

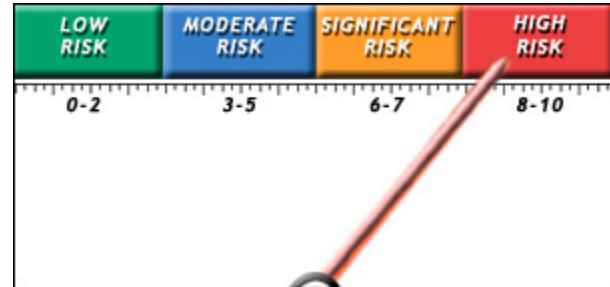


CENTER ON BUDGET AND POLICY PRIORITIES

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PENNSYLVANIA

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Pennsylvania is rated as having a high risk of a structural deficit based on its score of nine on the risk scale for structural deficits.



- Pennsylvania's sales tax covers less household services than the average state.
- In Pennsylvania, corporate income taxes as a share of total taxes declined by 7.2 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points. Also, Pennsylvania has significant loopholes in its corporate income tax.
- Pennsylvania's income tax preferences for its seniors exceed the US average.
- The top bracket of Pennsylvania's income tax starts at a relatively low level making it a less progressive tax. An individual earning \$30,000 in Pennsylvania pays income tax at the same rate as someone earning \$300,000.
- Pennsylvania faces spending pressures from: Medicaid, the number of non-elderly disabled people, and the number of students with special needs.
- During 1994-2000, Pennsylvania reduced its corporate income tax. Then during 2001-2004, it increased its personal income tax and its cigarette tax, although the increase in the cigarette tax was greater. It also cut its corporate income taxes. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- Pennsylvania has a limit on the growth of local property tax revenue.
- Pennsylvania remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$78.7 million per year.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that Pennsylvania has a structural gap.