

Pennsylvania Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Pennsylvania pay a far higher share of their income in state and local taxes than do the richest Pennsylvanians, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Pennsylvania has a very unfair tax system.”

Pennsylvania’s Tax Code: Soak the Poor and Middle Class, Spare the Rich

When all Pennsylvania taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Pennsylvania families—with average incomes of \$897,000—is 4.8% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 3.5%.
- The average tax rate on families in the middle of the income distribution—those earning between \$28,000 and \$45,000—is 9.1% before the federal offset and 8.8% after, two and a half times the effective rate the richest pay.
- But the tax rate on the poorest Pennsylvania families—those earning less than \$16,000—is the highest of all. At 11.4% it is over three times the effective rate of the wealthiest Pennsylvanians.

“Pennsylvania’s flat rate income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in in Pennsylvania.”

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Pennsylvania Taxes Among Nation's Most Regressive

Pennsylvania's tax system earns it the dubious distinction of placing on the list of the "Terrible Ten" most regressive states in the nation. Even before accounting for federal itemized deduction savings, Pennsylvania asks poor families—those in the bottom 20% of the income scale—to pay 3.3 times as great a share of their earnings in taxes as do the wealthy. Middle-income families in Pennsylvania pay 2.5 times as high a share of their income in taxes as the wealthiest families.

"Pennsylvania is one of only six states nationwide that has a flat rate income tax," McIntyre said. "The lack of a progressive income tax to offset regressive sales and property taxes is the most important factor in making the Pennsylvania tax system so regressive."

Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Pennsylvania taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose for all Pennsylvanians, but disproportionately so for those with the lowest incomes.
- The state income tax became slightly more progressive during the 1990s—but the benefits to low-income taxpayers were outweighed by increases in regressive consumption taxes.

"While Pennsylvania lawmakers expanded low-income tax credits, Pennsylvania's income tax remains one of the least progressive in the nation," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the Pennsylvania findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

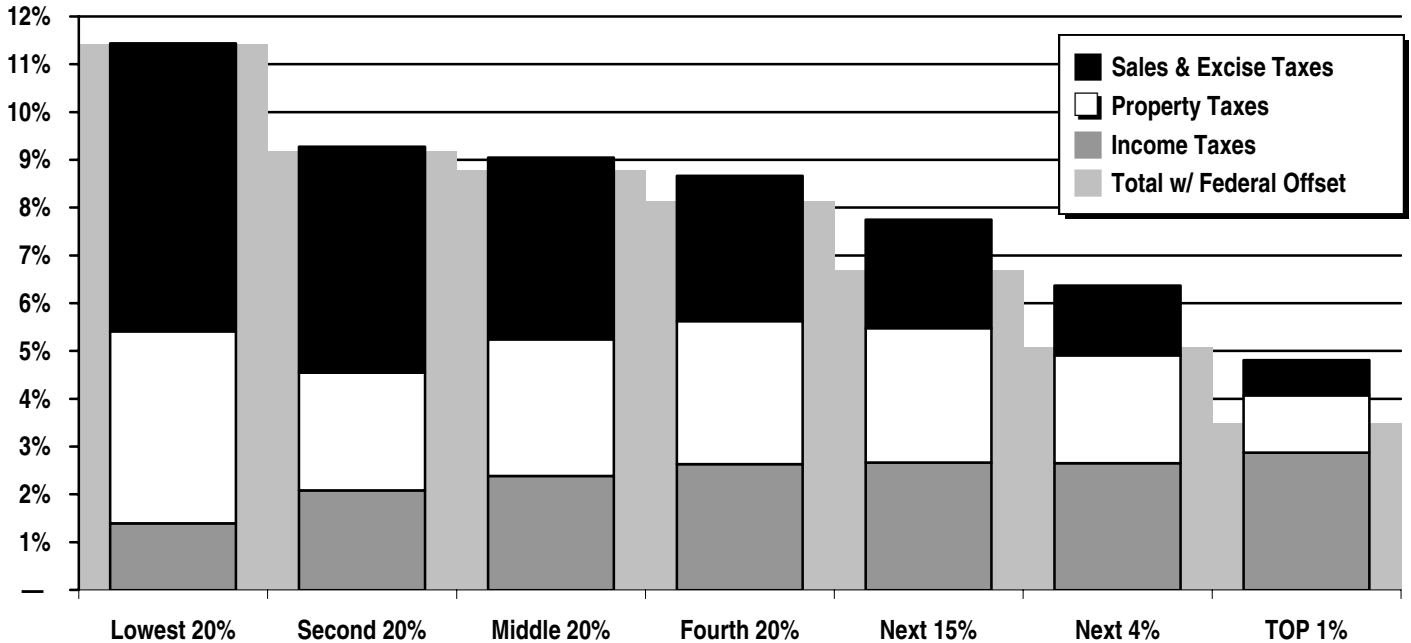
Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

Pennsylvania

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$28,000	\$28,000 – \$45,000	\$45,000 – \$71,000	\$71,000 – \$133,000	\$133,000 – \$301,000	\$301,000 or more
Average Income in Group	\$9,100	\$21,900	\$36,200	\$56,400	\$92,900	\$191,000	\$897,000
Sales & Excise Taxes	6.0%	4.7%	3.8%	3.0%	2.3%	1.5%	0.7%
General Sales—Individuals	2.4%	2.2%	1.9%	1.6%	1.2%	0.8%	0.4%
Other Sales & Excise—Ind.	2.0%	1.1%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.7%	1.4%	1.1%	0.9%	0.6%	0.4%	0.2%
Property Taxes	4.0%	2.5%	2.9%	3.0%	2.8%	2.3%	1.2%
Property Taxes on Families	4.0%	2.4%	2.8%	2.9%	2.7%	2.1%	0.9%
Other Property Taxes	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.3%
Income Taxes	1.4%	2.1%	2.4%	2.6%	2.7%	2.7%	2.9%
Personal Income Tax	1.4%	2.0%	2.3%	2.6%	2.6%	2.5%	2.5%
Corporate Income Tax	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.4%
TOTAL TAXES	11.4%	9.3%	9.1%	8.7%	7.7%	6.4%	4.8%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.5%	-1.1%	-1.3%	-1.3%
TOTAL AFTER OFFSET	11.4%	9.2%	8.8%	8.1%	6.7%	5.1%	3.5%

Note: Table shows 2002 tax law at 2000 income levels.

Pennsylvania Tax Trends

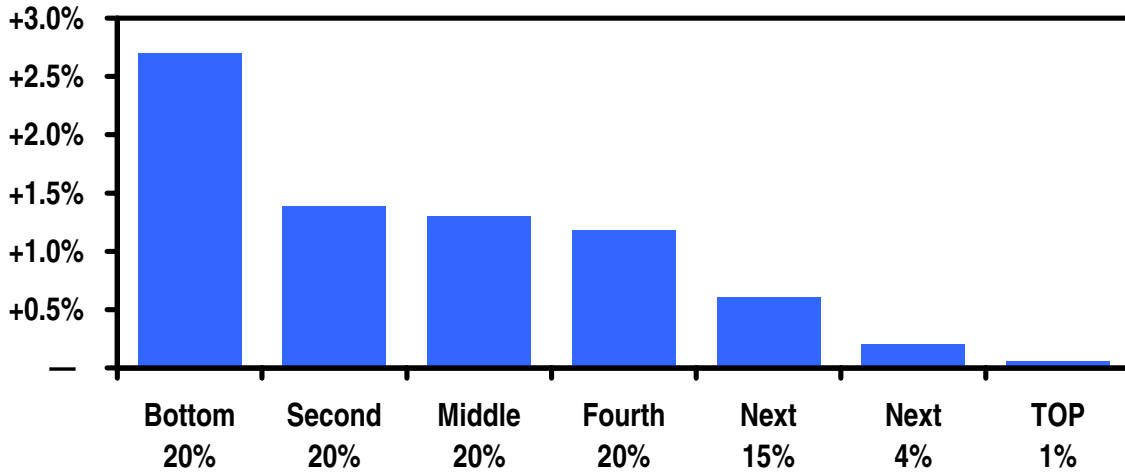
Progressive Features

- ✓ "Tax forgiveness" credit

Regressive Features

- ✗ Flat-rate income tax
- ✗ Relatively high cigarette tax

Changes in Taxes as Shares of Income, 1989 – 2002

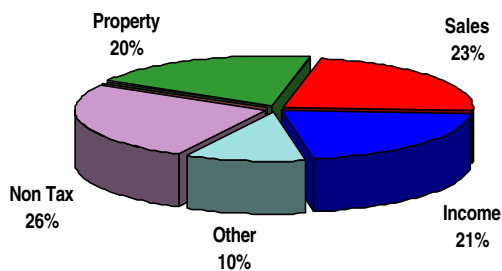


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.2%	+0.5%	+0.3%	+0.2%	+0.2%	+0.1%	+0.0%
Property	+1.2%	+0.7%	+0.7%	+0.6%	+0.1%	-0.3%	-0.0%
Income	+0.3%	+0.2%	+0.4%	+0.6%	+0.6%	+0.5%	+0.6%
Federal Offset	-0.0%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.5%
Overall Change	+2.7%	+1.4%	+1.3%	+1.2%	+0.6%	+0.2%	+0.1%

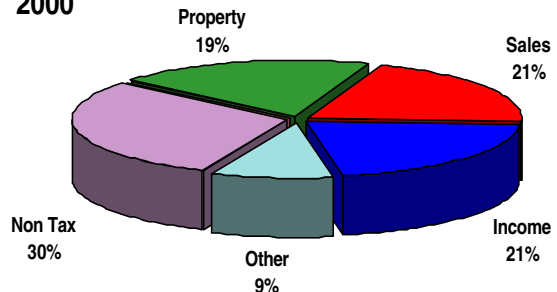
Pennsylvania's income tax was made slightly more progressive by the expansion of the low-income tax threshold, which partially offset the rate hike for the low-income taxpayers. The 1999 repeal of the gross receipts tax on residential natural gas was a progressive change. However, cigarette excise taxes were hiked by 82 cents since 1989-- a regressive hike. The gradual repeal of the capital stock franchise tax will make the tax system even more regressive if it is fully implemented (as currently scheduled) in 2010.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census