

HOW DOES PENNSYLVANIA'S TAX BURDEN COMPARE?

Pennsylvania's tax structure should benefit all Pennsylvanians, not just some. Unfortunately, our state's stifling tax burden harms residents. Each year, government spending grows, increasing the pressure for higher taxes. These taxes weigh heavily on the state's economy and lead to slow job and income growth. Lower taxes are the key to a stronger economy.

TAX BURDEN

Pennsylvania residents suffer from the **15th highest state and local tax burden in the country**, according to the latest analysis from the Tax Foundation.

- The commonwealth's state and local tax burden is more than \$18,000 per family of four—or **\$4,589 per person**.
- As a share of state income, state taxes consume 10.2%; the national average is 9.9%.

HIGH STATE TAXES

Governor Tom Wolf proposed historic broad-based tax increases in 2016. While the Legislature rejected the governor's specific proposal, the final budget added \$650 million to Pennsylvanians' tax burden by raising sin taxes, applying the sales tax to digital downloads, and increasing the bank shares tax from 0.89% to 0.95%:

In 2016, **Pennsylvanians worked 112 days**—until April 22—to earn enough money to pay all their federal, state, and local taxes. This year, Pennsylvanians will spend more of their income on taxes than **food, clothing, and housing combined**. Pennsylvania's high taxes include:

- The 2nd highest corporate income tax rate in the U.S (9.9%). Combined with the federal tax rate, this is the **2nd highest rate in the world**.
- Highest gasoline tax rate in the nation (\$0.504 per gallon)
- Highest unemployment insurance taxes
- 8th highest state and local cell phone tax rate (14.14%)

| STATE TAXES | TAX RATE | RANK (50=lowest) | PER-CAPITA |
|----------------------------|--------------------|------------------|------------|
| State Corporate Income Tax | 9.99% | 2 | \$180 |
| State Personal Income Tax | 3.07% | 43 | \$845 |
| State General Sales Tax | 6.00% | 16 | \$742 |
| State Cigarette Tax | \$2.60 per pack | 10 | n/a |
| State Gasoline Tax | \$0.504 per gallon | 1 | n/a |
| State Spirits Taxes | \$7.23 per gallon | 18 | n/a |
| State Beer Taxes | \$0.08 per gallon | 45 | n/a |

| STATE & LOCAL TAXES | TAX RATE | RANK (50=lowest) | PER-CAPITA |
|--------------------------------|------------------|------------------|------------|
| State & Local Income Taxes | variable | n/a | \$1,201 |
| State & Local Sales Taxes | 6.34% on average | 32 | \$778 |
| State & Local Excise Taxes | variable | n/a | \$662 |
| State & Local Cell Phone Taxes | 14.14% | 9 | n/a |
| State & Local Property Taxes | variable | n/a | \$1,376 |

Source: Tax Foundation, Commonwealth Foundation

One bright spot is Pennsylvania's relatively low and flat personal income tax. Only seven states have lower income taxes, because they don't levy a personal income tax. Two other states only tax investment income, with Tennessee recently enacting legislation to eliminate its income tax entirely.

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SIN TAXES

The commonwealth collects more in sin tax revenue than any other state: \$2.7 billion annually in tobacco, alcohol, and gambling taxes. The latest state budget increased sin taxes, which fall disproportionately on the working poor, incentivize criminal activity, and provide an unstable source of revenue.

TOBACCO

Last year, cigarette taxes increased by \$1 per pack. The 2016-2017 budget also placed a 40% wholesale tax on e-cigarettes, a 55-cents-per-ounce tax on smokeless tobacco, and a 56-cents-per-ounce tax on roll-your-own tobacco. These taxes:

- *Disproportionately burden the poor* because a larger percentage of their household income is spent on cigarettes.
- *Are unpredictable revenue sources*. Philadelphia, which recently increased local cigarette taxes, reported \$58.8 million in cigarette tax revenue in 2015, 25% below original estimates.
- *Contribute to crime*. One in five cigarettes in Pennsylvania will now be consumed illegally, according to the Mackinac Center.

ALCOHOL

About 85% of revenues from state liquor stores come from taxes, including the 18% Johnstown Flood Tax (created in 1936 as a temporary tax to fund flood repairs). State liquor stores also add a markup and handling fee on every product sold.

GAMBLING

Pennsylvania's gambling taxes are among the highest in the country, with an effective rate of 55% on proceeds. Like cigarette tax revenue, gambling tax revenue is unreliable. Taxes on slot machines were promised to generate \$1 billion a year for property tax relief, but two years later the tax generated only \$600 million.

AS TAXES RISE, THE ECONOMY SUFFERS

From 1991 to 2015, Pennsylvania's tax burden ranking climbed from 26th to 15th, while the economy ranked 46th in job growth, 45th in personal income growth, and 46th in population growth.

- **Pennsylvania's unemployment rate exceeds the national average.** Unemployment in the commonwealth significantly increased from 4.9% in March to 5.6% in July. National unemployment numbers are holding steady at 4.9%.
- **People are fleeing the state.** Pennsylvania lost 41,600 residents (net) to other states last year—one person every 12.5 minutes. Over the last five years, states with the largest migration losses—including Pennsylvania—had a higher average tax burden (10.93%) than states with large migration gains (8.84%).

Higher taxes lead to a decline in gross state product (GSP), per-capita income, and the number of new businesses, as noted by a Mercatus Center study.

THE SOLUTION

States with lower tax burdens consistently experience higher job and income growth than states with high tax burdens.

TAX BURDEN AS PERCENTAGE OF STATE INCOME

| FIVE STATES WITH THE LOWEST TAX BURDEN | | | |
|--|---|---|--|
| STATES | State and Local Tax Burden as % of Income | Personal Income Growth Rate (Q1 of 2006-2016) | Non-Farm Payroll Employment Growth (April 2006-2016) |
| Alaska | 6.50% | 54.62% | 8.16% |
| South Dakota | 7.10% | 49.83% | 8.95% |
| Wyoming | 7.10% | 43.72% | 2.07% |
| Tennessee | 7.30% | 44.98% | 6.36% |
| Texas | 7.60% | 60.39% | 19.83% |
| Average | 7.12% | 50.71% | 9.07% |

| FIVE STATES WITH THE HIGHEST TAX BURDEN | | | |
|---|---|--|--|
| STATES | State and Local Tax Burden as % of Income | Personal Income Growth Rate (Q1 2006-2016) | Non-Farm Payroll Employment Growth (April 2006-2016) |
| Oregon | 10.30% | 43.59% | 8.05% |
| Rhode Island | 10.80% | 35.33% | -1.48% |
| Minnesota | 10.80% | 40.38% | 4.96% |
| Maryland | 10.90% | 36.58% | 4.85% |
| California | 11.00% | 42.81% | 7.67% |
| Average | 10.76% | 39.74% | 4.81% |

Sources: Tax Foundation, US Bureau of Economic Analysis, US Bureau of Labor Statistics.

Lowering Pennsylvania's tax burden is essential to reinvigorating the economy and reversing the long-term trends of high taxes and sluggish job growth.