



Background

Although we tried to face this year with optimism, the international economic meltdown has left Pennsylvania with revenues that are so low we could not even meet our obligations of four years ago, let alone those we face today.

Simply put, the state's revenue has collapsed and we need to find a way to raise more money. Pennsylvania has a long tradition of supporting workers and families, providing quality education, providing health care to seniors, children and the disabled, investing in our communities, and supporting institutions and organizations that give Pennsylvania its quality of life; institutions such as libraries, parks, and museums, to name a few. These are our core beliefs and values that date back to William Penn.

Why do we need additional revenue?

1. The economic crisis means we have a \$3.2 billion revenue shortfall and no inflationary growth in funds for next year – we are out of money.
 - In February, we anticipated a \$2.3 billion revenue shortfall. In order to alleviate the shortfall, the Governor proposed a 2009/10 budget that was balanced using a combination of cuts, targeted taxes, streamlining government, federal stimulus, and use of the Rainy Day Fund, our state savings account.
 - Since February our revenue shortfall has grown rapidly and we now expect it to be \$3.2 billion. The Senate Republicans have argued that we can eliminate that shortfall by simply cutting spending. They found out how wrong they

were. Their proposal, Senate Bill 850, cut funding to levels we consider to be disastrous. Even so, that budget proposal was still not balanced. In fact, the Senate's proposal would need to be cut by an additional \$1 billion for it to balance.

- Extreme cuts to the state budget simply shift costs to cities, counties, schools districts, churches, foundations and charities.
- Costs passed on to local and county governments and school districts will result in increased property taxes.
- Extreme cuts to the state budget will result in thousands of layoffs. This would affect state workers, health care providers, educators, and community organizations. With thousands more individuals eligible for unemployment, the state's cost for providing unemployment benefits will continue to increase.
- The Senate's plan simply set an arbitrary spending number without recognizing the needs of the people and the communities in Pennsylvania. We believe the needs should drive the numbers.
- We are all willing to cut but NOT irresponsibly. It is time for us to find a responsible balance, using all our options, including a broad based tax increase.
- As political leaders in this Commonwealth, we must lead. We must take the responsibility for preserving the well-being and economic safety of our citizens. We must sit down together and talk about how much we can **safely and responsibly** cut and balance that with a careful recommendation for a tax increase.
- We can look to the Sales Tax or the Personal Income Tax but the **most responsible approach would be a temporary increase in the Personal Income Tax.**



Why a Temporary Personal Income Tax (PIT) Increase?

1. Why not the Sales Tax? An increase in the Sales Tax Rate is regressive, adversely affecting low-income families, the unemployed and seniors on fixed incomes.
2. The unemployed do not pay a personal income tax.
3. Each one-tenth of one percent increase to the PIT rate means pennies per week for the most taxpayers; put another way, for less than several cups of coffee a month we can keep people employed, invest in our communities, provide education and health care and make a commitment to arts and culture.

Income	Monthly Cost	Weekly Cost
\$40,000	\$3.33	\$.77
\$45,000	\$3.75	\$.87
\$50,000	\$4.17	\$.96
\$55,000	\$4.58	\$1.06
\$65,000	\$5.42	\$1.25

4. Taxpayers will be able to partially offset the increased PIT by taking the Federal tax deduction for state income taxes.
 - The federal government thereby subsidizes part of the state PIT increase.

5. Many **retired seniors** would not be affected by a higher PIT rate.
- Most retired seniors pay little or no PIT because Pennsylvania does not tax most retirement or pension income, including Social Security.
 - Many seniors also benefit from the PIT Tax Forgiveness provisions, and pay no PIT provided that their dividends, interest and other earnings from taxable investments* do not exceed \$6,500 for an individual or \$13,000 for a couple.
- * NOTE: Pennsylvania and United States obligations (i.e., bonds) are tax exempt investments whose earnings are not taxable under the PIT.*
6. Many **low-income families** would not be affected by a higher PIT rate because they are eligible for Tax Forgiveness. Democrats will support offsetting a tax increase by expanding this Tax Forgiveness provision. The last time we adjusted the income allowance was in 2003 for the 2004 tax year.
- In 2006, approximately 1.2 million taxpayers (or 1 in 4 returns) claimed some level of tax forgiveness on their PIT return.
 - Currently, a two parent family with two children pays no PIT if its annual income is no greater than \$32,000. Partial tax forgiveness is applied for such families with incomes up to \$34,250.