

Pennsylvania's Untapped Wealth

The number of millionaire households is increasing faster in Massachusetts and Washington than in Pennsylvania, despite those states taxing those households at higher rates. Pennsylvania's flat tax means we're losing out on potential revenue.

Laura Beltrán Figueroa, PhD, Research, Policy, and Legislative Strategy Director, Pennsylvania Policy Center; with contributions by Felicity A. Williams, Esq., Executive Director, Pennsylvania Policy Center

Key Takeaways

- Pennsylvania has more millionaires than Massachusetts and the state of Washington but we ask less of ours in state personal income tax.
- Pennsylvania's flat 3.07% personal income tax means top earners pay the same rate as everyone else unlike peer states that apply add-on taxes to very high incomes.
- From 2010 to 2024, growth in both millionaire households and households with more than \$50 million in assets was slower in Pennsylvania than in Massachusetts and Washington, even as those states adopted targeted high-income or capital gains tax policies.
- Evidence contradicts the claim that taxing the wealthy drives them away: Higher-tax states grew their high-net-worth populations faster, suggesting quality-of-life investments and economic opportunity matter more than lower taxes.

The Myth: Higher Taxes Drive Millionaires Away

For decades, opponents of progressive tax policy have argued that higher taxes cause wealthy households to relocate. However, recent comparative wealth data suggests a different story.

A compilation of State Revenue Alliance (SRA) and Institute for Policy Studies (IPS) data shows that millionaire household growth from 2010 to 2024 was significantly higher in Washington (300.04%) and Massachusetts (188.42%) than in Pennsylvania (176.78%), even though those states adopted targeted taxes on very high incomes or capital gains during this period.

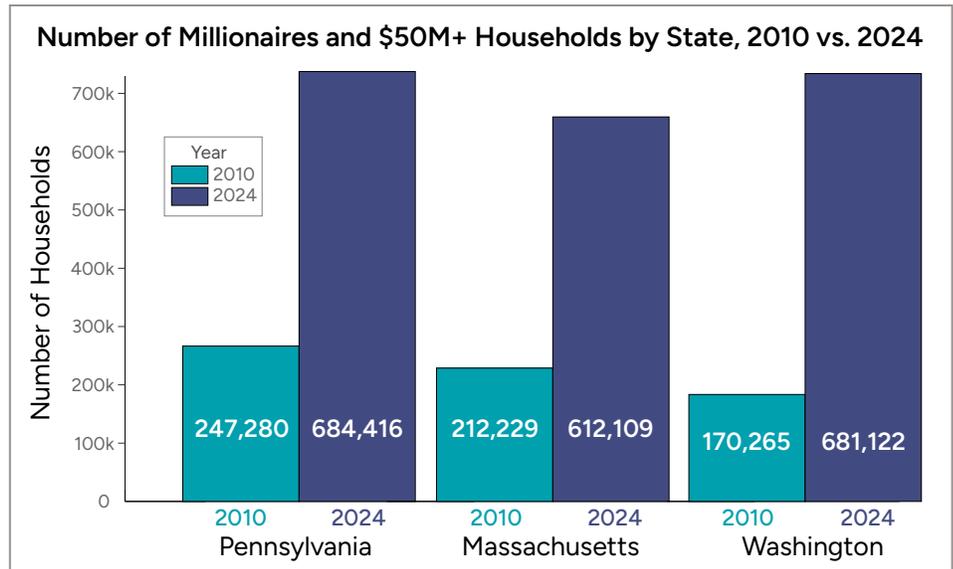
This pattern is also reflected among the ultra-wealthy, defined here as households with more than \$50 million in assets. Between 2010 and 2024, the growth rate in \$50-million-plus households was higher in Washington (263.29%) and Massachusetts (158.60%) than in Pennsylvania (158.68%).

These findings suggest that higher-tax states are not losing wealthy residents because of their tax policies. In fact, their high-net-worth populations are growing faster.

How Pennsylvania Compares

Since 2023, Massachusetts has applied a flat 5.0% personal income tax rate plus a 4% add-on (surtax) on taxable income above \$1 million, with the resulting revenues dedicated to education and transportation. This change was approved by voters in November 2022, and the \$1 million threshold is adjusted annually for inflation.¹

Washington state has no general personal income tax, instead taxing high-end capital gains at 7% on the first \$1 million of taxable capital gains and 9.9% on gains above \$1 million. The capital gains tax began in 2022, and tiered rates began in 2025. The deduction amount is adjusted annually for inflation. Revenues support K–12 public schools and related education investments (including early learning and child care programs), as well as K–12 school construction.²



Source: State Revenue Alliance (SRA) and Institute for Policy Studies (IPS) compilation of data from a proprietary commercial estimate.

In contrast, Pennsylvania maintains a flat 3.07% personal income tax rate with no add-ons for high incomes and no comparable tax on high-end capital gains.³ As a result, ultra-wealthy households in Pennsylvania face lower effective tax rates than similarly wealthy households in states with fewer high-net-worth residents.

Why This Matters

Pennsylvania's challenge is not a shortage of wealth. The Commonwealth has a substantial and growing population of high-income households, yet current tax structures ask less of the wealthiest residents than comparable states while also producing slower high-wealth population growth and under-investing in the public systems that drive economic growth.

Research consistently shows that wealthy households tend to locate where economic opportunity, infrastructure, workforce talent, and quality of life are strongest, not where taxes are lowest. Investments in education, transportation, and public systems, often funded by progressive revenue policies, are key drivers of long-term economic growth.

However, Pennsylvania's revenue system remains largely unequal, placing a higher burden on working- and middle-income families than on the wealthiest households. Currently, wage withholding is the single largest contributor to General Fund

revenues. As shown in figure 2, out of the roughly \$25 billion collected so far in FY 2025–26, about one-third (32.8%) comes from wages. On the other hand, inheritance tax accounts for only 4.2%, highlighting how much untapped wealth remains undertaxed in Pennsylvania’s current system.⁴

Beyond the fairness concerns, this reliance on wage-based revenues is simply not sufficient to sustain the Commonwealth’s long-term needs. The state is approaching a fiscal cliff, driven by a structural General Fund deficit. This “hole” is reflected in Governor Shapiro’s proposed FY26-27 budget, which draws \$4.6 billion from the Rainy Day Fund and would leave an estimated \$3.3 billion remaining balance.

Unless policy choices change, and we modernize our tax code, Pennsylvania will face growing pressure to scale back essential investments, including education, transit, infrastructure, and healthcare.⁵

Pennsylvania has a clear opportunity to modernize its tax code by asking the wealthiest households to contribute their fair share. Claims that doing so will drive wealthy households away are not supported by evidence. The Fair Share Tax, advanced through the Pennsylvania Policy Center’s Tax Justice campaign, For Our Common Wealth, aims to make the state’s income tax fairer by cutting the rate on wages and other labor income and increasing the rate on wealth-type income like dividends, rents, and capital gains, shifting more of the burden onto those with the greatest ability to pay. By using uniform rates within clearly defined income classes and applying those rules consistently across taxpayers, the proposal is designed to comply with Pennsylvania’s constitutional uniformity clause.

Bottom Line

As Pennsylvania faces structural budget pressures, including a forthcoming fiscal crisis, and long-term investment needs, the problem is not that the Commonwealth has insufficient wealth. It is the absence of policy choices that ask the wealthiest Pennsylvanians to contribute proportionately to the public systems that underpin long-term economic growth.

Footnotes

1. Massachusetts Department of Revenue, “Massachusetts 4% Surtax on Taxable Income,” Commonwealth of Massachusetts, accessed February 4, 2026, <https://www.mass.gov/info-details/massachusetts-4-surtax-on-taxable-income>.
2. Washington State Department of Revenue, “Capital Gains Tax,” accessed February 4, 2026, <https://dor.wa.gov/taxes-rates/other-taxes/capital-gains-tax>.
3. Pennsylvania Department of Revenue, “Tax Rates,” Commonwealth of Pennsylvania, accessed February 4, 2026, <https://www.pa.gov/agencies/revenue/resources/tax-rates>.
4. Pennsylvania Treasury, “OpenBookPA: Revenue Comparison (General Fund Revenue),” accessed February 17, 2026, <https://www.patreasury.gov/openbookpa/revenue.php>.
5. Commonwealth of Pennsylvania, Governor’s Executive Budget 2026–27 (Harrisburg, PA: Office of the Budget, 2026), accessed February 17, 2026, <https://www.pa.gov/content/dam/copapwp-pagov/en/budget/documents/publications-and-reports/commonwealthbudget/2026-27-budget-documents/2026-27-budget-document.web.v.3.pdf>.
6. Source: Pennsylvania Treasury, “OpenBookPA: Revenue Comparison (General Fund Revenue),” accessed February 17, 2026, <https://www.patreasury.gov/openbookpa/revenue.php>.

Figure 2: Collected Revenues (FY2025)⁶

