

A Fair Share Tax Plan for Pennsylvania

Pennsylvania is inching closer to a fiscal cliff. In the coming years, we are facing a growing structural budget gap as we spend down one-time federal COVID relief funds for core services like education, health care, and infrastructure.

That means we need new, sustainable revenue, and we need it in a way that is fair. The Fair Share Tax would stabilize Pennsylvania's revenue base while shifting responsibility toward those who have benefited most from our economy and tax code.

What the Fair Share Tax Does

Advanced by the Pennsylvania Policy Center since 2017, the Fair Share Tax is a constitutionally grounded path to a more progressive personal income tax.¹

Right now, Pennsylvania relies on a single, flat personal income tax rate of 3.07% because the uniformity clause of the Pennsylvania Constitution does not allow for graduated tax rates. That means a family making \$50,000 annually pays the same state income tax rate as one making \$500,000 or \$5 million.

In other states, graduated tax rates compensate for regressive property and sales taxes, which tax a higher share of income from families at the bottom and middle than at the top. That doesn't happen in our state. That's why, as a whole, our tax system is upside-down. The bottom 20% of households in Pennsylvania pay 15.1% of their income in state and local taxes, while the top 1% only pay 6%.

How It Works

The Fair Share Tax divides the personal income tax into two taxes.

- A tax on wages and interest (or income from work) — the kinds of income received by almost everyone — would be reduced to 2.8%.
- A tax on what we call income from wealth (or unearned income) — passive business profits, capital gains, dividends, royalties, and estates — would be increased to 6.5%.

Because most income from wealth is received by wealthy people, **the Fair Share Tax would raise more than \$2.6 billion in new revenues in the first year while cutting taxes for about 60% of Pennsylvania families.** Twenty-five percent of Pennsylvania families would see no change in their taxes. Only 15% of families would pay more.



The Fair Share Tax would enable us to begin to close our budget and public investment deficits while reducing taxes on working people and the middle class.

More than 54% of the new revenue from the Fair Share Tax would come from the top 1% of taxpayers. They would pay, on average, an additional \$33,524 on their average income of \$1.98 million. Another 24% of the revenue would come from the next 4% of taxpayers, who would pay, on average, \$6,234 on their average incomes of \$451,000. The next 15% of taxpayers, with incomes from \$143,000 to \$312,000, would only pay an extra \$1,477 on average. The vast majority of taxpayers below the top 80% would get a tax cut.

Why This Works

- **The tax does not place Pennsylvania at a competitive disadvantage to neighboring states.** The effective income tax rate on the top 1% would still be below all our neighboring states’—and far below New York’s and New Jersey’s.
- **The tax does not put an unfair burden on retired Pennsylvanians.** Social Security payments, as well as pension and 401k withdrawals, would not be taxed at all. Only retired Pennsylvanians with substantial financial holdings beyond these protected categories would pay more.
- **The tax does not burden small family-owned businesses or farms—it cuts their taxes.** The higher rate would not apply to “business owners who play an active role in their businesses. It would only apply to passive investors in businesses. In addition, small business owners can take income from their business as wages instead of business profits and always pay at the lower rate.

The Fair Share Tax would allow Pennsylvania to:

- keep taxes lower for most households.
- ask more from those with the highest incomes.
- generate reliable, recurring revenue that grows with the economy.
- reduce pressure to cut services or raise regressive fees and local property taxes.

The Bottom Line

Pennsylvania can meet its budget needs without asking working and middle-class families to pay more in taxes or give up critical government programs. The Fair Share Tax is a practical way to strengthen our fiscal foundation and invest in the services that make communities thrive.

1. Richard Feder, J.D., “The Fair Share Tax Proposal Is Uniform Under the PA Constitution,” Keystone Research Center, January 13, 2022, accessed December 19, 2025, https://keystoneresearch.org/research_publication/the-fair-share-tax-proposal-is-uniform-under-the-pa-constitution/.