

Revenue Shortfalls, Overtaxation of Working Families, and Fair Share Solutions

Governor Shapiro's budget proposal underscores a structural mismatch between recurring revenues and the costs of maintaining core public services. While the budget speech only briefly addressed the Commonwealth's fiscal outlook, the documents are clear: The proposal balances in large part through nonrecurring and assumption-based solutions, rather than durable revenue.

The proposed General Fund budget totals about \$53.3 billion in FY 2026–27 (shown as \$53,262,046, in thousands), an increase of about \$2.7 billion compared to FY 2025–26 (shown as \$50,542,552, in thousands).

Just as important, the proposal effectively begins FY 2026–27 with no meaningful General Fund cushion. The Seven-Year Financial Statement shows an adjusted beginning balance of \$628 (in thousands), which is essentially zero for a budget of this size.

Some things stayed the same in this proposal:

- The Personal Income Tax (PIT) rate stays at 3.07%.
- The statewide sales and use tax rate remains at 6%.
- The Corporate Net Income Tax (CNIT) rate continues the already enacted step-down schedule (7.49% for tax years beginning January 1, 2026, then 6.99% for tax years beginning January 1, 2027, continuing downward to 4.99% by 2031).

However, other things did change:

- The budget assumes legalization and taxation of skill games by folding them into the video gaming terminal tax structure. Total new revenue in 2026–27 is expected to be about \$766 million, with about \$743 million transferred into the General Fund and about \$23 million coming from licensing fees. This is treated as partial-year revenue, and the administration projects that once fully implemented, this source could exceed \$2 billion annually in future years.
- Adult-use marijuana legalization is also assumed, with sales beginning January 1, 2027. Total revenue assumed in 2026–27 is about \$729 million, with about \$660 million from license fees, about \$37 million from the cannabis excise tax, and about \$33 million from sales and use tax on retail cannabis.
- The budget assumes a corporate tax change that ends the use of separate-entity reporting, commonly referred to as closing the Delaware Loophole. It would do this through water's-edge combined reporting, a proposal PPC has long advocated for as a fair-share reform to curb profit shifting. Expected new revenue is about \$328 million annually.

Beyond revenues and taxation, the budget also makes major choices across core services and long-term investments:

Minimum Wage

Minimum wage is treated as both a cost-of-living policy and a budget item through projected revenue effects.

- The proposal raises the minimum wage to \$15.00 per hour starting January 1, 2027 (with tipped minimum wage also increased, as specified), and states the minimum wage increase would add roughly \$80 million annually in increased revenue to the Commonwealth once fully implemented. It would also reduce expenditures by \$300 million as some Pennsylvanians would no longer be eligible for Medicaid.

Education

In education, the proposed budget delivers the third adequacy installment and continues funding increases across major K–12 lines, while leaving the overall adequacy gap far from closed.

- Adequacy increase for 2026–27: \$565,000,000, delivered through the Ready to Learn Block Grant as an additional adequacy adjustment.
 - Ready to Learn Block Grant total, 2026–27 proposed: \$1,948,481,000.
- Basic Education Fund, 2026–27 proposed: \$8,312,444,000, which is \$50,000,000 above 2025–26 (\$8,262,444,000).
- Special Education, 2026–27 proposed: \$1,576,815,000, which is \$50,000,000 above 2025–26 (\$1,526,815,000).
- Transfer to Public School Facility Improvement Grant Program: \$125,000,000 in 2026–27 (same as 2025–26).
- Pre-K Counts, 2026–27 proposed: \$334,313,000, an increase of \$7,500,000 over 2025–26 (\$326,813,000).

Health Care

In health care, the proposal increases General Fund support for Medical Assistance and related programs, largely reflecting enrollment, rate, and mandated cost pressures.

- Medical Assistance:
 - Medical Assistance Capitation, 2026–27 proposed: \$4,358,991,000, up \$566,145,000 from 2025–26 (\$3,792,846,000).
 - Medical Assistance Fee-for-Service, 2026–27 proposed: \$731,161,000, up \$28,314,000 from 2025–26 (\$702,847,000).
 - Payment to Federal Government, Medicare Drug Program, 2026–27 proposed: \$1,129,538,000, up \$46,988,000 from 2025–26 (\$1,082,550,000).
- Mental Health Services:
 - Mental Health Services, 2026–27 proposed: \$1,003,276,000, up \$64,663,000 from 2025–26 (\$938,613,000).
- Children’s Health Insurance Program (CHIP):
 - CHIP, General Fund, 2026–27 proposed: \$104,257,000 (up \$7,614,000 from 2025–26 at \$96,643,000).

Child Care

In child care and early learning, the proposal continues recent tax-credit strategies to help families and employers with child care costs, while also adding new spending aimed at stabilizing the child care workforce.

- The proposal adds \$10,000,000 to continue child care workforce recruitment and retention grants (bringing total funding to \$35,000,000 in the budget year).
 - In 2025–26, included \$25,000,000 to provide about 55,000 employees up to \$450 in retention bonuses. The additional funding would bring these bonuses up to \$630.
- Child Care Services: \$300,286,000 in 2026–27 (up from \$298,080,000 in 2025–26).
- Child Care Assistance: \$124,876,000 in 2026–27 (up from \$123,255,000 in 2025–26).
- Recent child care tax-credit policies are reaffirmed as part of the broader strategy:
 - Child and Dependent Care Enhancement Tax Credit: state match raised from 30% to 100% of the federal credit, and maximum benefit increased from \$630 to \$2,100 per family.
 - Employer Child Care Contribution Tax Credit (up to 30% of eligible contributions, capped at \$500 per employee, as described in the budget narrative).

Transportation

Transportation is a major policy choice area in this proposal, particularly through the revenue-side plan to increase the share of sales and use tax revenues directed to public transit.

- Current structure: The sales and use tax statute already includes set transfers to transit funds, including the Public Transportation Trust Fund.
- Proposed change: Beginning July 1, 2027, the budget proposes a new transfer to support operations of the Public Transportation Trust Fund equal to 1.75% of total sales and use tax revenues collected.
- Budget impact framing: The notes explain this would reduce General Fund revenues by an initial \$319.6 million starting in 2027–28.

Data Centers

The budget documents show that data center tax preferences are a fast-growing cost within the tax code, even as the proposal leans on one-time and assumption-based solutions to balance.

- Computer Data Center Equipment Exemption (sales and use tax expenditure): estimated at \$188.4 million in 2026–27, rising to \$260.3 million in 2027–28 and continuing to grow in later years.
- In addition to the sales tax exemption, the Commonwealth also maintains a “Computer Data Center Equipment Incentive Program” within its catalog of tax credit programs.

