

Philadelphia Business Journal - November 19, 2009  
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Thursday, November 19, 2009, 1:54pm EST

## Institute on Taxation & Economic Policy: Pa. taxes among most regressive

Philadelphia Business Journal - by [Athena D. Merritt](#) Staff Writer

A new study ranks Pennsylvania's tax system as the ninth-most regressive in the nation for taxing the state's poor and middle income far more heavily than the wealthy.

New Jersey did not make the list of states with the most regressive tax systems. Delaware's system was found to be the least regressive.

Pennsylvania's lowest earners paid 11.3 percent of their income in state and local taxes, the middle income paid 9.6 percent and the wealthiest paid 5 percent, according to the study released by the **Institute on Taxation & Economic Policy**. The discrepancy becomes even broader after federal deduction offsets are taken into account, after which Pennsylvania's poorest paid 11.2 percent in state and local income taxes, the middle income 9.1 percent and the richest 3.9 percent. Pennsylvania's wealthiest earned an average of \$1,369,600, compared to \$45,200 for the middle income and \$10,500 for the lowest income.

"No one would ever design an income tax with lower tax rates for the best-off taxpayers," Matthew Gardner, ITEP's executive director and lead author of the study, said. "But that is exactly what Pennsylvania's tax system overall does: It allows the very wealthiest individuals to contribute less of their income, on average, than middle- and lower-income families must pay."

Pennsylvania's "tax forgiveness" credit to low-income taxpayers was considered progressive, but the use of an income tax with a single rate structure was considered regressive. Also regressive was the state's failure to use combined reporting as part of its corporate income tax structure. Combined reporting would eliminate the so-called Delaware Loophole, which is the use of passive investment by companies to shift income outside of the state, by requiring multistate and multinational firms to combine their income and expenses for tax purposes.

In New Jersey, the poorest families earned an average of \$12,400 and paid 10.8 percent of their income in state and local taxes. The state's middle income earned an average of \$54,000 and paid 9.4 percent of their incomes in taxes and the state's wealthiest earned an average of \$2,258,300 and paid 9.5 percent in taxes. After federal deduction offsets, the state's poorest paid 10.7 percent of their income in state and local taxes, the middle income paid 8.6 percent and the wealthiest paid 7.4 percent. New Jersey's progressive features include an income tax that uses a graduated rate structure, and providing a refundable earned income tax credit. The state's comparatively high reliance on property taxes and comparatively high cigarette tax rate are regressive, the study said.

Delaware's poorest families earned an average of \$10,100 and paid 6 percent of their income in state and local taxes, the middle income earned an average of \$44,600 and paid 5.8 percent and the wealthiest earned an average of \$1,613,700 and paid 5.6 percent. After federal deductions offsets, the state's poorest paid 6 percent, the middle income 5.5 percent and the wealthiest 4.5 percent. The state's progressive features include an income tax that uses a graduated rate structure and provides an exemption credit in place of personal exemption, and no statewide sales tax. Delaware's regressive feature was the state's failure to offer refundable income tax credits to offset the impact of excise and property taxes.

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