Pennsylvania's Choice:

The Coming Fiscal Crisis in Pennsylvania—and What to Do About It

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Introduction

Since at least 2011, Pennsylvania has been torn between two visions of public policy.

The first vision seeks to reduce taxes, cut government spending, and hold down wages. This vision has given us the state's deep corporate tax cuts, a stagnant minimum wage, deeply inequitable and inadequate K–12 education funding, some of the highest tuition rates for public colleges and universities in the country, limited and expensive child care options, and a shrinking public sector in many other areas—climate change, health care, and others. During that time, the Pennsylvania economy has grown slowly, and our population has shrunk and grown older. The rural parts of the state have become increasingly distressed. And the state has faced persistent budget deficits.

Thanks to Republican control over both houses of the General Assembly, this first vision dominated our state between 2011 and 2022. Governor Corbett embraced it during his one term, while Governor Wolf fought against it during his two terms. Wolf won some victories, including new education funding. But with continued Republican control of the General Assembly, his success was limited.

The second vision is very different. It seeks to expand our public sector, not for its own sake but to partner with the private sector to generate faster economic growth by meeting the constitutional requirement to provide adequate and equitable education funding and by lowering higher education costs and improving workforce training, raising wages, and addressing the affordability crisis by cutting taxes for working people and expanding support for child care and housing. This has become more important in state government since Josh Shapiro became governor and the Democrats took control of the Pennsylvania House of Representatives by a one-seat margin in 2023.

Some major initiatives have been enacted since then, such as two $500 million increases for long-underfunded schools and new investments in higher education and workforce training. Some of these initiatives have measures to make life more affordable, including

- 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.

But many other bills passed by the House have been blocked by the Republican-controlled Senate, including those that would increase fines for child labor violations, establish safe staffing standards in Pennsylvania hospitals, protect against wage theft, guarantee workers' rights to organize and bargain collectively, improve mental health care, relieve medical debt, and support public transit.

These achievements, even those that cost a great deal of money, were made possible without raising taxes by the extraordinary windfall of $13 billion in federal COVID relief. This huge sum of money has paid for the first two (of nine) installments in K–12 education in the additional funds necessary to meet our constitutional obligation to fully and fairly fund K-12 education. health. It made possible the programs listed above to make life more affordable by making housing and child care cheaper and creating tax credits that help working families and seniors afford a rapidly increasing cost of living. It also paid for investments in higher education and workforce training.

Governor Shapiro and the House Democratic leadership pushed Senate Republicans to vote for budgets that included these and other costly programs that they opposed. And the Republicans only supported them because they did not require new taxes. Indeed, through the last two years, Republicans pushed back against both the new education spending and some of the targeted tax cuts complaining that new spending and tax cuts would create a structural deficit that would eventually require new taxes, which they oppose. Yet despite those complaints about the deepening deficit, Senate Republicans called for a cut to the Personal Income Tax and to some business taxes, which would have reduced revenues by $2.6 billion per year. And they called for accelerating the planned cuts in the Corporate Net Income Tax. Reflecting their commitment to the first vision of public policy, Senate Republicans were not worried about deepening a structural deficit if they were the result of tax cuts for wealthy people and corporations. But they balked at doing so to fund K–12 education or to offer targeted tax cuts to working families, to seniors, and to those caring for dependent children and seniors.

It is too soon to see many results from these new programs. But we know that school districts have been hiring more teachers and expanding programs; more Pennsylvanians are receiving worker training and securing apprenticeships. Working families have received tax relief and will receive more next year. And there has been some indication that the state's economy has been improving, albeit slowly.

What Governor Shapiro and the Democrats have accomplished, however, is not enough. As we will see below, we need another $3.5 billion per year to fully and fairly fund schools. We need at least a half a billion dollars per year for public transit. We need hundreds of millions more to make high-quality child care and pre-K education available to all. We will need at least as much, and perhaps more, to take on the added burdens created by the Trump-Republican assault on Medicaid and SNAP. State investment to reduce increasingly costly housing is critical, especially while federal support for it is declining. Though Governor Shapiro has rightly prioritized government programs that support new business investment—including programs that provide well-trained workers, which are the key ingredient of any successful business—so far, funding has lagged behind what the state needs. Partly as a result, large parts of rural Pennsylvania, as well as some of our urban cores, are becoming increasingly distressed. And state and local taxes on low-income people are still higher than anywhere in the country.

But now, the huge surplus is just a bit more than half of what it was two years ago. It currently equals $7.7 billion with most of it being kept in the Rainy Day Fund. For the current 2025–26 fiscal year, the budget just enacted is fundamentally unbalanced, like the one enacted the year before and the ones likely to be enacted next year and the year after. Revenues raised during the year will exceed expenditures by more than $4.5 billion, but the budget is only balanced because it draws down the state's surplus (and because of some budget legerdemain.) At the current rate at which current-year expenditures exceed current-year revenues, the surplus will run out entirely in fiscal year 2027–28, which is only the year after next.

The huge surplus that made is possible for Pennsylvania to secure Republican support for, as well as to afford, bold programs in the last two years will be gone soon. And Pennsylvania will then face a fundamental choice.

Will the state raise new revenues from the rich and wealthy corporations, who do not pay their fair share of taxes, allowing the state not only to continue its current level of activity but to make the additional investments in education, worker training, and mental health? Will it have the funds to address the affordability crisis by increasing support for child care, health care, and housing and by continuing to cut taxes for working people? Will it continue to help businesses expand? Will it have the funds to protect Pennsylvanians from some of the consequences of federal cuts to Medicaid and SNAP?

Or will it address budget deficits by making deep cuts to the programs that have made life more affordable and have created opportunity for our young people? Will we see a reversal in funding for education at all levels? Will the social safety net and programs that help make life affordable for Pennsylvanians be gutted?

That is the choice Pennsylvania and its people face.

This paper explores the origins of the coming fiscal crisis, showing that it is a product not of high state spending but, rather, a series of corporate tax cuts that have literally decimated Pennsylvania's revenues and of an upside-down tax system that can't raise enough revenue because it taxes wealthy people at much less than half the rate at which we tax everyone else. And then we give summaries of a number of proposals, including those our organization has designed to raise revenue from the right people in the right way.

Current-Year Deficits / Structural Deficits Ahead

We are now in the third budget year in which Pennsylvania has run a current-year deficit. That is, expenditures in the fiscal year exceed revenues to be raised in the fiscal year. The current-year deficit in the fiscal year that ended on June 30, 2025, was $3.5 billion. The current-year deficit is over $4 billion.

When a current-year deficit is not a result of transient causes—in particular, a recession that reduces state revenues—but is the result of an ongoing imbalance between revenues and expenditures that are likely to continue, we call the problem a structural deficit. And while I have seen people's eyes glaze over when Governor Wolf or I have talked about the structural, it's a useful term. Given worrisome predictions about the future of the Pennsylvania, it is sadly a term that we are going to have to get used to.

Future Deficits with a Cost to Carry Budget

Table 1 addresses the fundamental components of a General Fund budget for a series of fiscal years. Data from past fiscal years 2022–23 through 2024–25 are from official Pennsylvania budget documents. Data for the current fiscal year, 2025–26, comes from the financial statements released by the Senate Republican Appropriations Committee. Our projections for the next three years are based on those of the Independent Fiscal Office with a few modifications. The IFO projects that General Fund revenues will grow by .09% in 2026-27 and then an average of 2.5 % in fiscal year 2027–28 and 2028–29. We follow those projections with one exception: we assume that revenue growth next year will be a half point higher than the IFO. We note, however, that should a recession occur, it is likely that these projections will be high. Our future year projections also start with the official estimate in the Republican financial statement for fiscal year 2026-27 which is below the IFO projection by about $800 million.[1] The IFO projections for expenditures assume what we call a “cost-to-carry budget”—one that provides the same level of government services each year. Wages for state workers are projected to increase according to their current contract and, after that, at the rate of inflation. Other expenditures are also projected to rise with inflation, with the exception of a few line items. For example, we know that due to expected changes in population demographics, mandatory spending will increase on Medical Assistance (which is what we call the Medicaid program in Pennsylvania) at a higher rate than inflation. Similarly, the IFO projections take into account some of the One Big Beautiful Bill Act’s impacts on the state budget.[2]

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1. We are not sure how the IFO treats the transfers of General Fund revenues to the tobacco settlement fund or the Environmental Stewardship Fund. We deduct the current year transfer in 2026-27 and then the same amount in future years.

2. Independent Fiscal Office, Pennsylvania Fiscal Outlook, FY 2025–26 to FY 2030–31, November 2025. The IFO spending estimates make certain reasonable assumptions about the impact of OBBBA on the budget. It includes “savings of $135 million for current MA recipients that will lose coverage due to the new community engagement/work requirements and biannual eligibility redeterminations mandated under federal H.R. 1. Beginning in FY 2028–29, the projections include state savings of $150 million and assume 186,000 fewer enrollees.” It also includes increased SNAP administrative costs of $100 million in FY 2026–27. That amount increases to $133 million beginning with FY 2027–28.”x The forecast assumes that “the state SNAP payment error rate (currently 10.8%) is within the 6% to 8% range, which results in the payment of 5% of SNAP benefit costs (+$173 million for FY 2027–28 and +$230 million beginning in FY 2028–29).” It also “does not include any increase in DHS administrative costs related to the community engagement/work requirements and increased eligibility redeterminations mandated under federal H.R. 1.” Our view is that the state should increase DHS spending to help those eligible for Medicaid and SNAP secure the benefits to which they are due. We do not include those costs but discuss them later in the paper. Quotations are from pp. 9–10.

Table 1

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-one-time funds)	**46,407,971**	**44,073,915**	**45,272,391**	**45,467,584**	**45,825,796**	**46,929,398**	**48,163,091**
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)**	**(6,594,204)**	**(7,340,602)**	**(7,716,909)**
Total Accumulated Surplus / (Deficit) in General Fund and Rainy Day Fund	**13,213,491**	**13,619,089**	**11,681,630**	**7,551,801**	**957,597**	**(6,383,005)**	**(14,099,914)**

Source: Pennsylvania Policy Center analysis of data from Governor's Executive Budget. Senate Republican House Appropriations Committee, General Fund Financial Statement, FY 2025–26, and Independent Fiscal Office Pennsylvania Fiscal Outlook, FY 2025–26 to FY 2030–31, November 2025.

The first row of the table "Funds Available" is the sum of revenues for each year plus prior lapses; that is money appropriated in the past year or years but not spent, minus the funds necessary to pay for tax refunds in April. It is essentially the total revenues available to be spent in the General Fund, not including any accumulated surplus.

The second row of the table "Expenditures" is, of course, what the state will spend from the General Fund.

The third row of the table gives the "Current-Year Balance," that is current year revenues minus current-year expenditures. That is, we exclude the use of COVID surplus funds, including both those that were added to the General Fund or the General Fund surplus that were transferred to the Rainy Day Fund.

However, the fourth row is the total end of the year surplus or deficit, including both the General Fund and the Rainy Day Fund. As you can see, yearly deficits reduce the total surplus, ultimately leading to an accumulated deficit in 2027–28 of over $14 billion.

These projections are, frankly, deeply concerning if not frightening. As you can see, last year, the current-year balance in fiscal year 2023–24 had a small deficit of $790 million. Fiscal year 2024–25 shows a current-year deficit of $2.5 billion. And the projected deficit for the current fiscal year, which ends on June 30, 2026, is $4.6 billion, which is over 8% of General Fund expenditures.[3] But the official financial statement hides the one-time funds that reduce the current-year deficit by over $1 billion. These one-time funds include transfers from special funds that must be paid back. And this year, the revenue available is increased by an unusual increase in budget

3. Our projection of the FY 2025–26 current-year deficit is higher than what one would conclude from the official financial statement because we do not include either the beginning balance or the one-time transfer of $600 million of special funds to the General Fund. These funds will have to be paid back.

lapses, which are funds that were appropriated but not spent in previous years. It is unfortunate that the General Assembly is once again resorting to what we've called in the past "budget gimmicks." This year, they presumably exist to hide the extent of the current-year deficit as Republicans, in particular, seek to hide the extend of the deficit from their constituents. Given the size of deficit in the future, gimmicks like these will not be sufficient in to create the officially balanced budget required by our Constitution.

The bottom line in table 1 shows us that at the end of the current fiscal year we will have $7.7 billion left in the combined General Fund / Rainy Day Fund. But if current-year deficits continue at the projected rate, the surplus will turn to a deficit in fiscal year 2027–28. That means we will not have enough money in the bank to get through that fiscal year.

There are more than enough potential budget gimmicks to avoid any crisis that year. But in the following fiscal year, 2028–29, the bottom falls out of the Pennsylvania General Fund budget. We are looking at a budget deficit of at least $6.9 billion.

Deficits If We Meet Our Constitutional Responsibility to Fund Education

Pennsylvania is under a constitutional requirement set by Commonwealth Court judge Renée Cohn Jubelirer in February 2023, to take bold steps to provide an adequate and equitable education to every student in the state. Last year, and with a bipartisan vote, the General Assembly adopted a formula, based on the one proposed by the lawyers for the plaintiffs in the education lawsuit that led to the February 2023 decision (as well as the previous work of education advocates), that not only determines how much each school district needs to reach an adequate level of funding but the state share of that additional funding. This formula is based on the state standards for an adequate education. It is based on the average spending per student in the school districts that do best in providing such an education. That average spending number is then adjusted for local school district factors such as the share of students who are English language learners or come from impoverished homes.

According to this adequacy formula, Pennsylvania school districts needed an additional $4.5 billion in funding. Of course, the state was not financially capable of adding so much funding in a short period of time. Nor would it make sense to do so, especially considering the shortage of teachers, no school district could effectively and efficiently spend huge sums of new money. So, the Education Funding Commission recommended a seven-year phase-in of new funding. Last month, the General Assembly, for the second year in a row, added almost a billion dollars to education funding with a second installment of $565 million being distributed to school districts through slightly revised adequacy and tax equity formulas. That, for the first time in Pennsylvania history we have seen years in which the majority of new state funding for public education goes to school districts that historically have been underfunded, some of which sought to make up for in adequate state funding with local taxes substantially above the average school district.

This is a huge achievement. But it is far from complete. At the current rate of increase in adequacy and tax equity funding, it will take another seven years of roughly adding $500 million in additional funding **each year** in adequacy and tax equity funds to meet the constitutional requirement to adequately and equitably fund K–12 education as this is defined by the state itself. If we add $500 million to next year's budget (fiscal year 2026–27), $1 billion to the next year (fiscal year 2027–28) and $1.5 billion to (fiscal year 2028–29), our projection for the state budget is found in table 2.

Table 2

Projection 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**	**45,825,796**	**46,929,398**	**48,163,091**
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Under this scenario, the projected annual state deficit increases to above $8.2 billion budget per year in fiscal year 2028–29.

There is no conceivable set of constitutional budget gimmicks that will allow the state to manage a $7 billion annual deficit in just three years from now.

Something has to give.

The Structural Deficit Is Not New

While we now have a current-year deficit of extraordinary proportions, the structural deficit is not new. The state began each fiscal year since at least 2015–16 with a projected current-year deficit of $1 billion to $2 billion. And, as our annual budget analyses demonstrated, each between fiscal year 2015–16 and 2019–2020, the current account deficit was closed with a series of short-term, generally one-year, fixes. These included transfers from other state funds which required repayment, the sale of licenses for new kinds of gaming revenue, delaying end of year payments into the next fiscal year while counting the next fiscal year's revenues in the current fiscal year and by systematically underestimating Medicaid / Medical Assistance caseloads. The latter practice is almost an art form in Pennsylvania. It works by underestimating Medical Assistance caseloads, which reduces the projected budget for a fiscal year. Because Medical Assistance payments are required under federal and state law, they are made even if the exceed the amount appropriated in the General Fund. Then, as part of the General Fund budget for the subsequent fiscal year, supplemental appropriations were approved to make up for the caseload underestimate. And, at the same time, the new budget again underestimated caseloads, thereby rolling over and expanding the accumulated deficit rather than eliminating it. By the time federal COVID relief payments allowed the state to dispense with this practice, the rolling deficit had reached more than $600 million.

By means of these budget gimmicks, the enacted state budget was technically in balance even though current-year expenditures exceeded current-year recurring revenues. But in one fiscal year during this period, 2016–17, the state passed a general appropriations bill that was underfunded by $1.3 billion. The General Assembly didn't even make a pretense of enacting the balanced budget required by the Pennsylvania Constitution. As we said at the time, it appears that the attitude of both parties in the legislatures was "What's a constitution between friends?" When the appropriations bill was passed, the expectation was that the state would eventually pass a revenue bill closing the deficit. But Republicans refused to agree to any new revenues that the Democrats and Governor Wolf proposed. Instead, the state sold bonds to make up the deficit, which are being paid off by a transfer from tobacco settlement revenues to the General Fund.

Budgets and Structural Deficits: Moral Issues

By definition, a current-year or structural deficit can be closed by some combination of reducing spending and increasing revenues. Which approach makes sense depends on our understanding of what created these deficits and our moral evaluation of how best to serve the needs of the people in a political entity.

Our view is that the structural deficit in Pennsylvania should be closed by raising revenues, not by reducing state spending—although there are some spending programs that do not provide any public benefit that we would eliminate in a heartbeat, such as the Race Horse Development Fund. In addition, we have always supported efforts to make state government more efficient.

Conservative Republicans generally take the opposite view. As I pointed out at the beginning of this paper, they generally seek to cut public spending.

There is, obviously, no simple answer to this question. Ultimately, the answer comes down to one's view of social justice.

The Progressive View

Our progressive view holds that government has three critical roles: to ensure equal opportunity; to provide the public goods that enhance our economic, social, and cultural lives; and to preserve our democracy.

Equal opportunity for all. We believe that everyone should have an opportunity to make the best use of their talents, that is, to receive the education and training that enables them to develop their faculties and capacities as far as they are able. We want to make it possible for everyone to accomplish all they can with their natural talents, no matter how poor or rich their families are, whether they are Black, brown or white, whether they are male or female or another gender, whether they hail from a city, a suburb, or a rural area from any corner of the state and whether they are straight or a member of the LGBTQ community. We support equality of opportunity for two reasons. First, because it is a simple matter of justice. It is fundamental to the American creed that no one should be limited by any social status. Instead, all should have the opportunity to thrive. Second, it is a matter of the common good. Our economic, social, and cultural lives are mostly enriched not by our plentiful natural resources but by the talents and achievements of individual Pennsylvanians and Americans. We all lose when a young Black boy born in a poor community in Lancaster, or a young girl born in Erie, or a young trans man from Pittsburgh, or a young gay woman from Scranton is denied the encouragement and opportunity to develop his or her abilities.

Who knows how many scientific discoveries, artistic innovations, brilliant business people, extraordinary crafts people, caring nurses or great parent are lost to our community because poverty, poor schools, or discrimination of all kinds keeps our young people from becoming all they can be, for themselves, their families, and their communities?

Equality of opportunity is impossible if there are economic barriers to education and training at all levels, from pre-K to higher education and workforce training, not only for young people for adults in the middle of their career path. It is also impossible if everyone does not have access to the basic goods necessary to life itself, quality food, a home, health care or to securing a decent income, such as child care.

Public goods and public prosperity. Our second conviction is that economic, social, and cultural progress depends on critical public goods. Pennsylvania became the economic powerhouse of America in the 19th century not just because of our coal and oil, but because, thanks to the leadership of the Republican Thaddeus Stevens, we were the first state to publicly support education and because we provided public support for canals and railroads. We remained an economic powerhouse in the middle of the 20th century because we were pioneers in providing not only high school education but college education to those who were not wealthy and because we were the first state to create a turnpike that crossed our large state and were early supporters of public transit not just in our two largest cities but in many others cities, suburbs, and rural areas. As we will point out below, we have fallen behind other states in the 21st century in part because we now invest less in education at all levels as well as workforce training, in transportation and transit, in urban and rural redevelopment, in business support, and in environmental protection than others.

We don’t for a minute scant the importance of private enterprise, and especially small and local businesses, non-profits, and cultural organizations in making our state prosperous in economic terms. But the evidence is clear that both large and small businesses need public goods to succeed and excel.

And public goods are not just necessary to ensure economic prosperity. While we all rightly value the individual goods that we provide for ourselves and our families, our lives would be impoverished without public goods and amenities, which play a major role in our lives. These include parks and recreation areas, cultural institutions such as museums, concert halls, and historical sites, the facilities that support athletic teams, and the attractive city and town centers in which we spend much of our time. And, of course, we need the goods that provide public safety for us to enjoy civic amenities.

We may not realize this when we are balancing our individual budgets, but recreational, athletic, and cultural amenities play an important role in our everyday lives. They also are important for two other reasons.

First, they are themselves drivers of economic growth. They bring people together on main streets and in urban centers in ways that spur the development of private businesses, including local shops, restaurants, and private cultural enterprises. And they encourage people to come to our state for vacations and for national conference, thus supporting that private businesses that serve Pennsylvanians as well.

Second public goods and amenities diminish the burdens of economic inequality on low- and moderate-income Pennsylvanians. While the inequality generated by our market economy is most likely far greater than necessary to create the incentives needed to spur the efficient use of resources, some degree of inequality is part of any functioning economy that employs markets to coordinate economy activity. There are a number of ways to limit the impact of extreme inequality. We've already discussed the importance of the social safety net and funding K–12 education. But another one is providing public goods that are accessible to those with low incomes. If the libertarians had their way the only people who would access parks, recreational facilities or museums or had access to the internet would be those who with high incomes. But public policies make these goods affordable to those with low and moderate incomes, enabling them to be full participants in our political, social, and cultural lives.

Protecting our democracy. Finally, but perhaps most importantly, we want to sustain a vibrant democracy. And we doubt whether that will be possible when a few immensely wealthy people are able to provide a huge share of financial support to political campaigns. At the beginning of the last century, Supreme Court justice Louis Brandeis expressed the profound doubt that democracy was compatible with the great fortune that grew up in the gilded age. He called for taxing them heavily. We share that concern about the new gilded age of the 21st century.

All these goals lead us to support higher taxes on the wealthy to support public programs to create equality of opportunity, provide vital public goods, and limit the ability of those with vast fortunes to turn our politics to their own selfish ends.

The Conservative View

We are, perhaps, not the best organization to rehearse the conservative view about budgets and taxes. But we want to acknowledge a few basic truths about government and the economy.

Government can be wasteful. We reject the idea that, because it is not subject to competition, government is always more wasteful than private enterprise. About half of the private economy is in the hands of huge corporations that operate in concentrated markets that limit the impact of competition on their efficiency. Anyone who has tried to deal with customer service at, say, Comcast or Verizon, knows that having only two major providers of phone and internet service is not enough to ensure speedy, accurate, or helpful customer services. On the other hand, it does take especially effective public leadership—and we would argue, a unionized workforce that is committed to good service—to ensure that government bureaucracies serve the public well. We know that while some public services providers are effective, others are not. And we know that well-funded public services are usually much better than those lacking in funds. Many of the best-funded schools in Pennsylvania are as good as any in the world. But underfunded schools struggle to provide a good education.

High taxes can thwart economic growth. There are circumstances in which taxes can be so high that they stifle the economic growth of states in two ways. On the one hand, by reducing the returns to private investment, they lower the investment necessary to create jobs and economic prosperity. On the other hand, they can discourage businesses and wealthy individuals to locate in our state. The evidence is now clear that the impact of taxes on the location of business activity and the residences of the wealthy is far smaller than many conservatives believe. But there is no doubt that at some level high taxes can interfere with the economic growth of a state.

However, we note two things. First, while taxes may decrease the returns to investment, the public goods they pay for increase those returns. When the public education and targeted workforce development program produce qualified, skilled, and productive workers, returns on investment are increased. When good roads and bridges and public transit systems allow businesses to recruit workers from a wider geographic area, they are more likely to find those qualified, skilled, and productive employees. And when those same transportation systems reduce the cost of moving goods produced in Pennsylvania to market across the state, country, and world, the returns to business investment rise. When parents can count on affordable child care, more of them can hold jobs and secure the education they need to qualify for them. When government provides subsidies for redeveloping main streets in the urban, suburban, and rural parts of Pennsylvania, business profits increase. And when government helps new or growing businesses secure the large tracts of land they need to site new plants, factories, and warehouses, the returns to business investment increase as well.

So, while high taxes can thwart business profits and thus investments, if those taxes are used to pay for the right public goods, business profits and investment will be enhanced.

Second, the question of whether our taxes are too high or low are best answered not with abstract theories but with empirical evidence that focuses on the experience of other states and communities. That is why we have considered such evidence in much of our work, including in the following section of the paper.

The State Does Not Overspend or Over-Tax

Comparisons with Other States

There are two good ways to determine whether the source of the state's structural deficits is over-spending. The first is to compare spending in Pennsylvania with that of other states. That data shows that Pennsylvania's per-capita spending of $13,579 ranks 19th of the fifty states when expenditures are adjusted for price levels. This is just a bit above the median state, Utah, which spends $12,898 per capita.

In addition, Pennsylvania spends more compared to other states in a few areas, which reflects the peculiarities of our state. Its spending on public welfare is higher, ranking 12th, than its spending generally. And its spending on highways ranks 15th. Our higher spending on public welfare reflects higher spending on Medicaid / Medical Assistance, especially for long-term care as our state is one of the oldest in the nation.[4] Pennsylvania's rank for spending on highways is higher than its rank for spending in general because our state has

4. Pennsylvania ranks fourth for the share of population is 65 or over, at 19.3%. It is not far behind the oldest state, Maine, in which 21.8% of the population is 65 or over. For context, in the median state, New York, 17.4% of the population is 65 and over, while in the youngest state, Utah, only

the 11th-highest miles of highways in the country, a reflection of both our large geographic area, the challenging geography of a state with many rivers and mountains (as opposed to the plains in many other states), and the presence of population centers in every corner of the state rather than in a few population centers as in a state like Utah or Nevada. Pennsylvania's highway costs are also higher because of our four-season climate, which stresses roads far more than those in the South and Southwest. Given that Pennsylvania infrastructure is rated poorly in national assessments and that we have so many deficient bridges, it's quite likely that our state should be spending even more on our highways than it does now.

Our rough estimate shows that if Pennsylvania were to spend at the median level for Medicaid / Medical Assistance and highways, its overall per capita spending would rank at the median level.

One other noticeable feature of Pennsylvania's per capita spending is that K–12 spending per student is relatively high, ranking 9th of 50 states. One might wonder how this figure could be so high when at the same time, the courts and advocates have called for substantially higher state spending for K–12 education The answer comes in three parts. First, note that the data we are looking at here combines state and local spending. While combined state and local spending on education is high, state spending has been quite low. Indeed, the state share of K–12 spending in Pennsylvania at 37 is far below the national average of 48%. Second, because state spending is so low, local school districts have been forced to rely on their highly unequal capacity to raise local revenues through property or earned income taxes. So, we find that there are school districts in Pennsylvania that are among the best funded in the entire country and others that are among the worst. And that leaves us with our extraordinarily unfair funding of K–12 education. And third, given that the state has neither the political will nor the capacity to redirect local tax dollars in highly funded school districts, for those in poorly funded school districts, the only way to adequately and equitably fund our schools is for the General Assembly to direct more state funding to historically underfunded school districts.

Or to put the point another way, the cost of at least forty years of inadequate and inequitably school funding is that Pennsylvania can't meet its constitutional and moral obligations without raising total state and local school funding to high levels relative to other states. But perhaps we should look at this as a benefit, not a cost. There is substantial evidence that higher funding of education makes a difference. It not only improves school performance, but it adds to lifelong success of students in many ways. Adults who have received a better K–12 education have higher and more stable incomes and are more likely to become and stay married and to report greater lifelong happiness.

In sum, Pennsylvania's total state and local spending is not, in general, out of line with other states. And there are unique features of our state that suggest that meeting the needs of the people of Pennsylvania requires higher levels of spending than most other states.

7% of the population is 65+. Population Reference Bureau, "Which States Have the Oldest Populations?," https://www.prb.org/resources/which-us-states-are-the-oldest/.

Name the Cuts

Another indication that the state does not spend more than it should to meet Pennsylvanians' needs is that the politicians who are most adamant about reducing state spending have never put forward serious proposals to do so.

That's not to say they haven't put forward proposals. But they are rarely serious.

In the spring of 2016, Senator Scott Wagner, then a leading member of the Republican caucus who was soon to be the Republican candidate for governor, held a press conference on behest of the "Taxpayers' Caucus" to present $3 billion in state budget cuts. Yet when we looked at those cuts in detail, they were almost entirely chimerical.[5] For example, Wagner's group called for reducing Medicaid / Medical Assistance by $500 million, correctly noting that the Wolf administration had projected such savings as it required Medicaid providers to shift from fee-for-service to managed care. Yet Wagner did not seem to notice that those savings were already paying for the increased cost in medical care due to increased caseloads and medical inflation. As we looked at the proposal in detail, almost all of the $3 billion in savings the Taxpayers' Caucus found were similarly fantastical. There was one exception: The group called for the state police to purchase two-sided portable printers so they could print tickets on two sides. This was a good idea. If it has been implemented, the state is saving about $43,384 per year.

The only other idea for reducing the need for new revenues that Republicans have put forward is to shift money from various special funds to the General Fund. As we have explained, this idea confuses the role of special funds, which are often similar to savings banks in that they hold funds for investment in projects that have a longer-term payback, while the general fund which is the state's checking account, used to pay for expenses in the current year. Of course, the state has in the past and continued this year to use accumulated monies in the special funds to pay for General Fund expenses. This is one of the budget gimmicks I discuss below. But those transfers have always been understood to be temporary, one-time funds that had to be paid back in subsequent years, which they have been.

To sum up this section, some years ago, at one of the heights of Republican demands to "cut the budget" we started a campaign on Twitter to #namethecuts. As we expected, we received little or no response from any Republican legislators. The reason, of course, is that almost all state spending is supported by a strong majority of Pennsylvanians, including majorities in most Republican districts. It would be political suicide for Republicans to call for reductions in most state spending except for the mostly mythical "waste, fraud, and abuse." It is one thing for them to oppose additional spending. Voters are often suspicious of new spending it, although there are many areas where majorities support additional state funding. But they oppose cuts to ongoing spending unless there is a strong reason to doubt its effectiveness.

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5. Marc Stier, "Make-Believe Budget in Harrisburg," Third and State blog, May 24, 2016.

The 2011 Experience and the Electoral Test

The difficulty of making deep cuts to the General Fund budget was demonstrated during the Corbett administration. State revenues dropped dramatically during the Great Recession. For a few years, the state was able to rely on federal relief through the American Recovery and Reinvestment Act to avoid making deep cuts to the budget. But when ARRA funds ran out, and state revenues had not recovered and returned to the path they were before the Great Recession, the state faced a difficult choice. With the support of the Republican General Assembly, Governor Corbett chose to make a billion-dollar cut to K–12 education and deep cuts, to higher education, to human services and environmental protection. Why were the cuts made in these areas? Because most of the General Fund budget cannot be easily cut. The work of the state is carried out by employees who can't be eliminated wholesale and whose compensation is set in contractual agreements. The state must continue to pay into its pension funds. It must pay debt services. It must maintain the state share of Medicaid payments in order to draw down the billions in federal funds that, in Pennsylvania, cover half the cost of Medicaid. While Medicaid benefits can be rolled back a bit, federal regulations prevent them from being modified a great deal.

After excluding these areas, the only things left are the areas I mentioned above. And the largest share of state spending in K–12 education. There is simply no other way to make huge cuts in the state budget without reductions in this area.

But, as I've suggested, Pennsylvanians generally support what the state government does. And that was put to an empirical test by Governor Corbett's actions. Largely because of the deep cuts to education and other areas, Governor Corbett lost his bid for re-election in 2014. He was and remains the only incumbent governor to fail to be reelected. since the Pennsylvania Constitution was amended to allow governors to run for re-election.

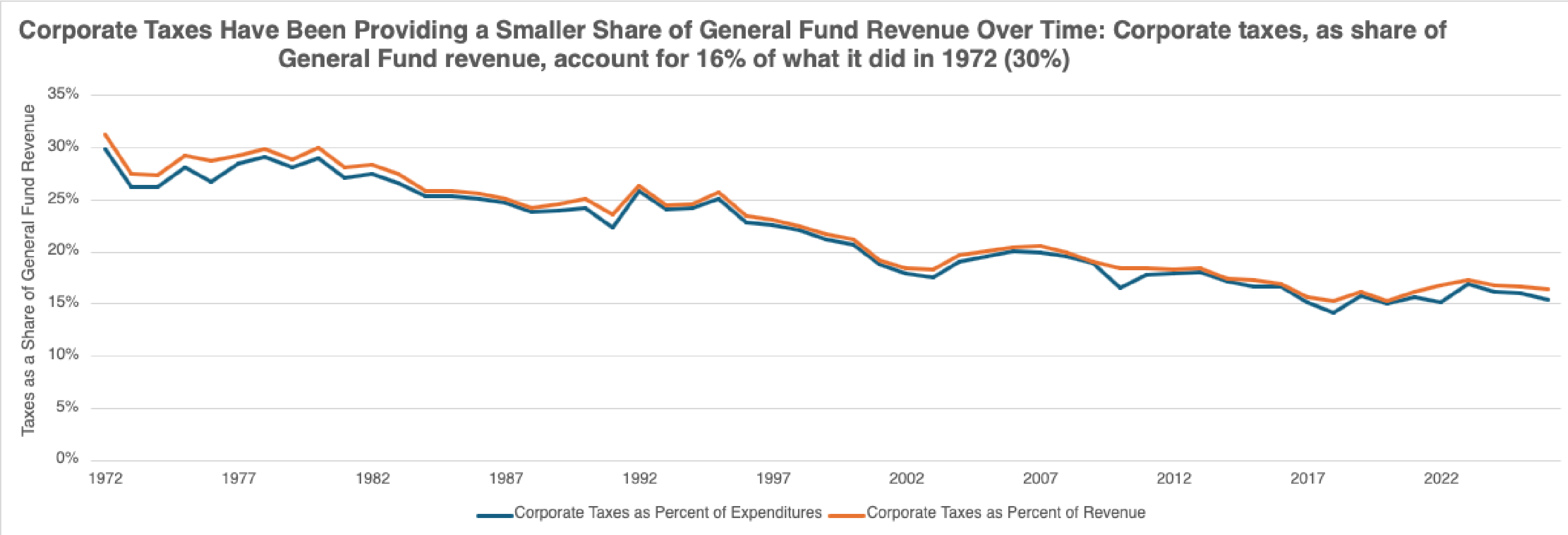
Why Pennsylvania Has a Structural Deficit

Corporate Tax Cuts

Now that we have dispensed with a false story about why we have a structural deficit, let me turn to the first of two genuine accounts.

For five decades, the state, under both Republican and Democratic governors and legislatures, has been cutting corporate taxes. As figure 1 shows, corporate taxes provided over 30% of general fund revenues in 1972. That has shrunk to under 15% today. In the last 35 years, we have seen the complete elimination of the capital stock and franchise tax (CSFT) under the Rendell and Corbett administrations as well as an increase in tax credits mostly under Governor Rendell. Also contributing was a shrinkage in the tax base thanks to decisions Governor Corbett made as the federal corporate tax, to which our corporate net income tax is linked, was reduced under the first President Bush.

Figure 1



The repeal of the CSFT left the state with a Corporate Net Income Tax CNIT that is easily exploitable by huge, wealthy multinational corporations. As a result, 73% of corporations doing business in Pennsylvania pay nothing at all in corporate net income tax. Multinational corporations escape our CNIT through the magic of creative internal accounting. Pennsylvania-based affiliates of national corporations pay out-of-state entities inflated prices for such things as wholesale goods, for national advertising, for the use of corporate logos, and for intangible services. As a result, the Pennsylvania affiliates show little or no profits and pay little or no CNIT. Because major corporations historically shifted many of these profits to Delaware, we have called this the "Delaware loophole." But in recent years, American multinational corporations have increasingly shifted profits abroad to, among other places, the Cayman Islands, Bahamas, and Ireland. So now we call it the Delaware-Cayman Islands loophole. Despite some legislative efforts in recent years to reduce the ability of corporations to use these techniques to skirt Pennsylvania's CNIT, it appears that this project is essentially a game of whack-a-mole. As soon as one version of the loophole is closed, corporations find ways to open another.

The last time our predecessor organization did a detailed analysis, in 2020, we estimated that the cost of eliminating the CSFT, shrinking the tax base and creating new credits, was over $4 billion per year.[6] We have not undertaken a detailed analysis since then, but adjusting for inflation would raise that figure to $4.5 to $5 billion.

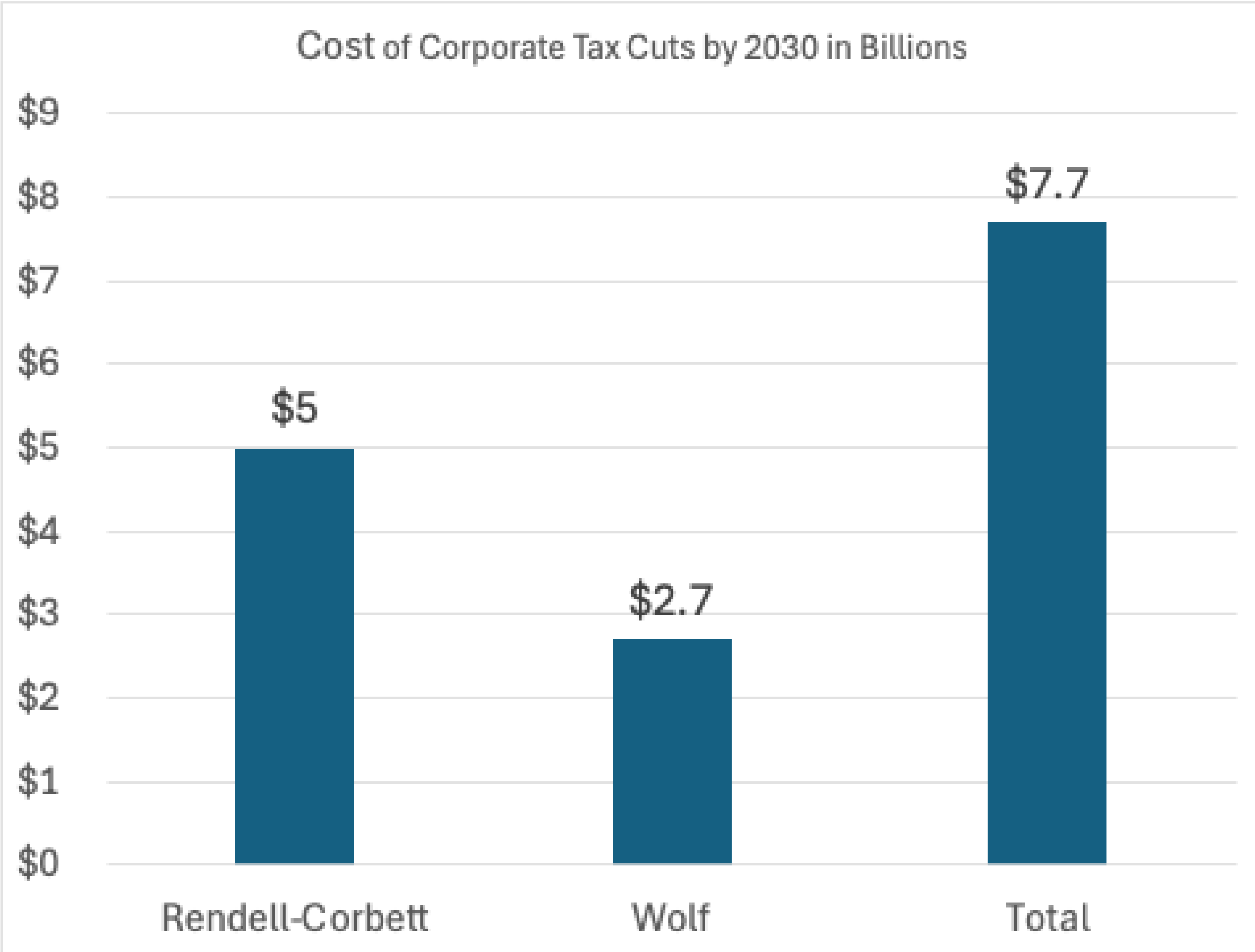
In the last year of the Wolf administration, and with the then-governor's reluctant support, the CNIT rate, which was 9.9%, was reduced to 8.9% in fiscal year 2022–23 with an additional .5% reduction each year until it reaches 4.99% in fiscal year 2030–31. By fiscal year 2024-25, this reduction in rate had already cost the state $915 million per year. By 2030–31, the cuts will have cost the state $2.7 billion.

Our organization was not opposed to some reduction in the CNIT rate though the 9.9% rate was somewhat high. We proposed reducing it to just below the national average of 7%, that is to 6.5% while closing the Delaware and Cayman Islands loopholes. Together those policies would have not cost the state revenues but would have raised them substantially while shifting taxes from Pennsylvania corporations to multinational corporations. (We discuss this policy in more detail below.)

So, if we had not cut corporate taxes in Pennsylvania, by 2030–31 the state would have at least an additional $7.7 billion or more in revenue (figure 2). That much revenue would close our projected current-year deficit in that fiscal year.

6. Stephen Herzenberg, Diana Polson, and Marc Stier, "Corporate Tax Cuts Since 2002 Now Cost Pennsylvania $42. Billion Yearly: Pennsylvania Should Pass Worldwide Combined Reporting," Pennsylvania Budget and Policy Center, January 27, 2020, https://marcstier.com/blog2/?p=8750.

Figure 2



Of course, those who defend corporate tax cuts claim that they generate additional economic activity and lead to higher taxes. Our general analysis of this issue follows the academic literature in suggesting that the economic benefits of cutting business taxes is far lower than those who defend those cuts believe. And, as we shall show in a forthcoming paper, which compares Pennsylvania economic growth rates relative to national growth rates before and after the corporate tax cuts, there is very little evidence that deep reduction in corporate taxes have provided very much if any stimulus to the Pennsylvania economy. And it provides absolutely no evidence that corporate tax reductions have not cost us billions in tax revenue. That is, even if they have led to a little faster economic growth—something we don't discern in the evidence available to us—they have certainly not paid for themselves. Rather, they have devastated state revenues.

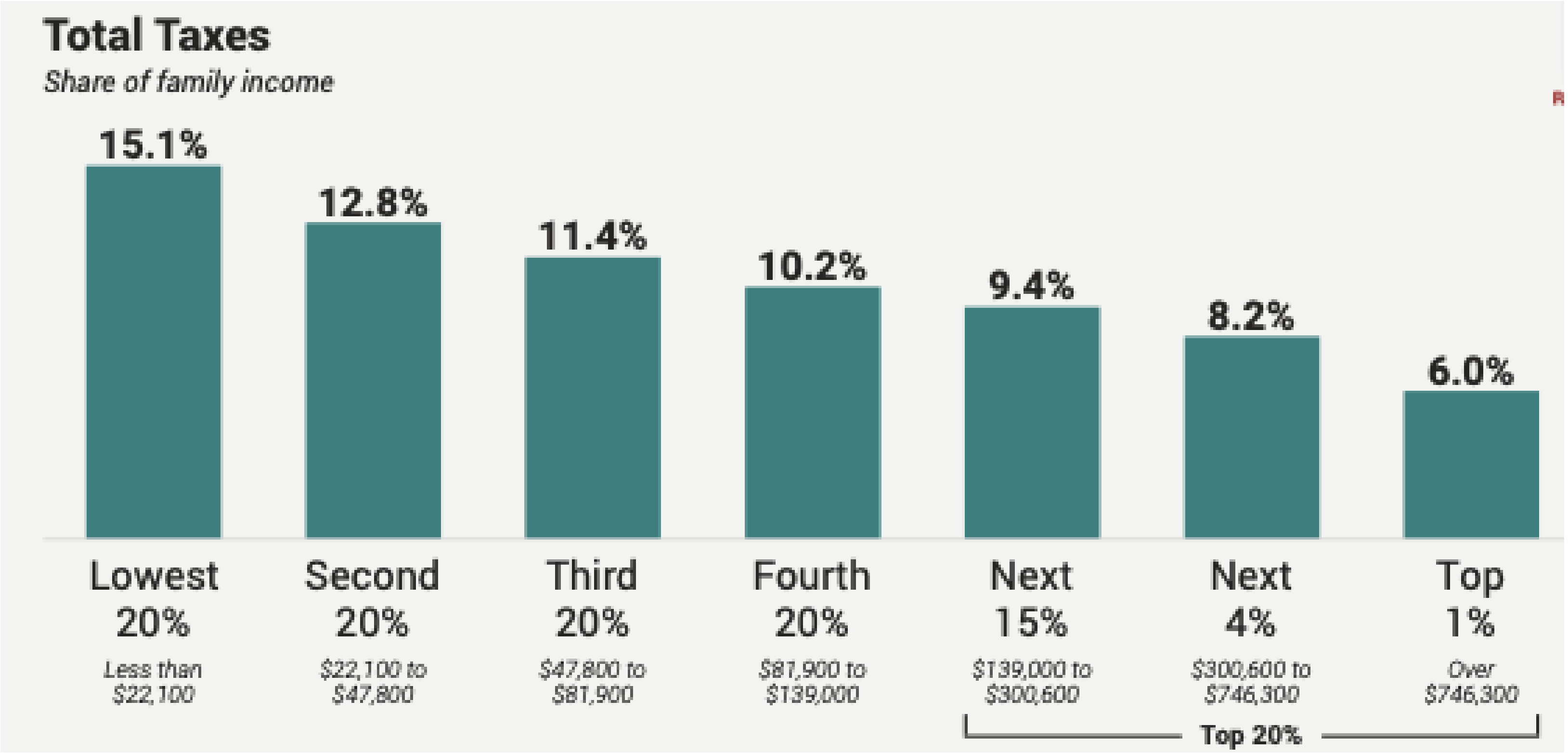
Indeed, it's not even clear that major corporations operating in Pennsylvania benefit in the long term from tax avoidance. Corporations that operate in Pennsylvania but pay no taxes here rely heavily on the workers educated in our public schools and on our roads and bridges. It is utterly unfair that they don't pay their share for those public goods. But it's also likely that they would benefit from more adequate and equitable education and better roads and transit systems, which we could provide if they paid their fair share.

Our Upside-Down Tax System

While corporate tax reductions account for much of the structural deficit, it does not tell the whole story. For it is only one part of a Pennsylvania tax system that is fundamentally upside-down in that it taxes the richest Pennsylvanians far less as a share of their income than it taxes moderate- and lower-income Pennsylvanians.

Figure 3 provides the details.

Figure 3



Source: Carl Davis, et. al., *Who Pays?* 7th Edition, 2023, https://itep.org/whopays-7th-edition.

The right side of the figure shows that the top 1% of households in Pennsylvania, with an annual income over $746,300 and an average income of $1.7 million, pay 6% of their income in state and local taxes. The third bar from the left shows the middle 20% of Pennsylvania families with incomes between $47,800 and $81,900 and an average income of $63,000. They pay 11.4% of their income in state and local taxes, almost double that of the top 1%. At the far left, one finds the bottom 20% of Pennsylvania families with incomes less than $22,100 per year and average incomes of $12,000. They pay an astounding 15.1% share of their income in state and local taxes, 2.5x that of the top 1%.[7]

7. The income figures only include market income, excluding the value of social safety net programs.

This highly regressive distribution of taxes is a product mainly of the uniformity clause of the constitution, which mandates that every class of income be taxes at only one rate.[8] As a result, we have a flat income tax rather than one with graduated tax rates, that is, rates that increase as income increases. As in other states, our property and sales taxes are regressive. But in states that have one, a graduated income tax which is progressive, compensates for the property and sales taxes. Our flat income tax does not do so. This gives us the fourth most regressive tax system in the entire country.

There are three terrible consequences of our highly regressive tax system.

The first is that it is obviously unfair. We believe that justice requires a progressive tax system in which those who earn more, in part because of the public goods including education paid for by the public, as well as good luck pay more. Some people believe that a flat tax system is just. But there is just no political philosophy known to mankind that holds that the rich should pay taxes at far less than half the rate of the poor. Our tax system is simply outrageous.

Second, our tax system is especially horrible for the bottom 20%. The 15.1% of the income they pay is the highest in the entire country. Think about that. Pennsylvania is, as far as taxes go, the worst state in the entire country. Again, this is a moral abomination.

Third, and for our current purpose most importantly, a tax system so unequal simply can't raise enough revenue. As the story goes, when asked why he robbed banks, Willie Sutton responded, "That's where the money is." Much the same can be said about why we tax rich people. That's where the money is. If we aren't going to tax the richest among us, as well as the major corporations who pay nothing, then we will never have the funds we need to provide the opportunity for all or the public investments critical to the prosperity of all of us.

We are working on an estimate of how much revenue Pennsylvania would raise if our state and local taxes were, like a few other states including Delaware, flat. While that work is incomplete at the moment, our preliminary estimate is that if every family in Pennsylvania paid about 10.2% of its income, which is the average share of income paid in state and local taxes by the fourth quintile, in state and local taxes, the state could, with a few other measures, raise sufficient funds to eliminate the structural deficit as well as to close the public investment gap.

Such program would lead to sixty percent of families in the state paying less than they do today with 40% paying a great deal less. Those in the top 20% would pay more but most of that would come from the top 5%.

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8. A regressive tax is one in which households with lower incomes pay a higher share of their income in taxes, while higher incomes play a lower share of their income in taxes, as found in Pennsylvania. A progressive tax is the opposite: Those with low incomes play a lower share of their income in taxes while those with higher incomes pay a higher share of income in taxes.

The Public Investment Deficit

So, the structural deficit is not fundamentally a problem of over-spending. Rather, it has been created by an upside-down tax system and one that allows major multinational corporations to escape almost all taxation.

The structural budget deficit is a very serious problem. But Pennsylvania's budget difficulties are actually far deeper. When evaluating state spending the most important criteria is whether we are meeting the needs of Pennsylvanians now and in the future. As we pointed out above, public spending should meet certain moral criteria: It should provide the opportunity for education and training to every young person; it should create a safety net that ensure that everyone has the goods critical to a decent life; it should provide the public goods that generate long-term prosperity, and should give everyone access to public spaces, including attractive communities, parks and recreation areas, and cultural spaces.

Pennsylvania provides some of these goods. But in many respects, Pennsylvania has not just a serious budget deficit problem but a public investment deficit problem. We will be releasing a paper that addresses our public investment in detail soon. Here we just point to the most striking examples that fall into a few categories.

Affordablity

Affordablity is the political buzz word of the moment. That so many people talk about it is, however, a reflection of reality. Costs for goods critical to working and middle class families have increased drastically over the last two decades while incomes have been stagnant. There are a number of public policies that Pennsylvania could and should be adopting to reduce costs for these families.

Child Care and Early Childhood Education. Investment to bring down the cost of child care and early childhood education is critical for three reasons. First, as there are more single parents, and even married parents find it necessary for them to both work outside of the home, child care is both necessary and, because of its expense, a tremendous burden on families. Second, there is a shortage of workers across the board, which is being made worse by Trump's deportation of immigrants who have lived and worked among us for years. Our economy is being held back the lack of workers. And third, there is a great deal of evidence that pre-K education helps kids from low- and moderate-income families have a better start in life. Studies have shown that children who attend pre-K programs score higher on academic tests and that these benefits are greater for those whose families have lower incomes.[9] And the effects of pre-K education

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9. Gary T. Henry, Bentley T. Ponder, Dana K. Rickman, Andrew J. Mashburn, Laura W. Henderson, and Craig S. Gordon, 2004, "An Evaluation of the Implementation of Georgia's Pre-K Program: Report of the Findings from the Georgia Early Childhood Study (2002–03)," Atlanta: Georgia State University, Applied Research Center, January 2004; and William Gormley, Jr., Deborah Phillips, and Ted Gayer, "Preschool Programs Can Boost School Readiness," *Science 320*, June 27, 2008, 1,723–24.

are long lasting: Long-term studies have shown that those who receive pre-K education have higher IQs at age 5, have higher high school graduation rates, and are more likely to own a home and have higher incomes at age 40.[10]

Pennsylvania performs better than the national average in some areas, covering 18% of eligible children under age 5 compared to the national average of 13% for child care assistance; serving 36% of eligible children through Head Start compared to 26% nationally; and reaching 12% through Early Head Start compared to the 10% national average But there remains a considerable shortfall in state-funded pre-K. Only 19% of the state's 3- and 4-year-olds are enrolled in a state-funded preschool program, slightly below the national average of 21%.

That Pennsylvania looks OK in comparison to other states, should not mislead us. The truth is that child care and early childhood education is a national crisis and no state does very well in addressing it. When only 18% secure child care assistance in one of the best states and only an average 21% of 3- and 4-year-olds are in state funded pre-K we have a serious problem.

And that problem is fundamentally one of affordability, which is especially problematic in our state. Across every age group and setting, whether in-home or center-based care, Pennsylvania exceeds national cost benchmarks. For example, the average annual cost of infant center-based care in the Commonwealth is approximately $11,210, compared to $9,700 nationally. Preschool center-based care averages $9,677 in Pennsylvania versus $8,173 nationally. Even home-based care, often seen as a more affordable option, is markedly more expensive in the state.

Finally, the state currently has an estimated 3,000 unfilled child care jobs, preventing up to 25,000 children from accessing care and limiting families' ability to participate in the workforce. Without sustained and increased public investment, these challenges will persist, undermining educational equity and economic opportunity across the Commonwealth.[11]

Higher Education and Work Force Training. Pennsylvania's underinvestment in higher education is another clear example of the Commonwealth's ongoing public investment deficit leading to a failure to make a critical good affordable. Once a national leader in supporting public colleges and universities, Pennsylvania's tuition costs now far exceed national averages across all sectors. In 2022–23, in-state tuition and required fees at Pennsylvania's public four-year institutions averaged $16,217, over 66% higher than the national average of $9,750. Tuition at Pennsylvania's public two-year colleges was similarly higher than average, with in-state students paying an average of $5,717 compared to $3,598 nationally. A presentation we did a few years ago shows that state spending on higher education relatives to the gross state product in 2019–20 was only 38% of what it was in 1983–84. And Pennsylvania tied for second from the

10. L.J. Schweinhart et al., "Lifetime Effects: The High/Scope Perry Preschool Study Through Age 40," 2005.

11. Pennsylvania Department of Human Services, (2025, June 2). Shapiro administration highlights budget proposal to expand Pennsylvania's child care workforce, reinforces commitment to supporting families and investing in early education, June 2, 2025, https://www.pa.gov/agencies/dhs/newsroom/shapiro-administration-highlights-child-care-budget-proposal-pit.html.

bottom in the country for the average net price at public four-year universities relative to the median income of all families. It is worst in the nation for Black families.[12] Some Pennsylvania students can save money by paying out-of-state tuition in other states rather than paying our high in-state tuition. Many of those students don't come back to live and work in Pennsylvania. Even worse, our high tuition discourages many Pennsylvania high school graduates who could benefit from higher education from applying.

And those who do manage to go to college too often find themselves deeply in debt, which undermines their ability to start families and buy homes just as they are starting their careers.

There has, rightly, been some rethinking about the value of higher education. It is quite true that college and university training is not for everyone. There are many jobs for which a college degree is a requirement even though those degrees are not really necessary to do the job well. And there is a great need for skilled craftsmen in many fields.

But it is one thing to place less emphasis on encouraging people to get college degrees and an entirely other thing to make college so expensive that children who grow up in the working class, let alone in poverty, and do have the interest and capacity to benefit from a college education cannot do so because it is so expensive. The quickest way to not only undermine equality of opportunity but lose our democracy is to create an education aristocracy in which only those who are college-educated can send their own kids to college. Here, as elsewhere, dealing with the affordability crisis is not just a matter of economic well-being. It is a matter of fundamental fairness.

Affordable Housing. The housing affordability crisis is no longer an abstract problem in Pennsylvania. It is a daily reality. Across urban, suburban, and rural communities alike, skyrocketing rental prices, a limited supply of affordable housing, and under-resourced housing assistance programs have left thousands of families struggling to find and maintain stable shelter. A significant share of Pennsylvania renters is severely cost-burdened. In 2023, nearly 39% of renters spent more than 35% of their household income on housing—a level generally considered unsustainable.

The situation is better on average for homeowners. Only 18% of homeowners with a mortgage and 11% of those without a mortgage spent that much. Meanwhile, only 28.2% of renters spent less than 20% of their income on housing, compared to 52.6% of homeowners with a mortgage and 74.1% without one. But thanks to rapidly rising home prices, low-income Pennsylvanians in many parts of the state find it increasingly difficult to buy homes. And current homeowners living in gentrifying communities are facing sharp increases in property taxes, and in the costs of repairing their homes. These trends threaten their ability to continue to live in neighborhoods where they have established roots. Some local governments, such as Philadelphia's, have adopted programs to help low-income homeowners.

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12. Marc Stier, "States Can Choose a Better Path for Higher Education Funding in the COVID-19 Recession: A Pennsylvania Perspective," January 26, 2021, https://marcstier.com/blog2/?p=10356, based on data from Victoria Jackson and Matt Saenz, "States Can Choose a Better Path for Higher Education Funding in the COVID-19 Recession," Center on Budget and Policy Priorities, February 17, 2021, https://www.cbpp.org/research/state-budget-and-tax/states-can-choose-better-path-for-higher-education-funding-in-covid.

Pennsylvania adopted the Whole-Home Repairs program to help low-income homeowners. Despite its enormous popularity and support from the Governor and House Democrats, Senate Republicans have been unwilling to keep it going.

This affordability crisis persists despite increasing state investment in housing programs. In 2024, Governor Josh Shapiro signed legislation increasing funding to the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) Fund by $10 million each year until it reaches $100 million in 2027 while also eliminating the restrictive formula that previously capped PHARE funding.[13,14]

However, housing prices continue to outpace wages and inflation in many regions, limiting the reach of these investments. Without deeper, sustained, and more targeted commitments to help cost-burdened renters, increase the development of affordable rental housing, preserve and repair our low-income housing stock, and help people become home owners, thousands of Pennsylvanians will remain at risk of housing instability and displacement.

Health Care. Health care affordability is an issue that in recent years has been addressed more at the federal than state level of government. But as the federal government under Donald Trump undermines health care in this country, it will become critical for the state to find ways to address the issue. We don't yet know all of the problems that will be created by the federal retreat from health care affordability. But two issues are likely to arise. First, Medicaid enrollments are likely to drop as harsh and unnecessary work reporting requirements are instituted. Since the state is responsible for Medicaid enrollments, it can play a major role in ensuring that all Pennsylvanians eligible for Medicaid can sign up for it by investing in new staff at County Assistance Offices to help people qualify and report on their work. Second, as health care costs on Pennsylvania's exchange, Pennie, rise, the state can invest more heavily in risk adjustment regulations and subsidies to ensure that more Pennsylvanians can afford health insurance. It is also time for the state to create a lower-cost public option on Pennie by requiring Medicaid managed care companies or state agencies to offer insurance plans.

Food Assistance. Just as the state can help those eligible for Medicaid stay on the program despite the new regulations designed to keep them off it, the state can do the same for SNAP. Indeed, since many people sign up for SNAP at the same time they sign up for Medicaid, it makes sense for the state to invest funds to keep as many Pennsylvanians on both programs as possible.

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13. Housing Alliance of Pennsylvania, *VICTORY: PHARE funding will be raised to $100 million!*, July 12, 2024, https://housingalliancepa.org/victory-phare-funding-will-be-raised-to-100-million/.

14. Pennsylvania Housing Finance Agency, *Pennsylvania Housing Affordability and Rehabilitation Enhancement Program (PHARE): 2024 annual report*, July 1, 2025, https://www.phfa.org/forms/phare_program_phare_fund/annual_report/2024_phare_legislative_report.pdf.

Roads, Bridges, Public Transit. Infrastructure spending is important for many reasons, including to spur economic growth, so we will discuss it in the next section. But we want to note that investment in transportation infrastructure contributes greatly to affordability. Public transit subsidies reduce costs for everyone. And while there are some taxes our organization wants to increase, we strongly urge action to reduce the "pothole tax." For the abysmal state of our highways and roads leads to increasingly cost repairs to the undercarriage of our cars and trucks.

Other Critical Public Investments

While the programs just discussed are critical to making life more affordable for Pennsylvanians, and especially for those with low- and moderate incomes, other public investments provide critical public goods that create opportunity and enhance economic growth.

K–12 Education. As we pointed out above, by the state's own standards for adequacy in elementary and secondary education, Pennsylvania should be investing another $3.5 billion per year to ensure that every young person has an adequate and equitable education.

Public Health Funding. As we discovered during the pandemic, Pennsylvania has been lax in building up its public health infrastructure. Even now, Pennsylvania spends only $18 per capita on public health, far below the national average of $63. In fact, Pennsylvania ranks among the bottom tier of states for public health investment, trailing behind neighboring states like New Jersey ($43), Delaware ($51), and New York ($100).

Employment and Employment Protections Funding. Another area where the Commonwealth's public investment deficit is evident is in its underfunding of worker protections. Today's labor market is shaped by rising precarity, automation, and the expansion of nonstandard work arrangements. But Pennsylvania has not kept pace with the urgent need to modernize employment services or enforce labor standards robustly. According to the Pennsylvania Department of Labor and Industry, all major categories of labor enforcement experienced sharp increases in activity in 2023. Prevailing Wage Act cases rose from 56 in 2022 to 173 in 2023—a 209% increase. Child Labor Act cases grew from 402 to 574 over the same period, a 43% increase. Cases under the Wage Payment and Collection Law rose from 3,050 to 3,834—an increase of 26%. And investigations under the Minimum Wage Act totaled 282 cases in 2023, a 31% increase over the previous year.[15] These trends point to a growing crisis in compliance and enforcement.

Despite this rising demand, funding for the Department of Labor and Industry has fluctuated over the past several years and, in real terms, remains below earlier levels. After peaking at just under $100 million in 2019–20 (adjusted to 2024 dollars), the department's inflation-adjusted budget declined for three consecutive years, reaching a low of approximately $89 million in 2022–23. Although the

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15. Pennsylvania Department of Labor and Industry, "Shapiro Administration Labor Law Investigators Return More than $4 Million in Earned Wages to Pennsylvania Workers in 2023," Commonwealth of Pennsylvania, https://www.pa.gov/agencies/dli/newsroom/shapiro-administration-labor-law-investigators-return-more-than-4-million-in-earned-wages-to-pennsylvania-workers-in-2023.

enacted 2023–24 state budget provided a welcome increase, restoring funding to about $98 million in today's dollars, the 2024–25 budget reflects another decline, bringing the total down to approximately $95 million.

Infrastructure: Roads and Bridges, Public Transit, and Water Systems. In 2022, the American Society of Civil Engineers gave Pennsylvania a cumulative infrastructure grade of C-, with especially poor ratings for roads, transit, stormwater, and wastewater systems.[16] In particular, with respect to stormwater systems, Pennsylvania ranks as the state with the second-highest total estimated annual structural damage costs due to flooding, amounting to $1.22 billion—a stark indicator of the consequences of underinvestment in climate resilience and stormwater infrastructure.[17] Moreover, as shown in figure 13, the state's transportation funding is severely inadequate. In fiscal year 2021–22, PennDOT faced a $9.35 billion state-level annual funding gap, driven by unmet needs for highway and bridge maintenance ($8.15 billion) and multimodal infrastructure ($1.2 billion). This does not even account for local infrastructure, which faces its own shortfall of $3.9 billion per year, projected to grow to $5.1 billion by 2030.[18]

Nor do these figures include funding for operating expenses for public transit. Every form of transportation requires some kind of subsidy because the benefits of transportation infrastructure flow not only to those who use it but to entire communities. That's why governments pay for airports, for public transit, and pay far more for roads and bridges than is raised through gas and other transportation taxes.

This year the General Assembly failed to make the minimal $292 million investment in public transit to allow the public transit agencies found in every county to continue to operate at near-current levels. Instead, the Governor shifted funds from the Public Transportation Trust Fund (PTTF), which supports long-term transit capital projects, to cover operating deficits at SEPTA and Pittsburgh Regional Transit. But no funds were provided to support the other 43 smaller public transit systems in the state that were also facing severe cutbacks. Moreover, if monies from the PTTF are not repaid in the future, it will not have the funds necessary to support the public transit capital that keeps transit systems in a state of good repair. And even Governor Shapiro's plan did not begin

16. American Society of Civil Engineers (2022), "2022 Report Card for Pennsylvania's Infrastructure," https://infrastructurereportcard.org/wp-content/uploads/2016/10/PA-Report-Card-2022.pdf.

17. Ibid.

18. Ibid.

to provide enough money to truly enable public transit to make the contribution to economic growth, economic equity, and protection against climate change that our state needs as described in the Transit for All PA platform.[19]

How To Close the Structural Deficit Fairly

Pennsylvania faces a current-year deficit that will approach $7 billion a year if one includes the spending needed to meet our moral and constitutional obligation to fully and fairly fund our schools. There are no plans to reduce spending that would meet with the approval of the majority of Pennsylvanians. And the state needs to spend even more to address the affordability crisis and to provide other public goods that are necessary to generate prosperity for all.

Clearly, the state needs to increase revenues.

But, given how upside-down or regressive our state and local tax system is, it is clear that tax increases should not fall on working people and the middle class. Instead, they should target the richest Pennsylvanians, who do not pay their fair share of taxes and the multinational corporations that pay little or nothing to the state even as they use highways paid for and employees educated with Pennsylvania tax dollars.

In the next few pages, we will summarize six revenue raising proposals. We have written reports on four of them in the past while the other two were proposed by Governor Shapiro this year. We will be releasing updated papers discussing them in more detail over the next few weeks.

Fair Share Tax

We first proposed the Fair Share Tax in 2017. It is a plan to replace our Personal Income Tax with two new taxes that raise far more revenue from the wealthy, while giving a tax cut to working people and the middle class. It has been introduced and championed by many members of the General Assembly in the past and was the subject of hearings in the Tax Modernization Committee of the House Finance Committee in 2024.

Here are its key elements:

The Personal Income Tax, which is currently set at a tax rate of 3.07%, would be divided into two taxes.

- One new tax, which we call a tax on work or earned income that includes wages and interest—which is the kind of income received by almost everyone—would have a tax rate set at 2.8%.

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19. Transit for All PA platform, https://www.transitforallpa.org/platform/.

- The second new tax, on what we call income from wealth or unearned income—business profits, capital gains, dividends, royalties, and estates—would be set at 6.5%.

At projected 2026 income levels, the Fair Share Tax plan would raise a bit over $2.76 billion in new revenues in the first year. Taxes would be cut for about 61% of Pennsylvania families. Twenty-six percent of Pennsylvania families would see no change in their taxes. Only 13% of families would pay more.

Over 52% of the new revenue from the Fair Share Tax would come from the top 1% of taxpayers. They would pay, on average, an additional $239,000 on their average income of over $2 million per year. Another 22% of the revenue would come from the next 4% of taxpayers, who would pay, on average, an additional $2,648 on their income, which ranges from $334,700 to $833,700 and averages $486,100. The next 15% of taxpayers, with incomes from $149,000 to $334,700 that average $209,900 would only pay an extra $116, on average.

The bottom 80% of taxpayers would, on average, see their taxes cut under the Fair Share Tax.

The Fair Share Tax would enable us to begin to close our budget and public investment deficits without increasing taxes on working people and the middle class.

Some possible objections and responses to them:

Three objections are often made about the Fair Share Tax, but they can be easily answered:

The tax does not place Pennsylvania at a competitive disadvantage to neighboring states. After it is instituted, the effective income tax rate on the top 1% would only be 3.5%, below all of our neighboring states and far below New York and New Jersey, which has an effective tax rate of 6.6% on the top 1%.

The tax does not put an unfair burden on retired Pennsylvanians. Pennsylvania is one of the best places to retire from a tax perspective. Social security, pension withdrawals, and 401k withdrawals are not taxed at all. The Fair Share Tax would raise more only from retired Pennsylvanians with substantial financial holdings beyond these protected categories.

The tax does not put an unfair burden on small local and family-owned businesses or farms. Those businesses and farms can avoid the tax increase by taking the income from their business as wages instead of business profits. Thus, the Fair Share Tax cuts taxes for small business. Larger businesses cannot do this because they need to show a profit to secure loans. Loans to family-owned businesses typically are secured by the assets of members of the family.

Worldwide Combined Reporting and the Corporate Net Income Tax

We described above how multinational corporations use creative accounting to show little or no profits in Pennsylvania and thus avoid paying the Corporate Net Income Tax in Pennsylvania. The solution to the Delaware and Cayman Islands loopholes is to institute worldwide combined reporting (WWCR). Under this system, all corporations that operate in Pennsylvania would report their total worldwide profits to the state no matter where those profits were earned. The corporation would then pay taxes on a share of those profits equal to the share of sales made in the state. If a multinational corporation company sells 5% of its worldwide goods or services in our state, it would pay Pennsylvania taxes on 5% of its combined profits.

Combined reporting is not an unusual, let alone radical, idea. Twenty-eight states with corporate income taxes, plus the District of Columbia, have enacted water's edge combined reporting, in which corporations pay taxes on the share of US profits equivalent to its share of US sales. Pennsylvania is one of 17 primarily midwestern and southern states that have a corporate income tax but have NOT implemented combined reporting.

Nor is worldwide combined reporting a new idea. By the early 1980s, 12 states, starting with California, had instituted worldwide combined reporting either automatically or after an audit showed that corporations had engaged in significant profit shifting. The constitutionality of WWCR was upheld by the Supreme Court in 1983. But a massive lobbying campaign by multinational corporations, supported by the Reagan administration forced most states to retreat to water's edge combined reporting. Ten states plus the District of Columbia allow corporations to choose to use WWCR.[20]

Worldwide combined reporting at our current CNIT tax rate of 7.99% would generate an additional $1.5 billion in revenue. Of course, under current law the CNIT rate is scheduled to drop eventually to 4.99% We would propose that this continued reduction cease and that the CNIT rate be set either at 6.99%, which is the average rate in the country, or at the tax rate on incomes from wealth in the Fair Share Tax. At a rate of 6.99%, WWCR would bring in an additional $1.34 billion in revenue.

Critics of this proposal will disagree with the idea of WWCR itself and with our proposed tax rate. Critics of WWCR often claim, falsely, that it would discourage businesses from locating their production operations in Pennsylvania. But this objection makes no sense at all. Under WWCR reporting, corporations would pay taxes in our state based on their sales in the state, regardless of where they produce goods and services. Why would a multinational corporation, say Target or Walmart, give up lucrative markets in Pennsylvania because a small share of their profits is taxed by our state? If this claim were true, someone would have shown that multinational corporation are less likely to sell goods and services in one of the twenty-seven states that have WWCR. But for obvious reasons, no one has even tried to make such a case.

And we can go further: There is some reason to think that WWCR would actually benefit corporations that are now based in Pennsylvania. Under current law, Pennsylvania-based companies pay taxes to the state. If they are organized as C-corporations they are subject to the CNIT. If organized as S-corporations, LLCs or partnership their owners pay the Personal Income Tax on the business

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20. Michael Mazerov, "States Can Fight Corporate Tax Avoidance by Requiring Worldwide Combined Reporting," Center on Budget and Policy Priorities, June 27, 2024, https://www.cbpp.org/research/state-budget-and-tax/states-can-fight-corporate-tax-avoidance-by-requiring-worldwide-0q.

profits that pass through to them. Yet their multinational competitors likely do not pay taxes to Pennsylvania. Take for example our local Harrisburg coffee shops such as Elementary Coffee or Little Amps. They must pay taxes to Pennsylvania. But Starbucks has a Cayman Islands subsidiary not because so many people drink coffee there but because it holds the profits of the company. Allowing Starbucks to avoid paying Pennsylvania taxes is unfair to our local Pennsylvania-based businesses. And it is unfair to the taxpayers of the state because a multinational corporation like Starbucks is likely to place a greater demand on, for example, our roads and bridges than a local coffee company.

The second criticism of our proposal—to limit the reduction in the corporate net income tax—is also based on the false premise that taxes play a major role in discouraging business investment. We have discussed this claim at length before and won't spend much time on it here. For two reasons, there is little reason to think that corporate tax cuts spur economic growth. First, state and local corporate taxes represent too small a share of corporate costs to have a significant effect on business location. Other factors, such as workforce quality and proximity to customers, suppliers, and raw materials, outweigh corporate tax rates. The best research we have suggests that, together, all state and local taxes account for only 2%-4% of total business costs. Corporate income taxes at the state and local levels amount to slightly less than 10% of that 1.9%,[21] or 0.3%–0.4%, of the costs to corporations of doing business.[22] Second, because of

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21. Peter Fisher argues that state and local taxes make up only 1.9% of total business costs in "State and Local Taxes Are Not Significant Determinants of Growth," http://www.gradingstates.org/the-problem-with-tax-cutting-as-economic-policy/. This piece is an accessible overview and one-stop resource about the impact of tax policy on economic development. His research on the impact of state and local taxes on the cost of doing business is "based on data from 2001 through 2012 from two sources: U.S. Internal Revenue Service, Statistics of Income, Integrated Business Data for all U.S. Corporations, partnerships, and non-farm proprietorships, showing total deductions for business costs on tax returns, https://www.irs.gov/statistics/soi-tax-stats-integrated-business-data; and the Council on State Taxation's annual reports *Total State and Local Business Taxes.* (The 2016 edition is available at http://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/fy16-state-and-local-business-tax-burden-study.pdf.)"

Fisher's estimate has been challenged in Joseph Crosby's "Just How 'Big' Are State and Local Business Taxes?" *State Tax Notes*, June 20, 2005, Doc 2005-12415, or STT 117. Michael Mazerov and Katherine Lira responded in "Almost All Large Iowa Manufacturers Are Already Subject to Combined Reporting in Other States," Center on Budget and Public Policy, April 3, 2008, where they conclude that "state and local taxes have a relatively small impact on corporate location decisions because they constitute only 2.3 percent or less of total corporate expenses and their potential influence is overwhelmed by interstate differences in labor, energy, transportation, and other costs of production that account for almost 98 percent of total corporate production expenses." https://www.cbpp.org/research/almost-all-large-iowa-manufacturers-are-already-subject-to-combined-reporting-in-other,

22. The estimate that corporate taxes account for less than 10% of state and local taxes is from the Council on State Taxation (COST), "Total State and Local Business Taxes, State by State Estimates for FY 20," October 2021, https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/2108-3843085_50-state-tax-2021-final.pdf.

state balanced-budget requirements, cuts in corporate tax rates often lead to spending cuts, which make the net effect of tax and spending changes zero or negative. And when those spending cuts undermine critical public investments that boost productivity, their net effect can be to undermine economic growth and the creation of jobs.

Twenty years ago, the "Ohio experiment" was intended to demonstrate the power of corporate tax cuts to drive economic growth. Ohio eliminated the state tax on corporate profits, slashed the individual income tax, and phased out a major business property tax in 2005 at the costs of more than $2 billion in revenues per year. Far from confirming the theory that corporate tax cuts generate economic growth, in the subsequent years, Ohio "lost relatively more jobs, and more manufacturing jobs, than the country as a whole…output and new investment have lagged, while personal income hasn't kept up."[23] Unfortunately, as we hope to show in future research, Pennsylvania followed a similar path and found similar results.

Severance Tax

Pennsylvania is the second-largest natural gas producer in the country. Yet Pennsylvania is the only leading gas-producing state that does not levy a severance tax on natural gas. Texas imposes a severance tax of 7.5% of the market value of gas produced and saved in the state[24], Louisiana applies a volumetric tax that effectively ranges around 4% to 5% depending on price brackets[25], West Virginia levies a 5% tax on gross value[26], and New Mexico imposes a 3.75% tax on the taxable value of natural gas.[27]

Pennsylvania instead relies on an "impact fee," created in 2012 under Act 13 as a compromise to avoid a true severance tax. Rather than taxing the value or volume of gas produced, the fee applies a fixed schedule of payments on each unconventional well for its first 15 years of operation. The amount declines as the well ages and is adjusted only modestly based on the annual average price of natural

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23. Zach Schiller, "Revisit Ohio's Tax Cuts," *Toledo Blade*, September 12, 2010.

24. Railroad Commission of Texas, "Texas Severance Tax Incentives," accessed September 26, 2025, https://www.rrc.texas.gov/oil-and-gas/publications-and-notices/texas-severance-tax-incentives/.

25. Louisiana Department of Revenue, "Severance Tax Rates," https://revenue.louisiana.gov/tax-education-and-faqs/faqs/severance-taxes/what-is-the-severance-tax-rate-for-natural-gas/.

26. West Virginia Code §11-13A-3a (Natural Gas Severance Tax), https://code.wvlegislature.gov/11-13A/.

27. New Mexico Legislature, "Oil and Natural Gas Taxing in New Mexico," July 21, 2011, accessed September 26, 2025, https://www.nmlegis.gov/handouts/RSTP%20072111%20Item%200%20Oil%20and%20Natural%20Gas%20Taxing%20in%20New%20Mexico.pdf

gas. Because it is tied to the number of wells rather than the amount or value of gas extracted, total collections have stayed relatively flat even as production per well has soared and prices have swung sharply.[28]

In a 2023 report, we estimated that Pennsylvania lost roughly $1.9 billion between 2011 and 2021 by not adopting a 5% severance tax and then lost nearly $1.7 billion more in 2022 alone during the price spike.[29] Looking forward, even at today's production levels and moderate prices, a severance tax of this magnitude would raise substantial recurring revenue. According to our calculations, if implemented in 2025, a 5% severance tax would have generated approximately $330 million, while a 6.5% rate would have generated about $430 million. After accounting for the existing impact fee, the net additional revenue would be approximately $182 million at a 5% rate and $281 million at a 6.5% rate.

And if natural gas prices were again to spike—which is possible given the increased need for electricity production to meet the demand of artificial intelligence—we might find ourselves in the position in which a modest severance tax is again producing a billion dollars of revenue or more.

Intangible Wealth Tax

A few years ago, we proposed that Philadelphia institute—or actually re-institute—a tax on intangible wealth.[30] It is still under consideration in City Council. But we think that such a tax would make even more sense at the state level. While the evidence is pretty clear that wealthy people do not move from one location to another to avoid taxes, such a move is far less likely when taxes are levied at the state level. After all, moving from Philadelphia to Montgomery County is far less disruptive than moving almost anywhere in Pennsylvania to Ohio. And, given that Pennsylvania's taxes on the wealthy are already substantially lower than all of our neighboring states besides Ohio, that is the only nearby state to which Pennsylvanians could abscond to avoid a tax on intangible wealth.

Pennsylvania already has taxes on wealth. Every county and almost every municipality taxes real property wealth. And yet while we tax the form of wealth that most Pennsylvanians hold, we exempt from wealth taxation the form of wealth that is mostly held by the

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28. Pennsylvania Public Utility Commission, *Act 13 Implementation Presentation*, accessed September 26, 2025, https://www.puc.pa.gov/NaturalGas/pdf/MarcellusShale/Act13_Implementation_Presentation.pdf.

29. Diana Polson, Stephen Herzenberg, and Marc Stier, "Time to Stop Losing the Revenue We Need: A Severance Tax is Still a Good Idea," Pennsylvania Budget and Policy Center, March 2, 2023, https://marcstier.com/blog2/?p=9974.

30. Marc Stier, "It's Time to Reinstate the Philadelphia Wealth Tax," Pennsylvania Budget and Policy Center, March 29, 2022, https://marcstier.com/blog2/?p=9398.

richest Pennsylvanians: intangible wealth in stocks and bonds. And that means the enormously wealthy Pennsylvanians with wealth totaling tens or hundreds of millions of dollars, let alone billions of dollars, pay a far lower share of tax on their wealth than do people who own modest homes.

The unfairness of our current wealth tax is one reason to adopt an intangible wealth tax. Another is that income and wealth inequality have grown to a level not seen in the United States since the Gilded Age. In 2019, the top 10% of families by income held 70% of all financial and non-financial wealth in the United States, up from 62% in 1989. The bottom 60% only held 8% of wealth, down from 13% in 1989.[31] In 2019, the top 1% held 32% of all wealth, up from 24% in 1989.[32]

There was a time when taxes on intangible wealth were easy to avoid. That is one reason Philadelphia and many other Pennsylvania jurisdictions that had such taxes abandoned them. But now almost all wealthy people hold their stocks and bonds and other financial instruments in brokerage accounts that report to the IRS. These reports are shared with the state, so it is relatively easy to track intangible wealth and tax it.

We are currently working to develop a full intangible wealth tax proposal. But we can sketch some of the elements of it.

We propose to set the tax rate on intangible wealth at 2 to 4 mill; that is between .2% (.002) and .4% (.004) of the total value of all financial and business assets. In technical terms, these assets include all stocks or shares of incorporated or unincorporated companies, business trusts, mutual funds, notes, bonds, and other obligations for the payment of money, and all comparable financial instruments, whether or not publicly traded. We would exclude from taxation all transaction accounts such as bank or credit union checking and savings accounts and the stocks, bonds, mutual funds and other financial instruments, including in traditional IRAs.

In an ideal world, we would propose a graduated intangible wealth tax with tax rates that rise as the wealth of families increase and that excludes the vast majority of families who have little or no intangible wealth. That is impossible because of the Pennsylvania Constitution's uniformity clause. However, excluding retirement accounts, as well as transaction holdings in bank savings and checking accounts, would ensure that the majority of Philadelphians would not have to file an intangible wealth tax return.

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31. Calculations by PBPC based on the Federal Reserve System, Survey of Consumer Finances, 2019, https://www.federalreserve.gov/econres/scfindex.htm.

32. From Statista.com, based on Federal Reserve Bank of St. Louis, data https://www.statista.com/chart/19635/wealth-distribution-percentiles-in-the-us/.

These exclusions are defensible under the uniformity clause on two grounds. First, the distinction between bank accounts and brokerage accounts is a common, everyday distinction in the financial world as is the distinction between retirement accounts and other accounts. Under uniformity clause case law, governments in PA are allowed to tax different categories of wealth and income if those categories are usual and customary.

> "The test of uniformity is whether there is a reasonable distinction and difference between the classes of taxpayers sufficient to justify different tax treatment. *So long as the classification imposed is based upon some standard capable of reasonable comprehension*, be that standard based upon ability to produce revenue or some other legitimate distinction, [*the Uniformity Clause is satisfied*].[33]

Second, there are defensible policy rationales for the distinctions we are proposing. Household checking and savings accounts are used by families to manage their funds over time, e.g., to save for a rainy day or major purchases. And retirement accounts receive special treatment under tax law, in part because they have come to replace traditional pensions and in part to encourage families to save for retirement.

We don't have precise estimates of the share of Pennsylvania families that would have to pay an intangible wealth tax. But given the concentration of wealth nationally—which, of course, is found in Philadelphia as well—we think it very unlikely that individuals or families below the top 20% in income (that is with an income of less than $149,000 per year) are likely to pay any tax at all. (The only exception would be people with low incomes who have substantial inherited wealth.) And given that the top 10% of households hold 70% of all wealth in the U.S. and the top 1% holds 32%, most of the tax would be paid by the richest Pennsylvanians. Our rough guess—based on our analysis of who would pay a tax on income from wealth—is that the top 5% of families by income, with incomes of $334,700 or more in Pennsylvania, would account for about 70% of the revenues raised by the tax. And about 50% of new revenues would come from the top 1% of households. The threshold for being in the top 1% of families by income is $833,700 and the average income of the top 1% of families in Pennsylvania is more than $1.5 million.

We also have another idea we are now fleshing out to further limit those who pay the wealth tax to the wealthiest Pennsylvanians. We would include not just intangible wealth but property wealth in the calculation of the wealth tax. But we would allow Pennsylvania taxpayers to take a credit of the property tax they pay to local governments on their wealth tax payments. If we set the wealth tax rate at 2 mill, the local property tax credit would wipe out the entire wealth tax for almost all Pennsylvanians with less than roughly $30 million dollars in intangible wealth. At a wealth tax rate of 4 mill, few Pennsylvanians with less than about $10 million in intangible wealth

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33. *Appeal of Borough of Aliquippa*, 175 A.2d 856, 862-63 (Pa. 1961).

would owe any wealth tax. To ensure that the wealth tax is not an annoyance to those who do not have to pay the tax, we would excuse them from having to file a return.[34]

Leaving aside the real property tax credit, we estimate that an intangible wealth tax set at 2 mill would raise roughly $2 billion in revenue while a tax rate of 4 mill would raise roughly $4 billion in revenue. Our preliminary estimate, which we hope to firm up in the next month or so, is that the property tax credit would reduce this revenue by roughly a quarter.

Adult-Use Cannabis

Because the last two revenue-raising proposals have been discussed in detail during the current budget cycle, we will not discuss them in depth.

The first is the legalization of adult-use cannabis. Our preference would be to sell recreational cannabis through the state store system. We know that by reducing the profits of distributors and retailers, this system allows the state to raise substantially more revenue from liquor sales than is raised in states with privatized liquor distribution and retail stores.[35]

But even a privatized system of recreational cannabis sale would raise substantial amounts of money.[36] The IFO projects that by fiscal year 2029–30 the state would raise $418 billion per year (table 1).

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34. One question our proposal to offer a tax credit for real property taxes raises is: How would we protect renters? The answer is fairly straightforward. We do know that some portion of rent payments cover landlords' property taxes. So, after an investigation of the average share of rent that covers landlord property taxes in Pennsylvania, we would suggest that the legislation creating the wealth tax allow renters to take a credit on their wealth tax equal to the average share of rent payments that covers landlord property taxes. While the calculation to set this credit in law would be somewhat imprecise and the imputed property tax payments of households would reflect averages not their individual situation, it's hardly the first time a tax credit rate was set using average rather than individual data. At any rate, we suspect that there are very few people with large holdings of intangible wealth who are renters.

35. Unfortunately, few people understand that the Pennsylvania Liquor Control Board system generates far more revenue to the state than a privatized system would. I explain why in "A Teachable Moment" in the PLCB Debate: https://keystoneresearch.org/research_publication/a-teachable-moment-in-the-plcb-debate/

36. We would strongly insist that a privatized system for the distribution and retail sales of recreational cannabis include provision to encourage the workforce to unionize by, for example, instituting a card check system to encourage labor union formation.

Table 1

Revenue Projections for Recreational Adult Use Cannabis In Millions				
2025-26	2026-27	2027-28	2028-29	29-30
$142	$279	$398	$408	$418
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				

The Total Impact of Our Proposals

In the last section of this paper, we have proposed a number of revenue-raising proposals. Many of these proposals could be implemented in different ways. Tax rates for the two parts of the Fair Share Tax, or the Severance Tax or the Wealth Tax can be set higher or lower. So, there is a great deal of potential in these proposals to make them more or less progressive, and to raise more or less revenue.

Table 3 gives an illustration of the impact of one version of each of these proposals as a whole and how much they could have raised in 2025 if fully implemented at that time. We should note that none of these proposals could be implemented in one year. But by looking at what they would have raised in the current year, we get some feel for the difference they would make for our tax system as a whole.

Looking at what these taxes would raise in fiscal year 2025–26 if fully implemented actually underestimates what they would raise in a few years when the fiscal crisis hits hard. Adjusting these figures for full implementation in fiscal year 2027–28 by the IFO estimate of revenue growth would roughly to total additional revenue of $8.2 billion.

Table 3

Estimated Total Additional Reveneue Raised by PPC Proposals in Billions	
Assuming Full Implemtation in 2025-26	
Fair Share Tax with tax rate on income from work set at 2.8% and on income from wealth at 6.5%	$2.70
Corporate Net Income Tax with worldwide combined reporting at a tax rate of 6.49%	$1.30
Inangible Wealth tax at rate of 3 mil	$3.00
Severance tax at rate of 6.5%	$0.28
Adult Use Cannabis	$0.40
Total	$7.68

Conclusion

We do not write this paper with the expectation that our revenue proposals will be adopted soon. We understand that this is highly unlikely. Republicans in the General Assembly remain adamantly opposed to any proposal to increase taxes, let alone to increase taxes on the wealthy or multinational corporations. Nor have Governor Shapiro nor many Democratic leaders in the House and Senate strongly embraced progressive taxation although every one of our proposals have important sponsors in the General Assembly including from among the Democratic leadership.

This paper does not anticipate immediate action to implement the proposals we put forward. Instead, it aims at two preliminary aims. The first is to show the people of Pennsylvania that they do not have to suffer under an unjust system that taxes them at high rates while letting the multi-millionaires and billionaires of our state off easy while allowing multinational corporations to get away with paying almost nothing. The second is to show the people of Pennsylvania that they do not have to suffer from inadequate public goods and services. The state does have the resources to make their lives more affordable, to invest in the goods that will spur economic growth, and to ensure that every child can have an adequate and equitable public education.

Voters understanding all this will not, by itself, change our politics and ensure that some or all of our proposals are enacted by the General Assembly. But we believe that such an understanding, coupled with the reality of the coming fiscal crisis, will have that effect.

In just two short years, the state will have trouble balancing its budget. In three short years, the state will not be able to balance its budget with the kinds of short-term solutions or gimmicks the General Assembly adopted in most years between fiscal years 2014 and 2020.

In three short years, the state will face an unprecedented and extraordinary fiscal crisis in which our political leaders have to choose between impossible cuts to state spending and raising revenues.

If the people of Pennsylvania and a sufficient number of our elected officials understand that we can resolve the fiscal crisis without budget cuts and without placing an extraordinary new tax burden on working people and the middle class, we believe they will turn to the ideas in this paper and demand their implementation.