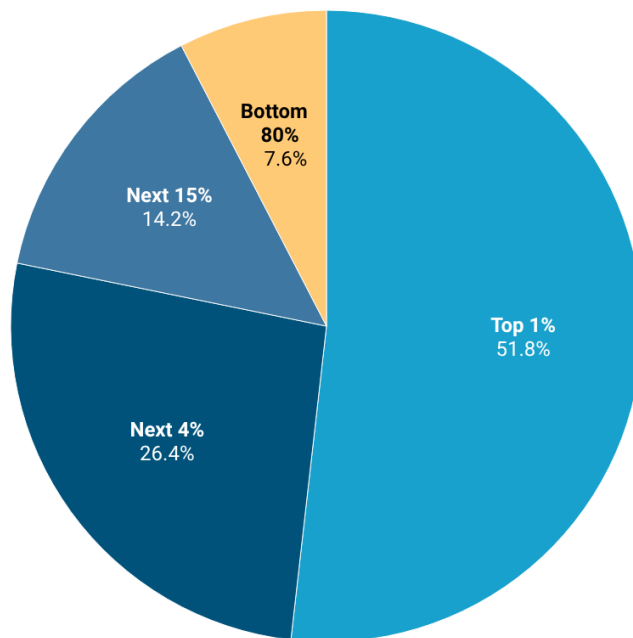


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy • Created with Datawrapper

Figure 7 shows the percent of people who would see a tax increase by income distribution group. As you can see, a low share (4%) of individuals in the bottom 20% of income earners (earning an average of \$15,600 a year) would see their local income tax change. [And if you look at figure 8, you'll see the average tax change for the bottom 20% is only \$3 each year.] Only fifteen percent of the middle-income category (labeled "Third 20%") would see an increase in their taxes with the Fair Share Tax. Most individuals (92%) in the top 1% of Pittsburgh income-

earners—that is, those who earn an average income of over \$2.2 million a year—would see an increase in their taxes with a Pittsburgh Fair Share Tax. Overall, only 13% of the bottom 80% of income earners would see an increase while 58% of the top 20% of income earners in Pittsburgh would see an increase in their taxes under this plan.

Figure 7

A much greater share of higher income individuals would see a tax increase under a Pittsburgh Fair Share Tax

Percent with a tax increase by income group

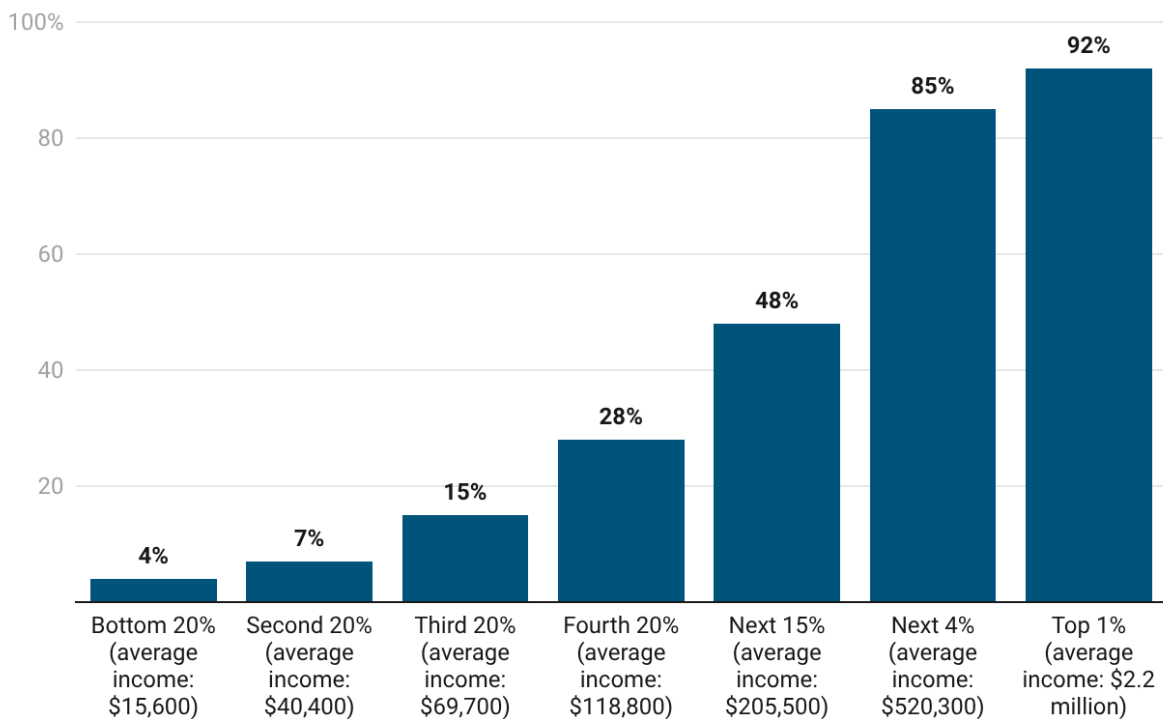


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

Importantly, the average tax increase is much lower for those in the lower- and middle-income brackets. Figure 8 shows the average tax change for those within the detailed income distribution brackets. As you can see, the bottom 80% of income earners, as a group, would barely see a dent in their local income tax owed annually. In fact, the bottom 80% of income earners would only see their taxes increase on average by \$20 a year. Individuals in the “Next 15%” category, or those with an average income of \$205,500 a year, would see an average \$202 increase. Those in the “Next 4%” with an average income of \$520,300 a year would see, on average, a \$1,404 increase in local taxes. The largest impact would be on the “Top 1%,” who

earns an average of over \$2.2 million a year. Individuals in this category would see an average increase of \$11,019 a year in local income taxes.

Figure 8

The top 1% would, by far, see the largest average tax increase from a Pittsburgh Fair Share Tax

Average annual tax change for entire income category

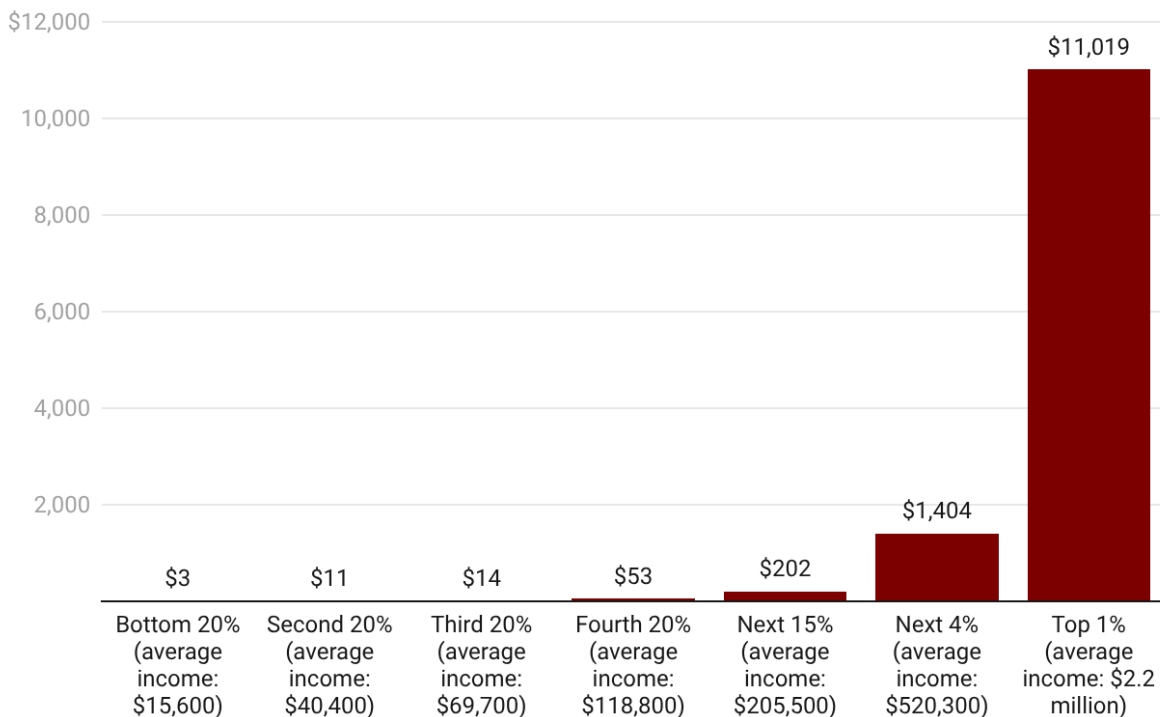


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

The Fair Share Tax would, by design, fall most heavily on the top 1% of income earners, who currently pay the smallest share of their income on local income taxes. As figure 9 shows, the tax change as a percentage of income is very minor—even the top 1% would only see an increase of half of one percent of their total annual income.

Figure 9

The tax change as a percentage of income is very minor; even the top 1% of income earners would only pay 0.5% of their income in a Pittsburgh Fair Share Tax

Tax change as a percent of annual income

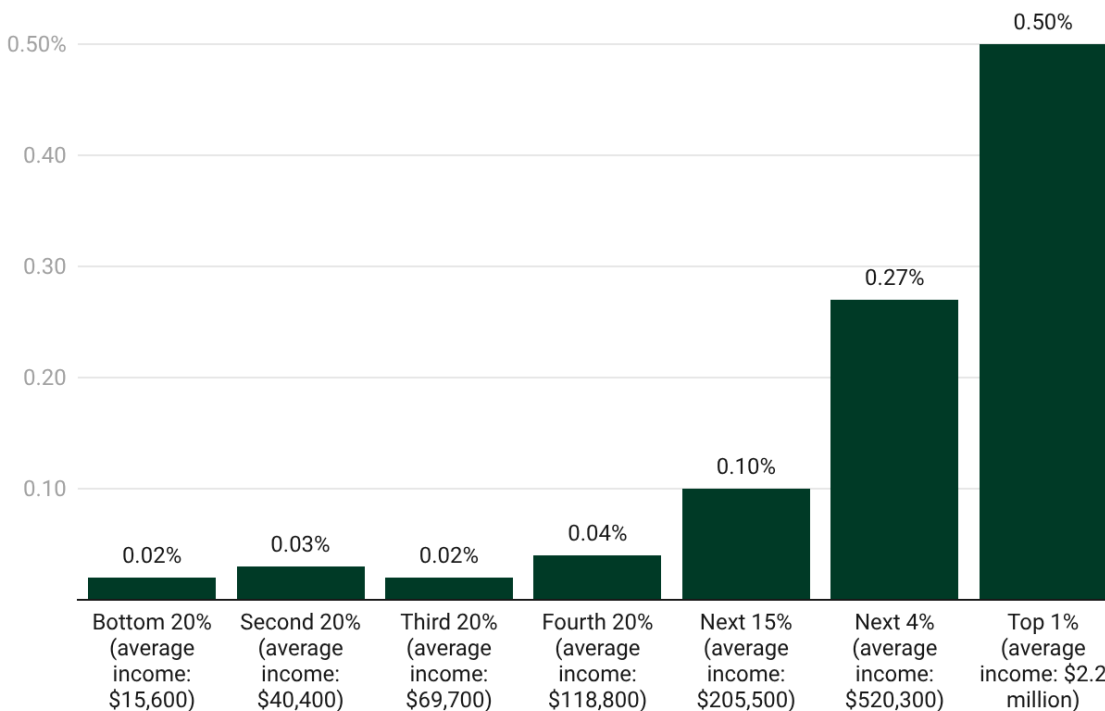


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

Overall, the average income of residents who will see a tax increase is \$274,100. Also, overall, only 22.5% of Pittsburgh tax units would see any increase at all.

Figure 10 shows the impact that the Fair Share Tax would make on our local income tax system. The dark blue bars show the current Pittsburgh income tax as a share of income for residents in different income brackets, with the highest-income residents paying the lowest share of their income in Pittsburgh's income tax (also shown in figure 4). When you add the Fair Share Tax in Figure 10 (light blue bars), you can see it starts to even out the impact. Those with the most

ability to pay will contribute more, making our local income tax system fairer while also generating significant revenue for the city. Considering sales and property taxes are also regressive, the fact that the top 1% are paying a slightly higher share of their income in Pittsburgh income taxes will address some of this cumulative inequity in our tax system.

Figure 10

Implementing the Pittsburgh Fair Share Tax Will Make the Local Tax System More Fair

Pittsburgh municipal income tax + fair share tax as a share of income

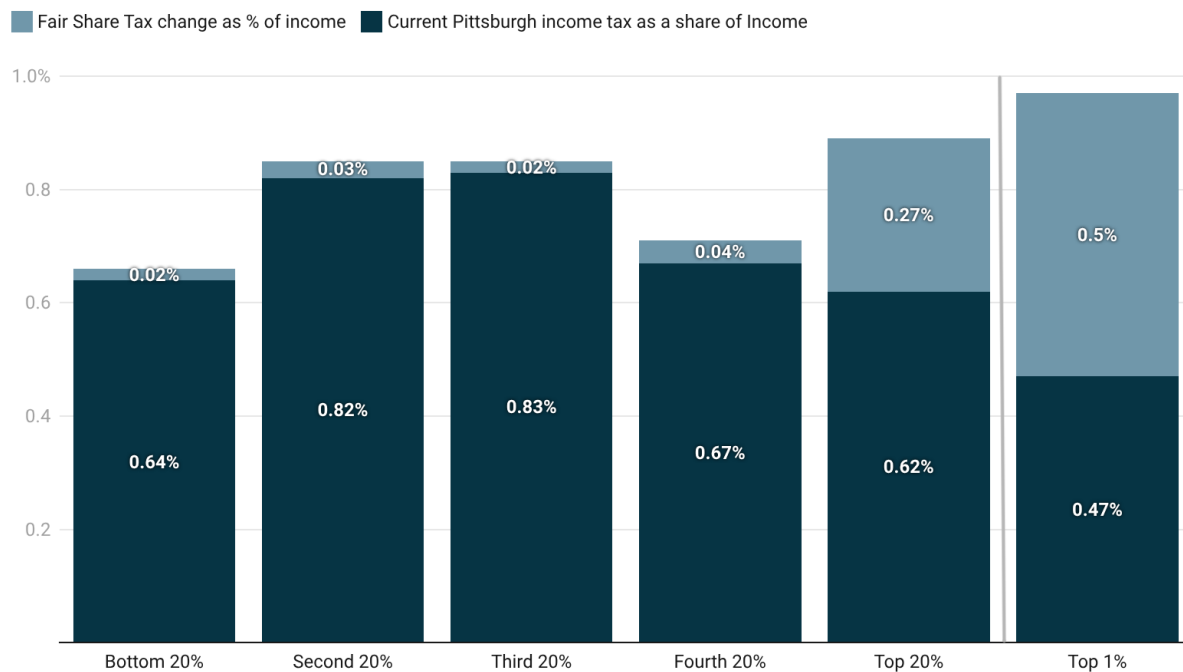


Chart: Keystone Research Center • Source: Institute on Taxation and Economic Policy (ITEP) • Created with Datawrapper

Conclusion

Potential revenue from the Pittsburgh Fair Share Tax is significant—adding an extra \$51 million to the city’s coffers would increase the city’s revenues by about 7.4%.¹⁷ These much-needed funds can go towards critical investments that improve our city and its residents, such as expanding access to affordable housing, investing in violence prevention, and funding after-school and summer programs for kids. At the same time, a Pittsburgh Fair Share Tax would even

¹⁷ Pittsburgh revenue in 2025 was \$687 million. A \$51 million increase in revenue would be a 7.4% increase.



out the city's income tax responsibility so that those with the most ability to contribute are paying their fair share.