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The Benefits of Federal Tax Reform in Pennsylvania

Late last year, Congress passed—and the president signed—H.R. 1, the Tax Cuts and Jobs Act of 2017. The law provides tax relief to working people across all income levels. Since its passage, there have been [more than 700 examples](#) of pay raises, bonuses, enhanced retirement benefits, charitable contributions, and utility rate reductions.

Income Gains, Higher Wages, Better Benefits

Businesses are reinvesting in Pennsylvania and raising wages and benefits for employees as a result of the reduction of corporate taxes.

- Americans for Tax Reform (ATR) maintains a running list of “tax reform good news,” for each state. ATR’s Pennsylvania page identifies at least [50 different examples](#). Below is a partial list, which includes companies promising to **raise their starting wage to \$12 or higher** by 2019.
 - [Beneficial Bank](#) (Philadelphia) – **Raised its minimum wage to \$14 per hour** and provided a \$1,000 bonus to all employees.
 - [Comcast](#) (Philadelphia) – Awarded \$1,000 bonuses to eligible frontline and non-executive employees and plans to spend \$50 billion on infrastructure investment over the next 5 years.
 - [F.N.B Corporation](#) (Pittsburgh) – **Raising its hourly minimum wage to \$15 by the end of 2019** and providing one-time contributions totaling \$1 million to employees’ 401(k) plans.
 - [Fulton Financial Corporation](#) (Lancaster) – **Raising its minimum wage to \$12 per hour**, giving employees a bonus equivalent to an additional week of pay, and committing \$2 million to charitable causes.
 - [PNC Financial Services Group, Inc.](#) (Pittsburgh) – **Raising its minimum wage to \$15 per hour by the end of 2018** and promised employees \$1,500 in retirement benefits, along with a \$1,000 cash bonus. The company will also donate \$200 million to charity.

Lower Tax Rates and Higher Take-Home Pay for Almost All Families

Most Pennsylvania families, at all income levels, have seen their taxes reduced.

- The Tax Foundation analyzed the distributional impact of tax reform, finding people of *all income levels* will [enjoy higher after tax incomes until certain tax provisions expire in 2026](#). This analysis does not account for income gains resulting from economic growth.

- The Independent Fiscal Office (IFO) [created several hypothetical scenarios](#) to gauge the impact of tax reform on Pennsylvania families. Under [almost every scenario](#), Pennsylvanians receive a tax cut.

TCJA's PA Impact on Pa. Taxpayers

Wage Income	Filing Status - Single	Tax Cut	Change in Taxes Paid
\$40,000	Standard Deduction	✓	-\$756
\$80,000	Standard Deduction	✓	-\$2,091
\$80,000	Itemized Deduction	✓	-\$476
\$150,000	Itemized Deduction	✓	-\$1,771
\$300,000	Itemized Deduction	✗	\$149

Wage Income	Filing Status - Married w/ 2 Children	Tax Cut	Changes in Taxes Paid
\$40,000	Standard Deduction	✓	-\$1,417 *
\$80,000	Standard Deduction	✓	-\$2,269
\$80,000	Itemized Deduction	✓	-\$1,219
\$150,000	Itemized Deduction	✓	-\$2,683
\$300,000	Itemized Deduction	✓	-\$9,278
\$600,000	Itemized Deduction	✓	-\$8,747

Wage/Business Income	Filing Status - Married w/ 2 Children	Tax Cut	Change in Taxes Paid
\$40,000	Standard Deduction	✓	-\$1,676*
\$80,000	Standard Deduction	✓	-\$3,144
\$80,000	Itemized Deduction	✓	-\$2,094
\$150,000	Itemized Deduction	✓	-\$5,654
\$300,000	Itemized Deduction	✓	-\$16,257
\$600,000	Itemized Deduction	✓	-\$29,514

*No previous tax liability
Source: Independent Fiscal Office

- A [Heritage Foundation analysis](#) projects the average Pennsylvania taxpayer will receive a tax cut of \$1,169 in 2018 and the average household will see their take-home pay **rise by \$20,094 over the next ten years.**
 - The foundation's analysis also looks at the [tax reduction by congressional district](#)—finding average tax cuts ranging from \$648 to \$1,821.

- The Tax Foundation also provides an interactive tool looking at [tax relief by congressional district](#), allowing users to estimate tax reform's impact by income level. They estimate that Pennsylvania households with incomes of \$50,000 to \$75,000 will save \$1,427.

Lower Utility Bills for Homeowners and Businesses

- In addition to raises, bonuses, and increased retirement benefits, Pennsylvanians can expect lower utility bills in the foreseeable future. According to the [Pennsylvania Public Utility Commission](#), the tax reform package will save working consumers approximately **\$400 million annually** via lower utility bills.
 - This includes lower water and wastewater bills. Based [on the reduction in Pennsylvania American Water's rates](#), monthly water bills will drop 7 percent and wastewater bills 8 percent (a saving of close to \$100 for residential customers and \$500 for commercial customers).
 - Other estimated savings include \$42 per year for the average residential customer using PPL electric distribution and \$54 for UGI Central Penn Gas's average residential heating customer.

More Pennsylvania Jobs and Economic Growth for All

- Tax reform is projected to improve Pennsylvania's employment picture. The [Tax Foundation estimates](#) the federal reform will create nearly 8,700 new jobs in the commonwealth during 2018.
- Entrepreneurs like Josh Skolnick, owner of Monster Tree Service in Doylestown, are contributing to this boost in employment. He [credits the Tax Cuts and Jobs Act with helping expand his business](#) and creating more jobs for working people across the country.
- The IFO estimates that **\$6 to \$7 billion** will be injected into Pennsylvania's economy as a result of the federal tax reform.
 - A side benefit of this accelerated economic growth is increased state tax revenue. This made it easy for state lawmakers to pass an on-time balanced budget with no tax increases.

The Case for State Tax Reform

- Pennsylvania imposes a **crushing tax burden**, which includes a flat corporate tax rate of 9.99 percent—one of the highest in the country.
- Higher taxes hinder the creation of new firms, reduce per capita income, and are more likely to drive residents to low-tax states, according to a [Mercatus Center study](#).
- From 1991-2017, Pennsylvania ranked 46th in job growth, 45th in personal income growth, and 46nd in population growth.
- According to the [U.S. Census Bureau](#), Pennsylvania lost 25,793 residents to other states last year, which averages approximately 500 **people per week**. This exodus—and others like it—is [partly the result of poor tax policies](#) that stifle job opportunities.
- In contrast, states with relatively low tax burdens, such as Texas and Tennessee, [have enjoyed robust economic growth](#) compared to their high-tax state counterparts.
- The IFO predicts federal tax reform could [increase revenues by \\$260 million](#). Pro-growth changes to the state tax code could do even more to improve the state's revenue picture.

State Tax Reforms

- **Tax Cuts:** To attract new jobs and residents, Pennsylvania should consider state-level tax cuts such as Personal Income Tax (PIT) and Corporate Net Income Tax (CNIT) rate reductions.
 - Rep. Jason Ortity has introduced [House Bill 2002](#) to reduce the PIT from 3.07 percent to 2.82 percent.
 - Rep. Seth Grove has circulated a [co-sponsorship memorandum](#) for a bill that would reduce both the PIT and the CNIT. The latter would be reduced over several years to create one of the lowest corporate tax rates in the country.
- **Spending Restraint:** Lawmakers should reduce spending in conjunction with tax cuts to avoid running budget deficits. A state like [North Carolina](#) demonstrates how policymakers can **cut taxes and run budget surpluses**. But this requires spending restraint.
 - One of the best ways to restrain spending is by adopting the [Taxpayer Protection Act \(TPA\)](#), which limits spending growth to the rate of inflation and population over three years. Had the TPA been in place since FY 2003, taxpayers would have saved a cumulative **\$10,000 per family of four**.
- Lawmakers can further control spending by embracing these recommendations:
 - [Reduce corporate welfare](#).
 - Maximize each dollar in the shadow budget—funds housed outside the state’s General Fund budget. Lawmakers can reduce annual appropriations for [shadow budget funds or reduce reserves](#).
 - Implement [reasonable work requirements](#) for healthy adults using Medicaid and Food Stamps.
 - Reform the [state’s criminal justice system to reduce costs and improve effectiveness](#).