



# Budget Facts 2009

from the COMMONWEALTH FOUNDATION

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## Personal Income Tax and Job Losses

*Pennsylvania faces a \$3 billion tax revenue shortfall in the state's General Fund Budget. Competing proposals from Gov. Ed Rendell and the Republican-led Senate differ on raising taxes and reducing/reprioritizing spending. This is the fourth in a series of fact sheets on the state budget.*

### GOVERNOR RENDELL'S PROPOSED TAX HIKE

- Gov. Rendell has proposed a **16% increase in Pennsylvania's personal income tax** (PIT) rate—from 3.07% to 3.57%.
  - ⇒ This tax increase will take \$1.5 billion in additional tax dollars from Pennsylvania residents and small businesses, the majority of which pay the personal income tax.

### A TAX INCREASE WILL RESULT IN THE LOSS OF THOUSANDS OF PENNSYLVANIA JOBS

- Using the PA-STAMP economic modeling program developed by the Beacon Hill Institute at Suffolk University, the Commonwealth Foundation finds:

#### Effect of Tax Changes on PA Jobs

Projected Private Sector Jobs, 2009-10

	0.5% PIT Increase	1% PIT Increase	2% PIT Increase
Latest Estimates	5,156,122	5,156,122	5,156,122
With tax change	5,132,162	5,108,489	5,061,631
Effect of Tax Change	-23,960	-47,633	-94,491

Sources: Governor's Executive Budget, Beacon Hill Institute

- ⇒ Gov. Rendell's proposed PIT increase to 3.57% would result in nearly **24,000 fewer Pennsylvania private sector jobs**.
- ⇒ If the PIT rate was increased by 1 percentage point, **almost 48,000 jobs** would be lost or not created.
- ⇒ If the PIT tax rate was increased by 2 percentage points, Pennsylvania would lose nearly **94,500 jobs**.

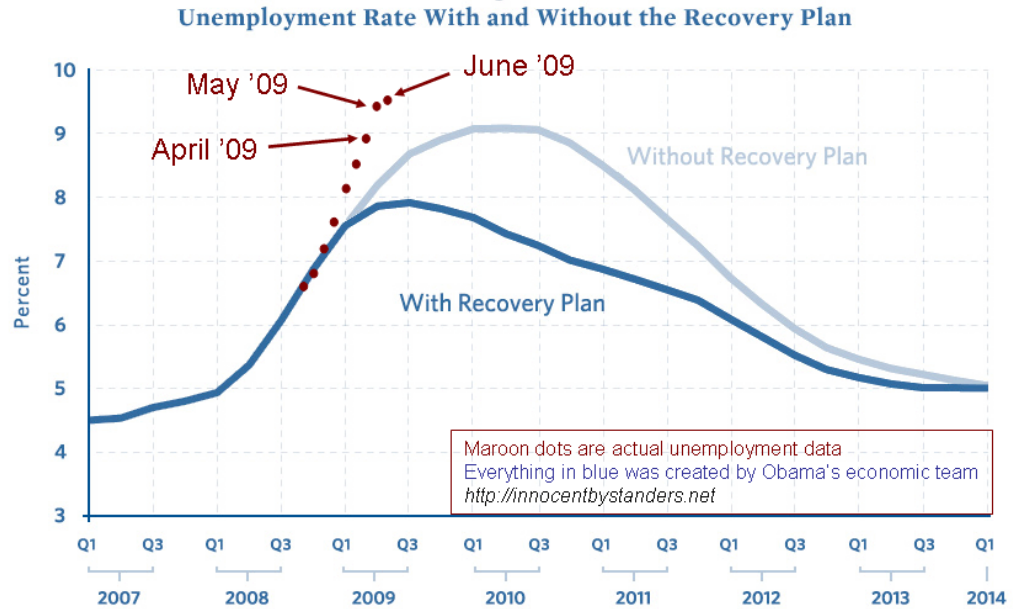
### PENNSYLVANIA IS A HIGH-TAX STATE

- While Gov. Rendell and his allies contend that Pennsylvania has the 2<sup>nd</sup> lowest top or flat state income tax rate, this distorts the real tax burden shouldered by Pennsylvanians.
  - ⇒ Pennsylvania actually ranks **16<sup>th</sup> in the nation in income taxes** collected per person, because the Commonwealth also has **local income taxes**, which few other states do.
  - ⇒ Nine states have **no income tax**, or only apply it to interest and dividends.
  - ⇒ Most states have lower *bottom* rates, which apply to the first few thousand dollars of each taxpayer's income.
  - ⇒ Most states have personal exemptions, marriage and child deductions, and other credits or deductions that reduce the overall tax burden.
- When looking at all taxes, Pennsylvania has the **11<sup>th</sup> highest state and local tax burden**, according to the Tax Foundation.

**FALSE PROMISE OF GOVERNMENT STIMULUS**

- President Obama and Gov. Rendell predicted that the federal “stimulus” bill they pushed for would have an immediate impact and save or create new jobs.

- ⇒ In Pennsylvania, the Recovery Act was supposed to “save or create” **143,000 jobs**.
- ⇒ However, unemployment is higher today than Obama’s economic team had predicted it would be **without stimulus aid**.



- While the stimulus has thus far failed to foster economic revitalization in the private sector, it has created additional government jobs.

- ⇒ Since 2007, Pennsylvania has **lost 217,000 private sector jobs**, but added 13,500 government jobs.
- ⇒ Over the past year, the state has lost 171,000 jobs in the private sector, but added 6,400 onto government payrolls.
- ⇒ Unfortunately, the declining sector funds the growing sector, adding an increasing burden on working Pennsylvanians.

**Pennsylvania Job Growth**  
In thousands, through April 2009, Not Seasonally Adjusted

	Since Start of Recession (Dec 2007)		Since April 2008	
	Number	Percent	Number	Percent
Private Sector	-216,600	-4.2%	-170,900	-3.4%
Government Jobs	13,500	1.8%	6,400	0.8%
Federal Government	3,400	3.3%	3,700	3.6%
State Government	4,800	3.0%	-200	-0.1%
Local Government	5,300	1.1%	2,900	0.6%

Source: Bureau of Labor Statistics

**GOV. RENDELL’S TAX-BORROW-AND-SPEND POLICIES HAVE NOT IMPROVED PENNSYLVANIA’S ECONOMY**

- Despite spending billions on “economic development” Pennsylvania ranks **34<sup>th</sup>** in job growth, **40<sup>th</sup>** in personal income growth, and **42<sup>nd</sup>** in population growth under Gov. Rendell.
  - ⇒ A recent analysis shows that states spending the most on “economic development” have **slower economic growth** than those spending the least. Unfortunately, Pennsylvania spends **more than any other state but one**.
  - ⇒ Conversely, states with **lower tax burdens** and states that have **cut taxes** have stronger growth than states with higher taxes and recent increases. Pennsylvania is both a high-tax state and a state with recent tax increases.

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For more information on the **State Budget**, visit [CommonwealthFoundation.org](http://CommonwealthFoundation.org).

