

Scranton Times-Tribune

Study rips state taxation

Monday, November 23, 2009 5:52 AM

By Borys Krawczeniuk, The Times-Tribune, Scranton, Pa.

Nov. 23--The share of income paid toward state and local taxes by the poorest fifth of Pennsylvanians is more than twice as large as the share paid by the wealthiest, according to a study by a Washington, D.C.-based tax policy group.

The gulf helped thrust Pennsylvania again into the top 10 of states with the most regressive tax policies, according to the Institute on Taxation and Economic Policy study. The Keystone state is ranked ninth worst.

The study found families in the lowest 20 percent of income -- those earning \$19,000 a year or less -- paid 11.3 percent of their income for state income, sales and excise taxes and local property taxes compared to only 5 percent paid toward the same taxes by the top 1 percent, families who earn \$428,000 or more a year.

"No one would ever intentionally design a tax system like this," said Matthew Gardner, executive director of the institute. "You wouldn't write it down on paper and say, 'Well, I want to have an income tax where poor people pay at the highest rate.' Yet, on balance, state and local taxes really do work this way."

The disparity between rich and poor grows to almost 3 to 1 when tax savings from federal itemized deductions are figured in -- 11.2 percent of income toward the taxes for the poorest fifth and 3.9 percent for the wealthiest 1 percent.

The 20 percent of middle-income Pennsylvanians -- families who earn between \$35,000 and \$56,000 a year -- fared somewhat better than the poorest, but also paid far larger shares of taxes than the wealthiest. In Pennsylvania, the middle paid 9.6 percent of their income in state and local taxes and 9.1 percent after deductions.

The chief culprit for the difference in taxation is the income tax, Mr. Gardner said.

Sales and property taxes are inherently regressive because they are levied at flat rates, but little can be done to adjust them to levy the taxes more heavily on the wealthy, he said.

"On the sales tax, the logical reason for this is because taxable spending, as a share of personal income, is highest for low-income families who spend all or most of their income just getting by," he said. "And richer people simply spend less of their income on these taxes (sales and property). On the property tax, it's because home value is a bigger share of income for low-income families."

By contrast, he said, income taxes can be adjusted for fairness by raising rates on the wealthy or offering tax credits to the poorer taxpayers. In Pennsylvania, it would take amending the state constitution to tax wealthier families at a higher rate.

The state's poorest fifth paid only 1.6 percent of their income toward income taxes and the wealthiest pay 2.9 percent.

But the income tax could be used to offset the unfairness of the sales and property taxes, Mr. Gardner said.

"We define a fair tax system as one that is based on an individual's ability to pay," said Sharon Ward, the executive director of the Pennsylvania Budget and Policy Center, a non-profit Harrisburg-based think tank. Ms. Ward said the findings dispel "the myth that low-income people don't pay taxes."

Besides raising income tax rates on the wealthiest, the state could tax more of their capital gains from the sale of stock and other investments or by closing corporate tax loopholes that allow companies to shift their income to states with lower tax rates, such as Delaware, she said.

"We need to raise revenue for schools, hospitals, parks and libraries," Ms. Ward said. "And when the tax system allows these big holes, government must look to taxes that have a larger impact on middle- and lower-income families to fund vital services. And we think that's something that can and should be remedied."

State Rep. David K. Levdansky, D-39, Allegheny, chairman of the state House Finance Committee, said the state constitution's tax uniformity clause also prevents levying the property tax at different rates.

"It is a constraint," Mr. Levdansky said.

Mr. Levdansky said the General Assembly could amend the constitution by voting to do so in consecutive sessions, then allowing voters to approve a graduated tax.

After a Scranton appearance last week, Gov. Ed Rendell said he favors amending the constitution to allow for higher income taxes on the wealthy, but doubts the state General Assembly will allow it.

"That might be something a constitutional convention would have to take up," Mr. Rendell said.

The state has not had a convention to rewrite the state's constitution in more than 40 years, but Mr. Rendell has threatened to push for a convention if his reform proposals are not taken seriously. He has proposed reform for state campaign finance law, to allow for merit selection of judges, and for citizen panels to rewrite legislative and congressional district boundaries.

Contact the writer: bkrawczeniuk@timeshamrock.com Taxation in Pennsylvania

To see more of The Times-Tribune or to subscribe to the newspaper, go to <http://www.thetimes-tribune.com/>.

Copyright (c) 2009, The Times-Tribune, Scranton, Pa.

Distributed by McClatchy-Tribune Information Services.