

Balancing the Budget and Investing in Pennsylvania's Future with Recurring Revenues

- A modest increase in the personal income tax (PIT) rate would not affect most seniors, low-income families or those who are unemployed.

State	Top PIT Rate
New Jersey	8.97%
New York	8.82%
Delaware	6.60%
West Virginia	6.50%
Virginia	5.75%
Maryland	5.75%
Ohio	4.997%
Pennsylvania	3.07%

- Pennsylvania's PIT rate, 3.07 percent, is the second lowest of all states with an income tax, and it is the *lowest* of all neighboring states (i.e. comparing the top rates).
- Many retired seniors would not be affected by a higher PIT rate because Pennsylvania does not tax most retirement or pension income, including Social Security. Therefore, most retired seniors do not pay PIT in Pennsylvania (provided their interest, dividends and other earnings or taxable investments do not exceed \$6,500 for an individual or \$13,000 for a married couple).
- Low-income families would not be burdened by a higher PIT rate because of Pennsylvania's tax forgiveness provision.
 - Any proposal to increase the PIT rate should include an increase in the tax forgiveness provision to mitigate the effects of any increase on low-income individuals, families and seniors.
 - The income limits for tax forgiveness have not increased for many years – income limits for claimants and first dependents have not increased since 1998, and limits for dependent children have not increased since 2004. Therefore the amount of tax forgiveness granted each year is declining.
 - Currently, about 1.3 million taxpayers (or 1-in-5 tax returns) claimed some level of tax forgiveness on their PIT return. A two-parent family with two children pays no PIT if annual income is not greater than \$32,000. Partial tax forgiveness is available for such families with incomes up to \$36,500.

- Even with a modest increase in the PIT rate, Pennsylvania's tax structure would remain competitive with other states and one of the lowest rates in the nation.
- **Additionally, many other taxpayers would be able to offset a portion of the increased PIT by applying the federal tax deduction for state income taxes.** The federal government would thereby subsidize part of a state PIT increase.
- **A modest increase in the PIT rate would cost the average household less than a dollar per day.**
 - The median household income in Pennsylvania is **\$53,599**.

Impact of PIT Increase By Income Level			
	Additional PIT Per Each Quarter of a Percentage Point (0.25)		
Income	Per YEAR	Per WEEK	Per DAY
\$ 20,000	\$ 50	\$ 0.96	\$ 0.14
\$ 40,000	\$ 100	\$ 1.92	\$ 0.27
\$ 53,599	\$ 134	\$ 2.58	\$ 0.37
\$ 60,000	\$ 150	\$ 2.88	\$ 0.41
\$ 80,000	\$ 200	\$ 3.85	\$ 0.55
\$ 100,000	\$ 250	\$ 4.81	\$ 0.69

Average-income households in neighboring states pay between 5- and 6-percent income taxes rates.

- Each tenth of a percentage point (0.1) increase in the PIT would generate about \$434 million in a full fiscal year of implementation.
- Each quarter of a percentage point (0.25) increase in the PIT rate would generate about \$1 billion in a full fiscal year of implementation.
- **On the contrary, an increase in the sales tax rate would be more regressive than a PIT increase as a higher sales tax would adversely affect low-income families, seniors with fixed incomes and people who are unemployed.**
 - An increase in the sales tax rate would add an additional burden on taxpayers in Philadelphia and Allegheny counties because the sales tax rate is higher in those counties (7 percent) as compared to the rest of the state (6 percent).
 - Also, an increase in the sales tax rate cannot be offset on federal income tax returns, whereas many taxpayers would be able to offset a PIT increase.
 - Each tenth of a percentage point (0.1) increase in the sales tax rate would generate about \$170 million in a full fiscal year of implementation.