

Revenue and Tax Fairness in Shapiro's FY 2026–27 Proposed Budget

What changes, what is unchanged, and what is one-time or assumption-based funding

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Pennsylvania is facing a growing structural deficit, where ongoing costs outpace recurring revenue. This brief examines how the Governor's proposed budget approaches revenue and tax fairness, and whether it provides sustainable solutions.

Key Takeaways

- The proposed FY 2026–27 General Fund budget is \$53.262 billion, up from \$50.543 billion in FY 2025–26. The Seven-Year Financial Statement, the administration's long-range budget outlook, shows an adjusted beginning balance of \$628,000, effectively starting the year with no cushion. This means Pennsylvania is entering the fiscal year without meaningful reserves in the General Fund itself, increasing reliance on other sources to stay balanced.
- The FY 2026–27 budget relies heavily on the Rainy Day Fund, transferring **\$4.579 billion to the General Fund** and **\$100 million to a new Federal Response Fund**, for a combined draw of about **\$4.679 billion**. This is a one-time solution that does not address the underlying structural deficit.
- The proposal leans on major new, assumed revenue streams, including adult-use cannabis (**\$729.4 million**) and skill games folded into the video gaming terminal framework (**\$765.9 million**) in FY 2026–27. These revenues are not yet enacted and depend on legislative action on issues that have repeatedly stalled, making them highly uncertain.
- The proposal includes a significant corporate tax policy change described as “modernizing the tax system by adopting uniform filing requirements,” estimated to raise **\$328.4 million** in FY 2026–27. Also known as “water's edge combined reporting,” this change aims to close the “Delaware” loophole corporate tax avoidance strategy. However, it does not close the “Cayman Islands,” loophole losing out on significant revenue opportunities and allowing multinational corporations to shift profits abroad to avoid paying taxes in Pennsylvania. Currently, 70% of corporations doing business in the Commonwealth do not pay state taxes.
- Core tax rates remain unchanged in the proposal:
 - Personal Income Tax stays 3.07%
 - Sales and use tax stays 6%
 - Corporate Net Income Tax continues the enacted scheduled

reductions (7.49% in 2026; 6.99% in 2027; down to 4.99% in 2031). This means the proposal does not increase taxes on wealth or high-income earners, despite ongoing structural deficits.

- Several items reduce or shift General Fund resources: a proposed transfer to the **Tobacco Settlement Fund (-\$115.3 million)** and a proposed transfer to the **Environmental Stewardship Fund (-\$1.9 million)**. In practical terms, those shifts move money out of the General Fund to support specific obligations elsewhere, which leaves fewer flexible dollars available for other statewide priorities.

What is the Proposal Suggesting on New Revenue Streams and “Balance”?

The Executive Budget identifies multiple “Proposed Tax and Revenue Modifications” that add up to **\$1.7629 billion** (in thousands) for FY 2026–27. Taken together, these proposals may reduce the revenue gap in the near term, but they rely on a mix of assumed revenues and temporary measures rather than structurally resolving the problem.

These include:

- **Adult-use cannabis revenue** assumed to begin January 1, 2027, with FY 2026–27 estimates including license fees and partial-year taxes. Because this depends on new legislation and implementation timelines, actual revenue may be delayed or lower than projected.
 - **Projected Revenue:** \$729.4 million in FY 2026–27 (partial-year).
- **Skill games regulated and taxed under the Video Gaming Terminal structure** starting July 1, 2026, with partial-year revenue assumed for FY 2026–27. This proposal also depends on legislative agreement and regulatory clarity, which remain unresolved.
 - **Projected Revenue:** \$765.9 million in FY 2026–27 (partial-year; includes transfers and license fees as described).
- **A corporate net income tax** change described as adopting “uniform filing requirements” for tax years beginning after December 31, 2026, estimated at \$328.4 million in FY 2026–27. This is one of the few structural revenue reforms in the proposal and addresses one of the long-standing corporate tax loopholes, while leaving another unresolved.
 - **Projected Revenue:** \$328.4 million in FY 2026–27.
- **Minimum wage proposal** (revenue effect): The budget assumes minimum wage legislation and estimates a \$53.5 million General Fund revenue effect in FY 2026–27 (partial-year), with \$30.1 million attributed to PIT and \$23.4 million to sales and use tax. This proposal also depends on legislative agreement and regulatory clarity, which remain unresolved.
 - **Projected Revenue:** \$53.5 million in FY 2026-27, combining the PIT and sales tax effects.

What Stayed the Same?

- Personal Income Tax rate: 3.07%.
- Sales and use tax rate: 6%.
- Corporate Net Income Tax continues the enacted step-down schedule (7.49% in 2026; 6.99% in 2027; continuing to 4.99% by 2031).

Despite a growing structural deficit, the proposal does not include new recurring revenue from high-income households or wealth, leaving the tax structure largely unchanged. While other states have adopted more progressive tax policies, including Washington's capital gains tax and Massachusetts's 4 percent surtax on annual taxable income above \$1 million, Pennsylvania continues to rely on a flat-rate system that does little to offset the regressive effects of sales and excise taxes.¹ The Commonwealth currently has the fourth most regressive state and local tax system in the country, while still leaving needed revenue on the table.²

What Reduced or Shifted in the General Fund?

- Transfer to Tobacco Settlement Fund, which supports health-related programs including tobacco use prevention and cessation, health research, uncompensated care, and Medical Assistance-related spending: -\$115.3 million.
- Transfer to Environmental Stewardship Fund, which supports Growing Greener debt service and a broader set of environmental investments such as farmland preservation, open space protection, abandoned mine reclamation, and watershed protection: -\$1.9 million.

While important, these transfers redirect existing revenue streams, reducing available General Fund dollars for core services.

Where Does That Leave Us in Terms of the Revenue Cliff and Upcoming Crisis?

The budget uses a one-time Rainy Day Fund draw to balance FY 2026–27, reducing this fund from about \$7.819 billion available at the start of the year to about \$3.307 billion at year's end. This approach temporarily closes the budget gap but does not resolve Pennsylvania's structural deficit.

That leaves substantially less cushion if revenue collections come in below projections, which can happen during an economic slowdown, periods of weaker wage growth or consumer spending, or when the federal government shifts costs onto states (Figure 1). Pennsylvania is already facing that kind of pressure: the FY 2026–27 proposal includes \$87 million to cover new SNAP administrative costs shifted to the state, and state officials have warned that federal Medicaid changes could cut Pennsylvania funding by \$20 billion over the next decade.

As a result, the budget increases pressure to enact and sustain the assumed new revenues, including skill games, adult-use cannabis, and corporate filing changes, as well as to pursue additional recurring revenue to avoid future structural shortfalls. If those revenues are not enacted, the Commonwealth will face an even larger gap

between ongoing revenues and the cost of maintaining current services, increasing the likelihood of deeper cuts, additional reserve drawdowns, or both.

Put differently, the executive budget relies on both one-time reserves and proposed new revenues that have not yet been enacted. If those revenue measures do not materialize, the Commonwealth would lose roughly \$1.76 billion in assumed tax and revenue changes. That amount would then need to be offset through additional spending cuts, additional reserve use, or some combination of the two, on top of the roughly \$4.6 billion already being drawn from the Rainy Day Fund.

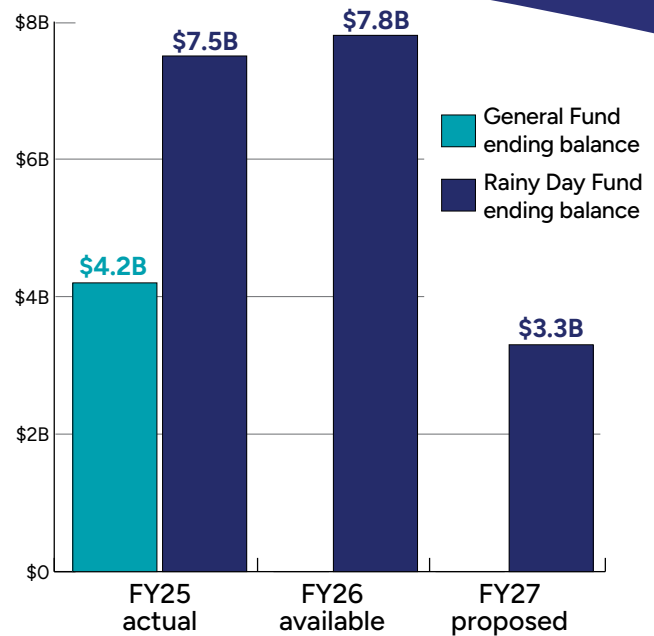


Figure 1. The cushion narrows quickly in current budget projections

Table 1. FY 2026–27 Proposed Tax and Revenue Modifications (General Fund) Amounts are in thousands, as shown in the budget book.

Item	2026–27 Amount	Notes
Adult-Use Cannabis Tax	729,400	Assumes sales begin January 1, 2027; includes license fees and partial-year tax revenues
Video Gaming Terminal Tax (includes skill games)	765,900	Partial-year revenue; includes transfers to the General Fund and licensing fees
Corporate Net Income Tax – Uniform Filing Requirements (Water’s-Edge Combined Reporting)	328,400	Applies to tax years beginning after December 31, 2026
Minimum Wage – Revenue Effect	53,500	Partial-year impact; includes PIT (30,100) and sales and use tax (23,400)
Transfer to Tobacco Settlement Fund	(115,300)	Reduction to General Fund via cigarette tax transfer
Transfer to Environmental Stewardship Fund	(1,900)	Reduction to General Fund via PIT transfer for Growing Greener debt service
Impact of changes to tax credit programs	2,900	Net revenue impact shown in budget notes
Total Proposed Tax and Revenue Modifications	1,762,900	Total shown in Notes on Financial Statement

Source: Governor’s Executive Budget 2026–2027, General Fund, Notes on Financial Statement (Proposed Tax and Revenue Modifications).

Note: Several major revenue items assumed in FY 2026–27 depend on future legislative action and partial-year implementation timelines, including adult-use cannabis legalization, skill game regulation, and corporate tax filing changes.

Table 2. Core State Tax Rates: Status in FY 2026–27 Proposed Budget

Tax Type	Rate or Schedule	Status in Proposal
Personal Income Tax (PIT)	3.07%	Unchanged
Sales and Use Tax	6.00%	Unchanged
Corporate Net Income Tax (CNIT)	7.49% in 2026; 6.99% in 2027; continues step-down to 4.99% by 2031	Continues enacted schedule

Source: Governor’s Executive Budget 2026–2027, General Fund Revenue Sources and Notes on Financial Statement.

Why This Matters

While the proposal includes steps intended to reduce the immediate budget gap, it still falls short of a durable long-term solution. It does not raise new recurring revenue from wealth or high-income households, leaving Pennsylvania’s underlying tax structure largely unchanged. It also continues to rely in part on one-time resources and temporary measures rather than fully addressing the Commonwealth’s structural imbalance. The revenue solutions it does propose are also still subject to future legislation and implementation, which makes their timing and fiscal impact uncertain.

Pennsylvania’s budget choices shape the opportunities available to children, families, workers, and communities across the Commonwealth. Adequate and sustainable public revenue helps ensure that the state can invest in the services and systems people rely on, including:

- public education
- childcare and early learning
- health care and public health
- housing and nutrition supports
- infrastructure and environmental protection
- policies that expand economic opportunity

When the state lacks stable, recurring revenue, it becomes harder to sustain these investments over time, which is exactly why the Commonwealth needs a fairer and more durable revenue system. One way to do so is by making sure that the wealthiest households and highly profitable corporations pay their fair share, while everyday Pennsylvanians and working families receive relief. Pennsylvania Policy Center’s For Our Common Wealth campaign advances that vision by calling for a tax system that raises the revenue needed to invest in strong schools and communities, expand economic opportunity, and build a more equitable long-term future for Pennsylvania. In terms of revenue and tax fairness, that means modernizing the tax code so that wealthier households and highly profitable corporations contribute more, allowing the Commonwealth to raise recurring revenue in a fairer and more sustainable way.

Footnotes

1 Pennsylvania Policy Center, “Pennsylvania’s Untapped Wealth,” accessed April 7, 2026, https://pennpolicy.org/research_publication/pennsylvanias-untapped-wealth/

2 Institute on Taxation and Economic Policy, “Pennsylvania: Who Pays? 7th Edition,” accessed April 7, 2026, <https://itep.org/pennsylvania-who-pays-7th-edition/>