SPRING 2006

REPORT TO THE PEOPLE

on the

Fiscal Status of the Commonwealth

From the
SENATE DEMOCRATIC APPROPRIATIONS COMMITTEE

Vincent J. Fumo
Chairman

Paul S. Dlugolecki
Executive Director

717.787.5662

Charting the Commonwealth's Surplus

With tax collections a whopping $213 million above the official estimate during March, state revenues now have a $505 million surplus nine months into the fiscal year. The current overage is 2.8% above the official estimate.

With these strong collections, the Senate Democratic Appropriations Committee now projects the year-end revenue surplus at $670 million. The Rendell Administration in February had predicted a $364 million surplus.

Revenue Surplus thru end of March:
$505 million
Estimated Final Surplus:
$670 million
Governor's Estimate:
$364 million

March is an important month for collecting corporate taxes as the first quarter estimated taxes are due for a majority of the state's corporations. While the final distribution to each tax won't be completed until later in April, it appears that all business tax categories were impressively over estimate. In April, these same corporations will make their final payment for their activities in 2005. These tax payments will also be above the official estimate by $40 to $70 million. In the last month of the fiscal year, these corporations will make their second estimated payment. Expect those collections to be $40 million higher than the official estimate.

Sales tax collections are nearly on estimate for the year. The current overage is $18 million, but that is only 0.3% above official estimate. The Governor adjusted sales tax up by $12 million in his February budget submission, so his new estimate is even more accurate. Sales tax collections from motor vehicle sales continue to be below estimate.

Personal income tax collections are in surplus by $139 million, with the overage entirely from non-withholding sources. The amount withheld from employees by their employers is actually $21.5 million below official estimates. Final PIT payments for 2005 are due in April and they will add to the surplus.

Senate Democrats' Property Tax Reform Proposal

On January 30 of this year, the Senate Democrats proposed a sensible yet bold solution to the school funding dilemma that has vexed this commonwealth for decades. The proposal was for Pennsylvania to join the 35 states and the District of Columbia that already levy a graduated income tax.

The proposal would create three tax brackets.

- 98.5% of Pennsylvanians would see no change in their income tax at all. Taxpayers that have less than $250,000 in annual income would continue paying at the 3.07% rate.

Continued

- Taxpayers making more than $250,000 but less than $400,000 would be taxed at 4.57% on the earnings over $250,000.
- Taxpayers making more than $400,000 would pay 6.07% on those higher earnings.

The maximum rate could not be higher than twice than the lowest rate. This necessary protection would prevent any kind of future soak-the-rich scheme. The additional revenue estimated at $750 million would be used for property tax relief. When combined with the estimated $1 billion in gaming money, it would allow for property tax reductions averaging $506 for homeowners.

There are five main reasons why this is better than any other proposal that has been suggested:

1. Persons who are renters are not harmed under a graduated income tax. All other proposals, whether it is to raise the local earned income tax or a sales tax rate increase or an expansion of the sales tax base, requires that renters pay more in taxes and receive no benefit from the tax shifting. Renters are usually the poorest citizens.

2. A graduated income tax would provide for the wealthiest citizens to make a larger contribution for the entire commonwealth.

3. Even after the graduated income tax is imposed, the highest rate will be lower than the highest rate in 22 of the 36 states that have a graduated income tax. Similarly, the first bracket at $250,000 would be higher and therefore affect fewer taxpayers than the highest bracket of 32 of the states that levy a graduated income tax. Many states with graduated income taxes have more exemptions and deductions than Pennsylvania has, which does complicate direct comparisons, but in most cases even higher income taxpayers will pay less than they would in other states.

4. 98.5% of the taxpayers in Pennsylvania will either see an overall reduction in taxes or no change in their total payments. Under every other plan, a significant number of people will, when the reductions in property taxes are compared with the increase of whichever tax the plan raises, be paying more in total taxes.

5. State income taxes are deductible on a taxpayer's federal return. So the federal government would, in effect, subsidize some of the income tax increase imposed on upper-income citizens.