Wolf's Proposed 2015 Tax Changes

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Good afternoon. I want to thank Chairmen Eichelberger and Blake, along with the members of the committee for the opportunity to testify today.

But before I get into Gov. Wolf's proposed tax increases I wanted to give a little background.

The trend in Pennsylvania over the past several decades has been to increase spending and raise taxes over several decades. Pennsylvania currently has the 10th highest state and local tax burden, which is up from 24th in 1991, according to the Tax Foundation.

Under the Governor's proposed budget, total operating expenses would reach a record $78.6 billion (an 8.9% increase over last year). Indeed, 44 of the past 45 fiscal years have seen an overall spending increase. In historic terms, that equals an increase of more than $16,000 for a family of four (of $4,000 per person) since 1970 *after* adjusting for inflation.

With this rising spending and tax burden, Pennsylvania has also witnessed stagnant economic growth. From 1991 to 2014, Pennsylvania ranks 45th in job growth, 46th in population growth, and 47th in personal income growth. This demonstrates the old axiom that you can try to grow the government, or you can grow the economy, but you can't grow both.

It is into this economic climate that Gov. Wolf's tax proposal should be considered. Gov. Wolf's $4.5 billion state tax increase would be the largest increase in Pennsylvania's history. His state tax increases amount to $356 per person or $1,425 per family of four in the first year.

While Gov. Wolf has been touting the property tax relief component of his plan, under his proposal there would be no property tax relief until next year, while tax increases would occur immediately. Part of the $4.5 billion increase in 2015-16 is $2.1 billion dedicated for property tax relief, but the commonwealth would hold onto that money until October 2016.

Nor would this proposal ever be a dollar-for-dollar shift. Gov. Wolf's proposal would raise $8 billion in additional state tax revenue during 2016-17, after all tax increases are fully implemented. Property tax rebates in 2016-17, would yield a proposed $3.6 billion distributed to school districts.

That is, over the first two years, only 30 cents from every dollar in new state taxes would be directed toward property tax relief. After the shift for property tax relief, Wolf's budget would mean a **net $4.4 billion tax** increase—approximately $1,372 per family of four.

While that burden would hit families in different ways. The Independent Fiscal Office finds that **every income group** would pay higher taxes under Wolf's plan.

Proposed Tax Changes in Gov. Wolf's Budget				
Item	2015-16		2016-17	
State Tax Rate Changes	Total Revenue	Per Family of Four	Total Revenue	Per Family of Four
Corporate Net Income Tax Rate Reduced to 5.99% on January 1, 2016; Mandatory Combined Reporting; Reduction of Net Operating Loss Carry Forward. Future reductions in 2017 and 2018 to get rate to 4.99%	($249,300)	($78)	*($390,000)*	($122)
Severance Tax of 5% and 4.7 cents per MCF - Jan 1, 2016	$165,700	$52	*$1,015,000*	$318
Personal Income Tax Rate Increase to 3.7% - July 1, 2015	$2,376,700	$743	*$2,468,800*	$772
Personal Income Tax Imposed on Lottery - July 1, 2015	$15,700	$5	*$15,700*	$5
Sales Tax Increase to 6.6% and Expanded to untaxed items and services - January 1, 2016	$1,554,300	$486	*$3,876,400*	$1,213
Bank Shares Tax - retroactive rate increase	$339,200	$106	*$150,000*	$47
Cigarette Tax increase $1 per pack - October 1, 2015	$358,400	$112	*$380,700*	$119
Tobacco Products and eCigarettes tax of 40% on wholesale price - October 1, 2015	$84,100	$26	*$133,900*	$42
Tax Forgiveness	($90,200)	($28)	($90,200)	($28)
Total State Tax Increases	$4,554,600	$1,425	$8,053,000	$2,519
School Property Tax Relief	Total Revenue	Per Family of Four	Total Revenue	Per Family of Four
Transfer to Property Tax Relief Fund	$0	$0	($3,666,000)	($1,147)
Net Tax Increase	Total Revenue	Per Family of Four	Total Revenue	Per Family of Four
State Tax Increases Less Property Tax Relief	$4,554,600	$1,425	$4,387,000	$1,372

There are two reason why our analysis which shows a dramatic increase in net taxes for taxpayers overall, and the IFO analysis that taxpayers at every income bracket would pay more, differ from Wolf administration claims that the "average family" would pay less after the shift.

First, Commonwealth Foundation's analysis and the IFO's look at all the tax components of the proposal, not just sales and income tax increases. Secondly, the impact on the "average family" depends greatly on what products and services the average family consumes.

Specifically, Wolf's sales tax expansion tax would have a far greater impact college students (taxing books and fees), young families (taxing diapers and day care), senior citizens (taxing nursing home care and home health care), and the bereaved (taxing funeral services). In total, Wolf proposes 45 categories to be taxed under the sales tax.

Some of these taxes alone, while not hitting all families, would cost certain families several times more than the proposed tax relief.

- Day Care is a significant expense for young families. A 6.6% sales tax on day care would increase for school-age kids would by an estimated roughly $363 per year in the Harrisburg region, while childcare for infants would soar by more than $700 per year.
- Bereaved families would be hit with a $528 additional tax on funerals and gravestones.
- A college student at Penn State would face an estimated $283.47 in new taxes on textbooks, fees and meal plans.
    - Private college students would face even steeper costs, Penny Fjellanger, a freshman at Seton Hill would face a $400 tax increase.
- The governor's proposal would hit those currently living in a nursing home the hardest. If the sales tax were applied to the average cost of nursing home services, it could increase the price by $6,890 per year. If families opted to have a loved one cared for at home, the tax bill on home care services could reach $3,020 annually.
    - Tom Keasey and his wife moved into a York County assisted living facility and estimate they will have to pay $1,900 to $6,000 more per year thanks to the sales tax expansion.
    - Kermit Bell is worried about the additional costs for his 90 year old mother, Louise, who resides in a nursing home. The family estimates the governor’s plan will cost her an additional $3,089 a year.

This tax increase would further stifle economic growth. In fact, we found that Wolf's tax plan would result in 40,000 fewer private sector jobs once fully implemented.

The Commonwealth Foundation worked with the Beacon Hill Institute at Suffolk University to apply an economic modeling program to analyze the overall impact of Gov. Wolf’s proposals. Economists at Beacon Hill developed the Pennsylvania State Tax Analysis Modeling Program (PA STAMP) to calculate the impact of Gov. Wolf’s tax proposals on job creation.[1]

As a result of Wolf’s tax increases, **29,408 jobs will not be created in 2015-16.** To put that figure in perspective, consider that the Bureau for Labor Statistics estimates Pennsylvania added roughly 50,000 jobs over the last 12 months.

Total Employment

	Without Wolf Taxes	With Wolf Taxes	Jobs Not Created
2015-16	5,764,652	5,735,243	29,408
2016-17	5,815,360	5,777,047	38,313
2017-18	5,866,631	5,829,821	36,810
2018-19	5,918,471	5,882,391	36,080
2019-20	5,970,885	5,935,404	35,481

[1] Note: The model does not account for Gov. Wolf’s retroactive increase in the bank shares tax or the increased sales taxes on non-cigarette tobacco products. As part of Gov. Wolf’s corporate net income tax cut, he calls for a transition to combined reporting, which is also not accounted for in this analysis.

Excluding government employment—which would slightly tick up as a result of Gov. Wolf's tax plan—more than 39,000 private sector jobs would not be created in 2015-16.

Private Sector Employment

	Without Wolf Taxes	With Wolf Taxes	Jobs Not Created
2015-16	5,063,968	5,024,759	39,209
2016-17	5,116,985	5,076,586	40,399
2017-18	5,170,557	5,132,299	38,258
2018-19	5,224,691	5,186,636	38,055
2019-20	5,279,391	5,241,433	37,957

Before asking taxpayers to pay any more, lawmakers should first look to prioritize how we spend the dollars already paid. Given Pennsylvania's already high tax burden and general lack of competitiveness with other states, addressing the spending side of the ledger should be a priority for lawmakers.

Our recommendations for spending reforms, which I have attached as a separate document, include limiting the growth of future state spending to the rate of inflation and population growth. This principle is embodied in the Taxpayer Protection Act and Amendment (SB 7 and SB 70) which have already advanced from this committee.

Likewise, lawmakers should look to prioritize spending from all funds, not just the General Fund. Indeed, spending from other "Other" state funds have grown 245% since 2000 (under Gov. Wolf's proposed budget) compared with 55% growth in the General Fund. Inflation was 39% during this time.

Lawmakers should look to curtail corporate welfare. We have identified almost $700 million in the current budget and nearly $750 million in the proposed budget in the form of grants, loans, and tax breaks to select businesses and specific sectors of the economy. We shouldn't ask families to pay more through higher taxes for the benefit of politically-selected companies.

Prevailing wage mandates are another cost driver that we must address. According to Census data, Pennsylvania state and local governments spent $10.7 billion on construction in 2012. Thanks to Pennsylvania's "prevailing wage" mandate, the price of many of these construction projects were artificially increased **by an estimated 10 to 30 percent**. If this outdated mandate was eliminated, state and local governments could use the savings—upwards of $1 billion annually—to fund other areas of the budget.

Lastly, the largest budget buster remains the unsustainable growth in human services spending. This single department represents 45% of total state spending, and has grown and almost double the rate of state GDP over the past 15 years.

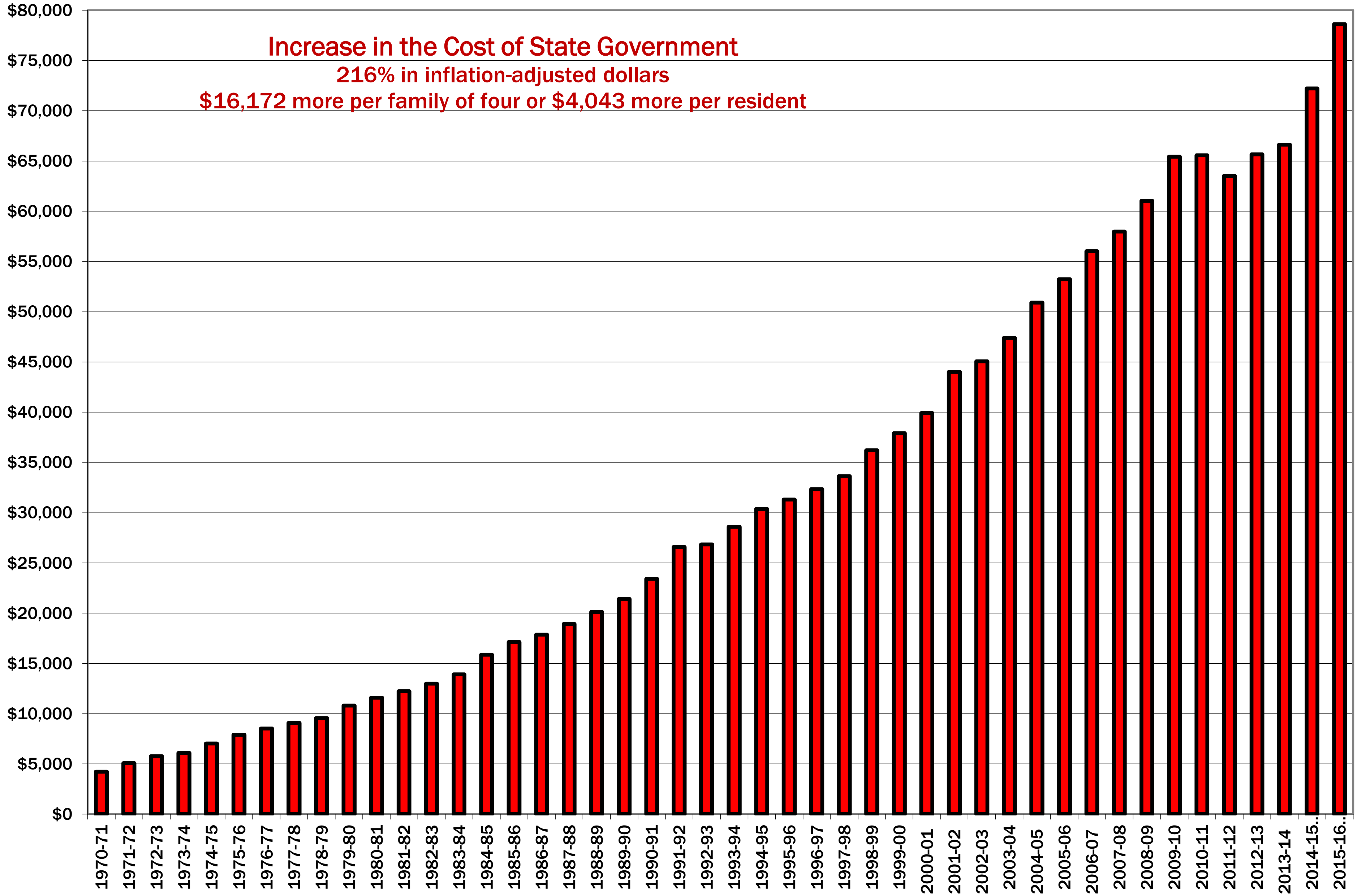
Our latest policy report on welfare spending recommends reforms that would both provide long term fiscal relief while better serving those in need. These include increasing options for Medical Assistance, improving work options for individuals with intellectual disabilities, encouraging private long-term care coverage, recovering support for child care, and improving program eligibility tools.

Before we ask families to pay more for goods and services they use every day, or to fork over a greater share of their paycheck, we should first look to how we spend the revenue we already collect.

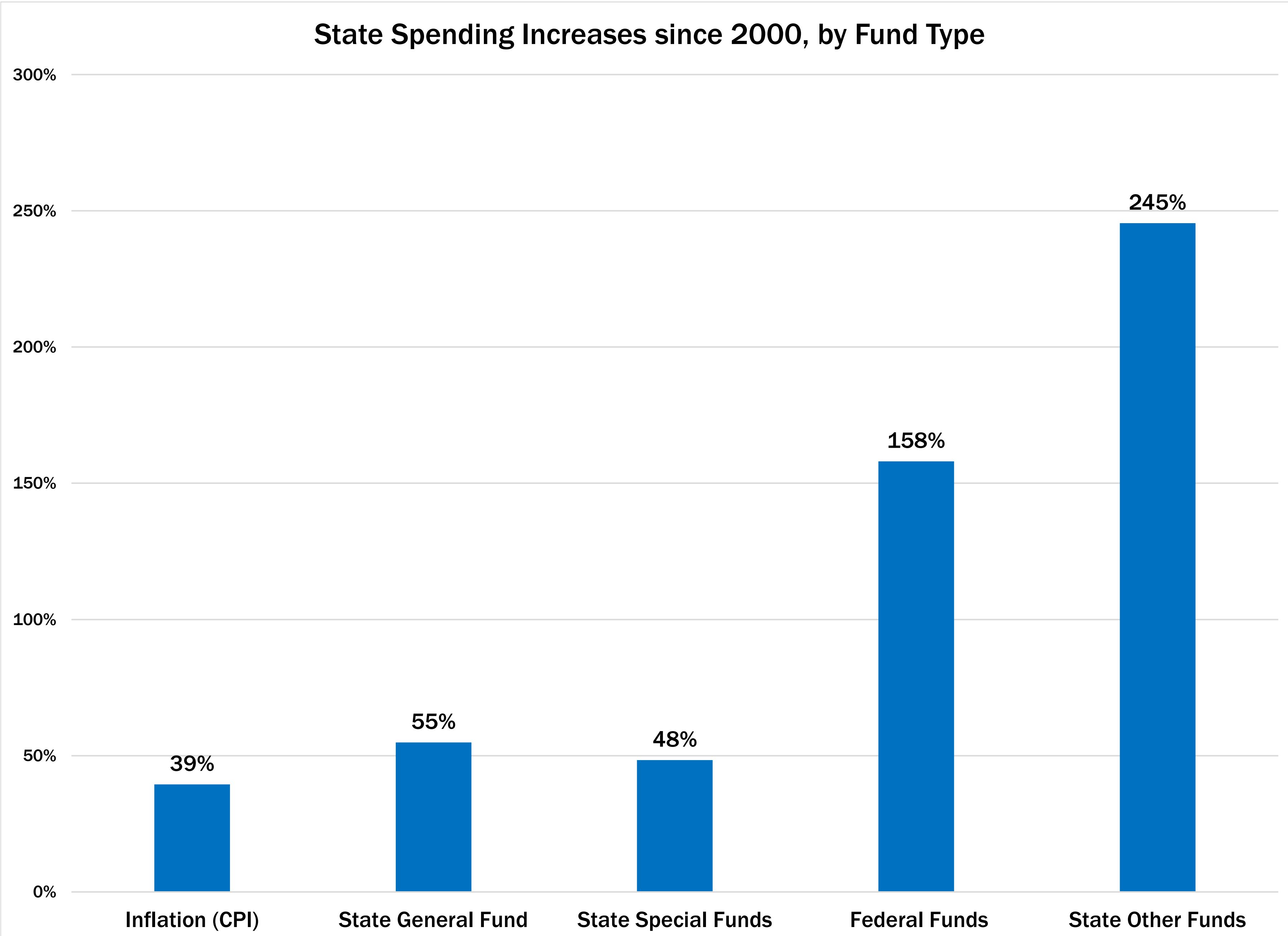
I thank you for the opportunity to testify, and look forward to any questions you may have.

Pennsylvania State Total Operating Budget, 1970-2016

in millions of dollars (proposed 2016)



Prepared by the Commonwealth Foundation, www.CommonwealthFoundation.org


State Spending Increases since 2000, by Fund Type
300%
250%
200%
150%
100%
50%
0%
39%
55%
48%
158%
245%
Inflation (CPI)
State General Fund
State Special Funds
Federal Funds
State Other Funds