

# PENNSYLVANIA'S CHOICE

**THE COMING FISCAL CRISIS  
AND WHAT TO DO ABOUT IT**

**November 3, 2025**

**PENN POLICY**

# MAJOR ACHIEVEMENTS IN RECENT YEARS

## What has been accomplished:

- two years of K–12 adequacy funding and tax equity funding
- a new tax credit for working families
- an expanded tax credit for child care and dependent care
- an expanded tax credit to relieve property taxes for seniors
- health care reforms that expanded eligibility for discounted drugs
- new investments in child care
- new funding to build and preserve affordable housing

- new efforts to help businesses expand in the state.

## Why it happened:

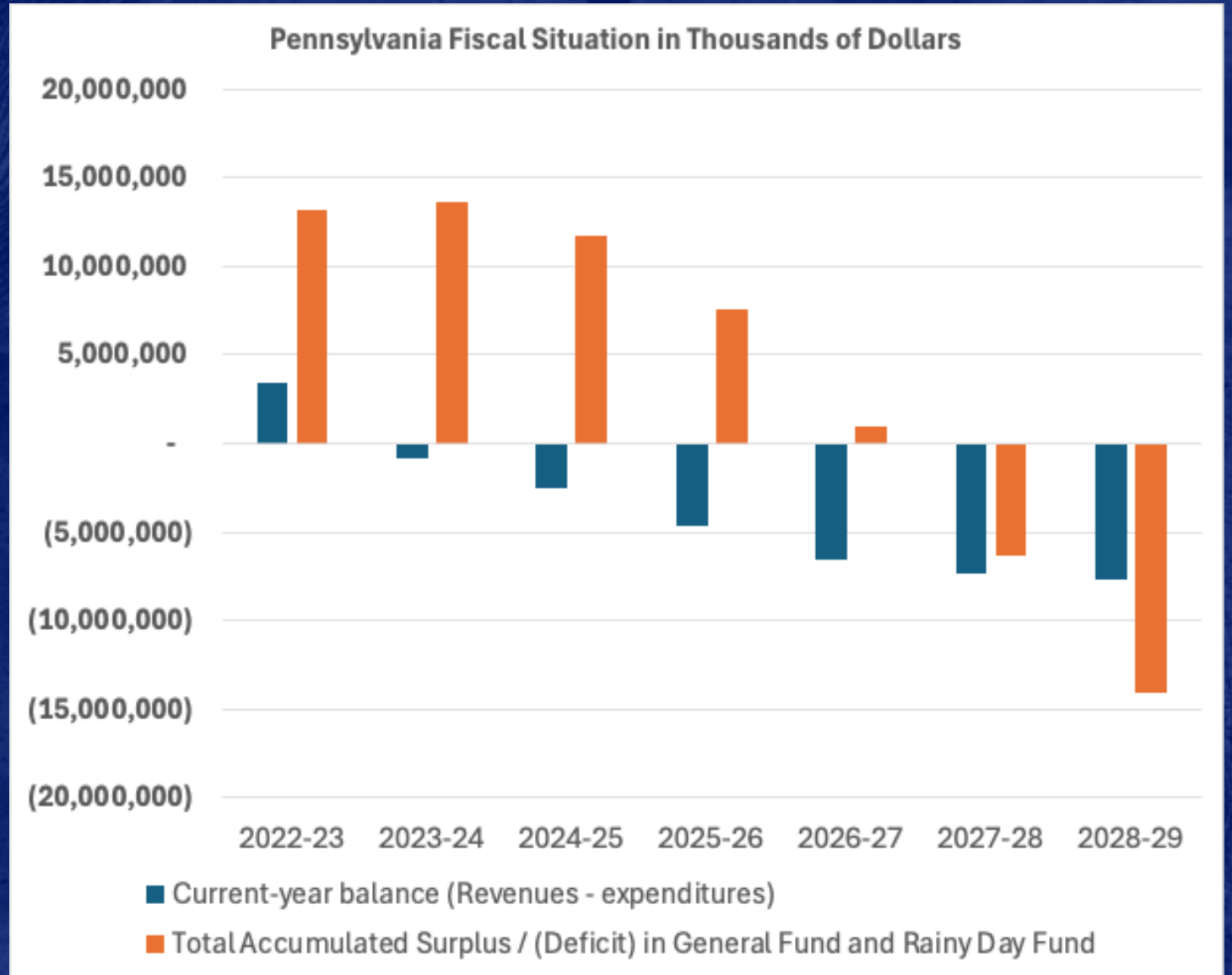
- strong leadership from Governor, Democratic House majority, Senate Democrats
- advocacy organizations' efforts
- a huge surplus, which made it possible to spend much more without raising taxes (and thus overcame Republican objections)

# BUDGET PROJECTIONS BASED ON CURRENT SPENDING AND REVENUE

Projection of Current-Year Deficit and Long Term PA Accumulated Surplus and Deficit (in millions of dollars)

Fiscal Year	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Funds available (revenues after refunds +prior year lapses-onetime funds)	46,407,971	44,073,915	45,272,391	45,467,584	47,769,380	47,397,274	48,963,615
Expenditures	42,962,202	44,864,798	47,822,850	50,093,015	52,420,000	54,270,000	55,880,000
Current-year balance (Revenues - expenditures)	3,445,769	(790,883)	(2,550,459)	(4,625,431)	(4,650,620)	(6,872,726)	(6,916,385)
Total Accumulated Surplus / (Deficit) in General Fund and Rainy Day Fund	13,213,491	13,619,089	11,681,630	7,551,801	2,901,181	(3,971,545)	(10,887,930)

# PA'S FISCAL SITUATION



# BUDGET PROJECTIONS

[WITH ADDITIONAL K-12 FUNDING]

Projections of Current Year Deficit and Long Term PA Accumulated Surplus and Deficit (in millions of dollars) Assuming Continued Increases in K-12 Adequacy Funds							
Fiscal Year	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Funds available (revenues after refunds +prior year lapses)	46,407,971	44,073,915	45,272,391	45,467,584	47,769,380	47,397,274	48,963,615
Expenditures	42,962	44,965	47,822,850	50,093,015	52,920,000	55,270,000	57,380,000
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# THE STRUCTURAL DEFICIT IS NOT NEW

- **The structural deficit is not new:**

A decade of budget gimmicks hid a \$2–\$3 billion structural deficit before the pandemic:

- borrowing from special funds.
- moving revenues back and payments forward.
- gaming licenses.
- underestimating Medicaid caseloads.
- a \$1.3 billion deficit in 2016–17 covered by floating bonds and backed by tobacco revenues.

- **Here's the lesson:**

Because of political division, our political leaders will not deal with the underlying source of the structural deficit if they can avoid it.

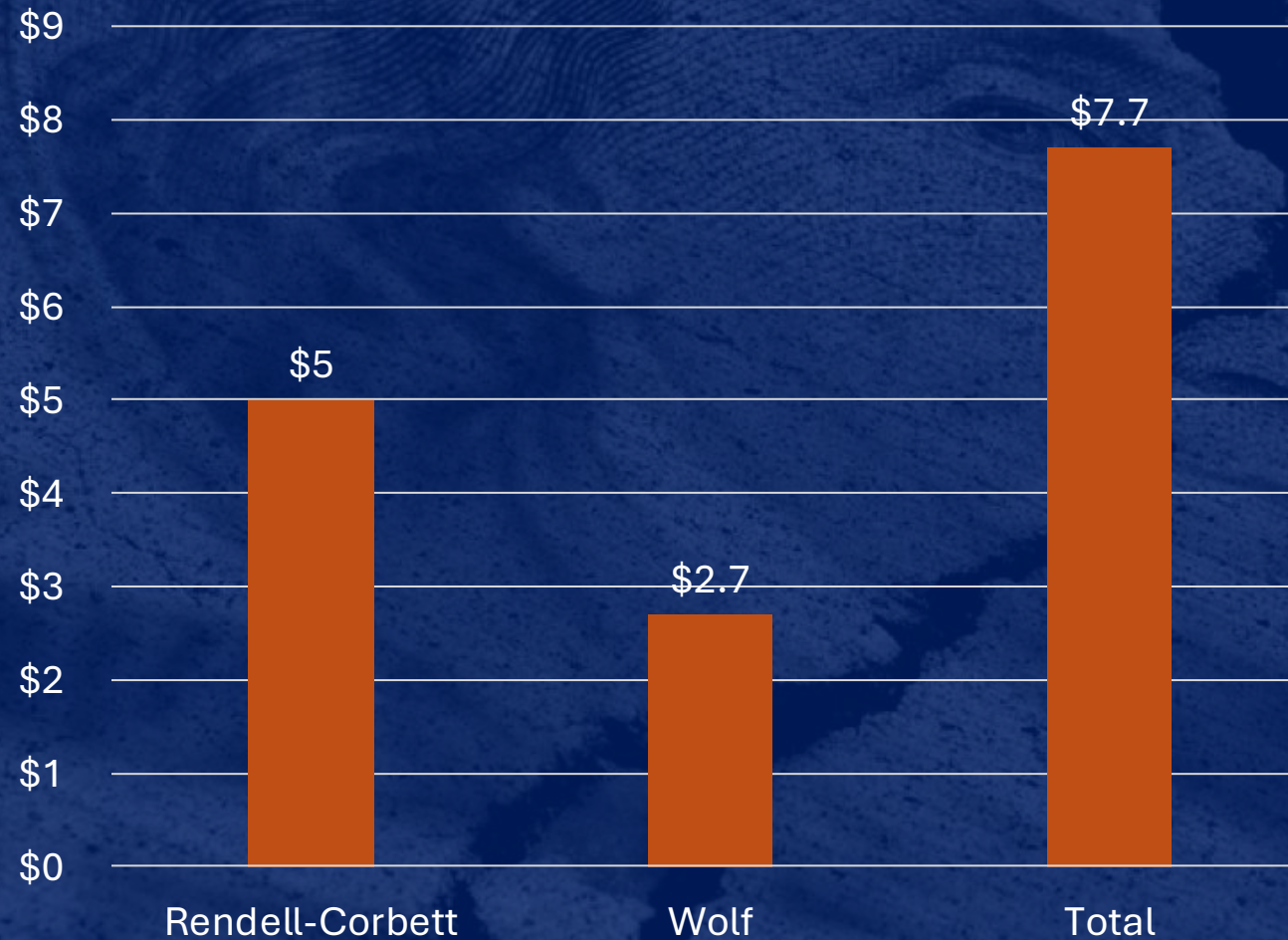
- R's won't raise taxes.
- D's won't cut spending.

# SOURCES OF OUR STRUCTURAL DEFICIT I

## [CORPORATE TAX CUTS]

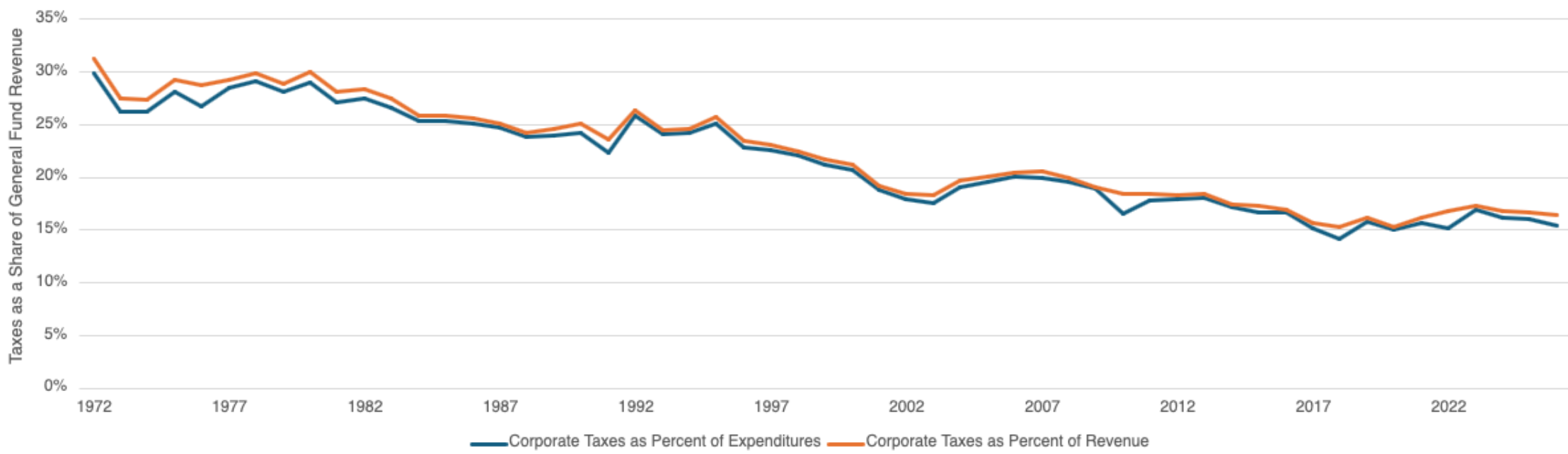
- **Wolf–Shapiro:** \$915 million in lost revenue in 2024–25; \$2.7B by 2030–31; possible additional \$500 million if tax cuts are accelerated.
  - Reduction in the corporate tax rate from 9.9% to 8.99% in 2022–23 with a 0.5 percentage point reduction each year until it reaches 4.99% in 2030–31.
  - Change in net operation loss carry forward. Together with reduction in corporate tax rate, state will lose \$2.7 billion in revenues by 2030–31.
- **Rendell–Corbett:** \$4.2 billion estimated lost revenue by 2020; roughly \$4.6B in 2025.
  - Elimination of the Capital Stock and Franchise Tax
  - Tax credits (Keystone Opportunity Zone, Job Creation, Film Production)
  - Changes in the tax base (NOL carry forward; base changed due to Bush tax cuts)

# ESTIMATED COST OF CORPORATE TAX CUTS BY 2030 IN BILLIONS



# CORPORATE TAXES HAVE BEEN PROVIDING A SMALLER SHARE OF STATE REVENUES

Corporate Taxes Have Been Providing a Smaller Share of General Fund Revenue Over Time: Corporate taxes, as share of General Fund revenue, account for 16% of what it did in 1972 (30%)

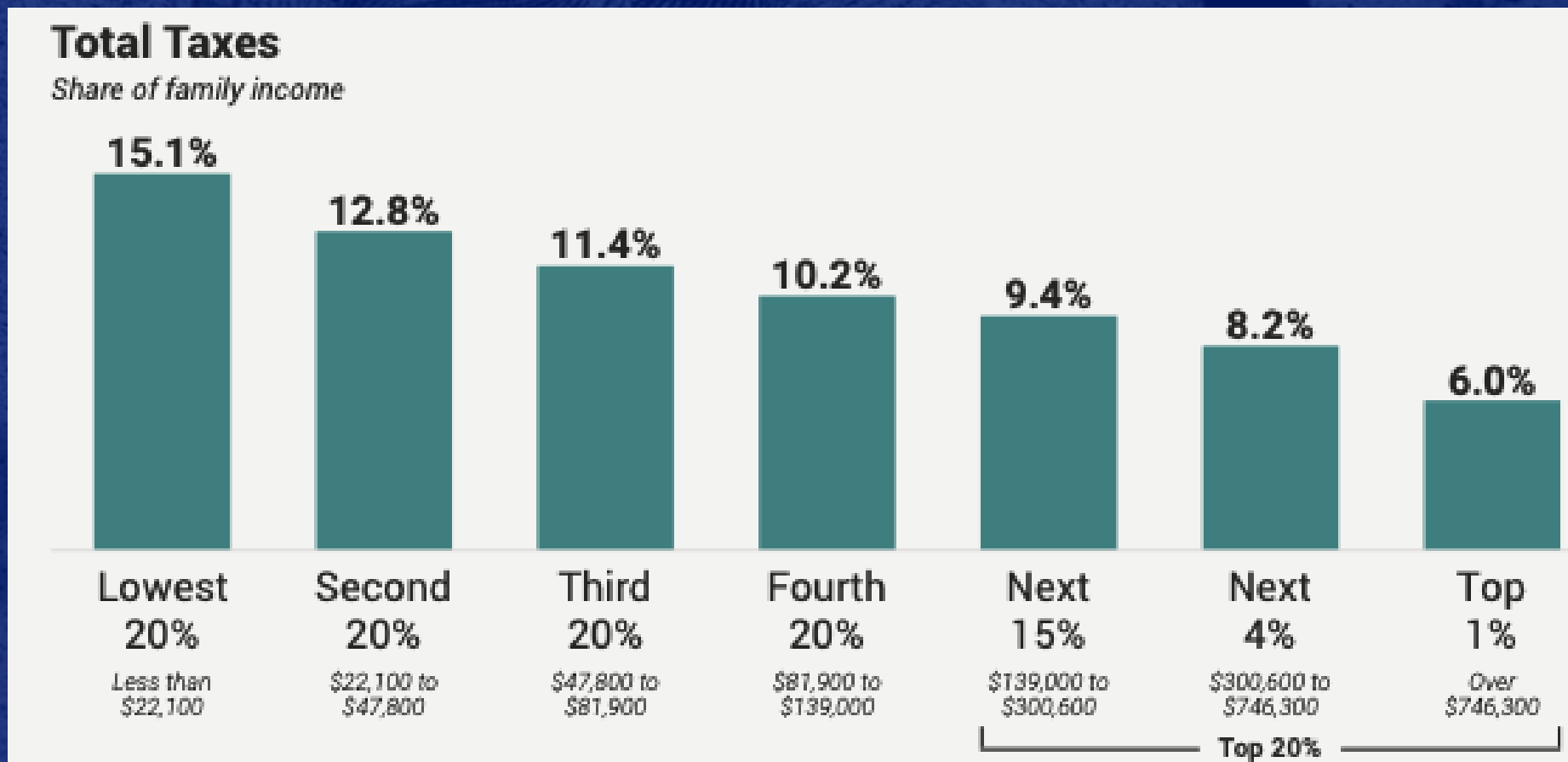


# SOURCES OF OUR STRUCTURAL DEFICIT II

Our upside-down tax  
system — mostly  
because of the  
**uniformity clause**

PENN POLICY

# PA WON'T RAISE ENOUGH REVENUE IF THE RICHEST PENNSYLVANIANS DON'T PAY THEIR FAIR SHARE



# THE PROBLEM IS NOT THAT PA SPENDS TOO MUCH

- Pennsylvania's state and local expenditures per capita rank 18th out of 50 states and DC.
- Our state also spends significantly more per capita for Medicaid and highways.
- If we were to spend the average amount for both, our state's rank for per capita spending would be 26<sup>th</sup> out of 50 states and DC.

# CAN WE CUT OUR WAY OUT?

## WHAT CAN'T BE CUT:

- Pension contributions
- Debt service
- Wages for most government operations
- State share of Medicaid or SNAP

## WHAT CAN BE CUT:

[and was in 2011]

- K–12 schools
- Higher education
- Human services

# PENNSYLVANIA'S AFFORDABILITY DEFICIT I

- **Higher Education:** In-state tuition and fees are 66% higher than the national average for 4-year colleges and 58% higher for 2-year colleges.
- **Child Care and Pre-K Education:**
  - Only 19% of 3- and 4-year-olds are enrolled in a state-funded pre-K program—below the neighboring state average of 25% and the national average of 21%.
  - The cost of child care is 10%–20% higher in PA than the national averages.
- **Housing:** Thirty-nine percent of renters spend more than 35% of their household income on housing; homeownership is increasingly out of reach for first-time home buyers. Pennsylvanians need
  - renewal of the Whole-Home Repairs program.
  - help for first-time home buyers.
  - state contribution to rental housing subsidies.

# PENNSYLVANIA'S AFFORDABILITY DEFICIT II

- **Food Assistance:** The OBBBA will cost Pennsylvania more to pay the new state share of SNAP, to help eligible Pennsylvanians sign up SNAP and to keep error rates low (and avoid federal penalties).
- **Health Care:** The state will have to spend more to help eligible Pennsylvanians sign up for Medicaid and to create a public option and enhanced risk adjustment programs to keep insurance costs down on Pennie.
- **Transportation:** Public transit is too expensive, and the “pothole tax” costs drivers more and more each year.

# PENNSYLVANIA'S PUBLIC GOODS DEFICIT I

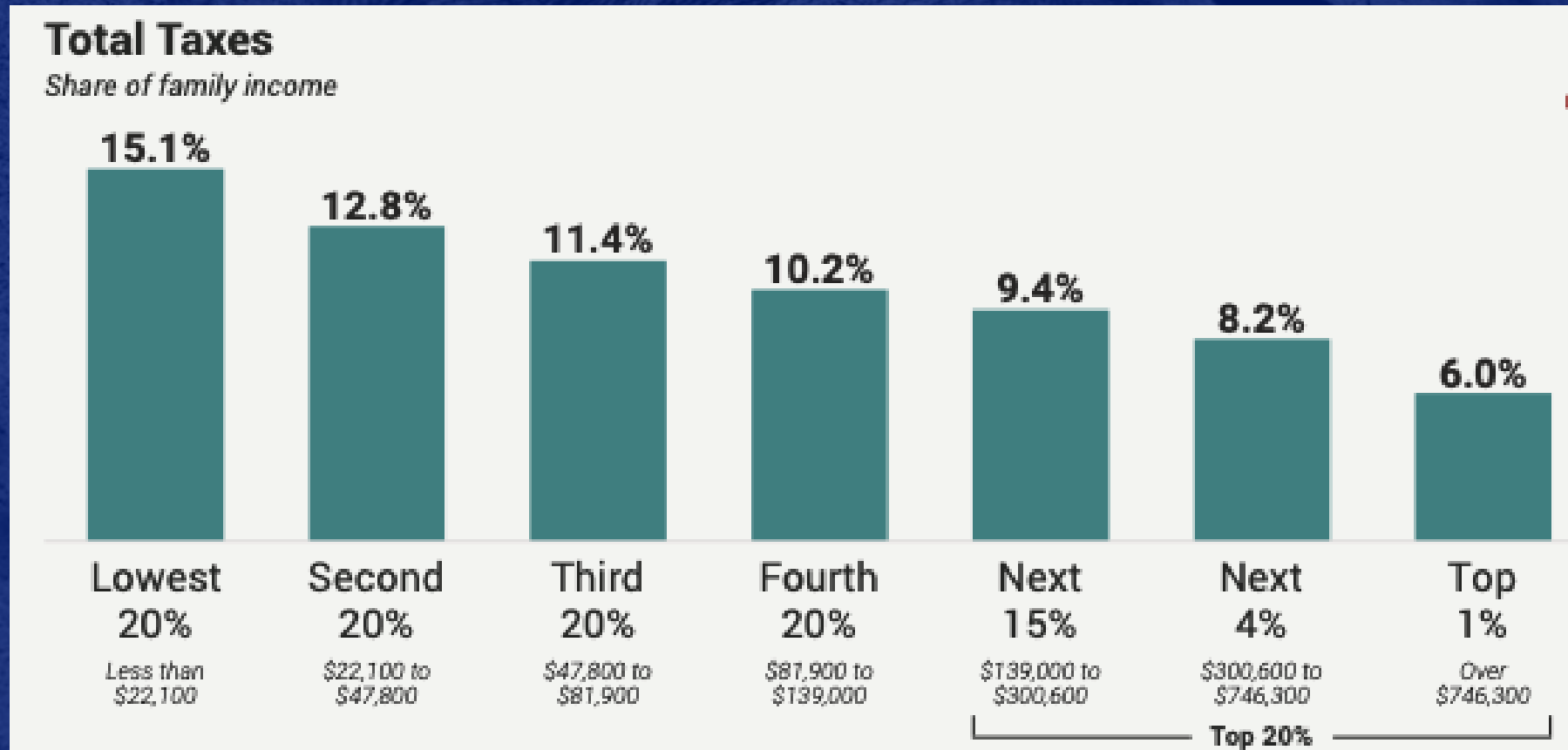
- **K-12 Education:** PA has the most inequitably funded schools in the country; our state share of K-12 education is 37% below the national average of 44.7%.
- **Labor and Industry:** Despite rising threats to workers, PA spending on labor law / wage enforcement and unemployment services has been declining after inflation for more than a decade.
- **Infrastructure:** The American Society of Civil Engineers gave PA a grade of C- in 2022. We are especially lacking in road maintenance, public transit, and stormwater and wastewater systems. PennDOT spends less than half of what it should to keep our roads and bridges in good repair.

# PENNSYLVANIA'S PUBLIC GOODS DEFICIT II

- **Public Health:** PA spends \$18 per capita; the national average is \$63.
- **Environmental Protection:**
  - Philadelphia and Allegheny Counties have some of the worst air pollution of all U.S. counties.
  - Fracking remains under-regulated.
  - DEP funding has been essentially flat since the deep cuts during the Corbett years.

# DO WE RAISE TAXES? AND IF SO, WHOSE?

[OUR TAX SYSTEM IS ALREADY UPSIDE-DOWN.]



# TAX OPTIONS: FAIR SHARE TAX

- **Bifurcate personal income tax** with a current rate of 3.07%.
  - Tax on income from work; earned income at rate of 2.8%
  - Tax on income from wealth; unearned income at a rate of 6.5%
- **Would raise \$2.8 billion in 2026**
  - 57% of the tax increase comes from the top 1% with average annual income of \$2 million.
  - 80% of the tax increase comes from the top 5%.
- **51% of Pennsylvanians get a small tax cut.**
- **The effective tax rate on the top 1%** would still be below that of all neighboring states except Ohio.

# TAX OPTIONS: CORPORATE TAX REFORM

- **Multinational corporations** avoid paying taxes in Pennsylvania through the Delaware and Cayman Islands loopholes. By means of creative accounting, PA subsidiaries of multinational corporations earn no profits in PA. They pay out-of-state subsidiaries inflated prices for
  - good will.
  - national advertising.
  - wholesale goods.
  - business services.
  - use of logos.
- **The solution: combined reporting.** Corporations pay income taxes on the share of profits equivalent to the share of sales made in Pennsylvania.
- **What it would raise this year**
  - at a 4.99% CNIT rate: \$960 million.
  - at a 6.50% CNIT rate: \$1.2 billion.
  - at a 7.50% CNIT rate: \$1.4 billion.

# TAX OPTIONS: SEVERANCE TAX

- **Impact fee vs. a severance tax**
  - Impact fee: tax per wellhead that declines over time
  - Severance tax: percentage of sales, which varies based on the
    - amount produced.
    - price of natural gas.
- **What a severance tax would raise at possible rates of 5.5% and 6.5%:**
  - 2025: 5% \$330 million; 6.5% \$430 million.
  - 2022: 5% \$1.8 billion; 6.5% \$2.4 billion.

# TAX OPTIONS: WEALTH TAX

- **We only tax the wealth that is widely held:** Real property wealth
- Intangible wealth (e.g. investments in stocks and bonds) are mostly held by the richest people.
- Taxing intangible wealth is far easier than it used to be.
- An intangible wealth tax can exclude most households by excluding IRA and pensions.
- Or with a credit for property taxes.
- We could use some of the wealth tax revenue to reduce property taxes.
- A small intangible wealth tax raises billions.
  - tax rate of 2 mill, or .002, raises over \$2–\$3 billion
  - tax rate of 4 mill, or .004, raises over \$4–\$5 billion

## Some specific examples:

Wealth	Tax Rate	
	0.004	0.002
\$100,000,000,000	\$400,000,000	\$200,000,000
\$10,000,000,000	\$40,000,000	\$20,000,000
\$100,000,000	\$400,000	\$200,000
\$10,000,000	\$40,000	\$20,000
\$1,000,000	\$4,000	\$2,000

# TAX OPTIONS: ADULT-USE CANNABIS LEGALIZATION

## Revenue Projections for Recreational Adult Use Cannabis In Millions

<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>29-30</b>
<b>\$142</b>	<b>\$279</b>	<b>\$398</b>	<b>\$408</b>	<b>\$418</b>

Source: IFO, Analysis of Revenue Proposals FY 2025-26 Executive Budget

[https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue\\_Proposal\\_Analysis\\_2025\\_03.pdf](https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue_Proposal_Analysis_2025_03.pdf)

# THESE PROPOSALS WOULD RAISE TAXES ON THOSE WHO HAVE RECEIVED DEEP FEDERAL TAX CUTS

- The 2017 and 2025 Trump tax cuts drastically reduced taxes for
  - **the ultra-rich.** OBBBA reduced taxes on wealthy people in PA by \$3.87 billion.
  - **corporations.** Multinational corporations, which we seek to tax in PA, got massive tax cuts from the 2017 tax law.
- Pennsylvania could raise taxes on the rich and corporations, and those taxpayers would still be paying far less than they did eight years ago.

# DEALING WITH THE POLITICAL ISSUES

- **Taxing the rich is enormously popular:** We have polling data for every House and Senate district. There is no district, including all the Republican districts, in which support for taxing the rich and wealthy corporations is less than 70%.
- **Sometimes political reality forces us to do the right thing.**

# TOTALS IN 2025, IN BILLIONS

[ASSUMING FULL IMPLEMENTATION]

- Fair Share Tax with 2.8% tax rate on income from work and 6.5% on income from wealth \$2.8
- CNIT worldwide combined reporting at 6.5% \$1.2
- Severance tax at 6.5% \$0.28
- Adult-use cannabis \$0.4
- Intangible wealth tax at 3 mill \$3.0

**TOTAL \$7.68**