Assessing the Cost of Tom Wolf's Spending and Tax Proposals

Democratic gubernatorial candidate Tom Wolf has proposed several new spending initiatives and tax code changes, though specific details remain lacking.

To give Pennsylvanians a better idea of the impact of these proposals, we conducted an analysis of his two major education funding proposals. We also analyze his personal income tax proposal, the increase in the income tax rate required to pay for his spending plans, and the impact on taxpayers.

Wolf's Major Education Proposals

In an effort to increase education funding and shift the sources, Wolf has proposed two key changes.

First, he would "restore $1 billion in funding cuts" that were the direct result of the expiration of federal stimulus funds in 2011-2012. As we have pointed out in the past, state funding for public schools now stands at its highest level ever, higher than even when state tax dollars were supplemented by federal stimulus dollars. Nonetheless, we assume that Wolf means to support an immediate $1 billion increase in education funding.

Wolf has also proposed increasing the "state's share" of education funding to 50 percent. It currently stands at 35 percent of total funding (though near the national average in funding per student). We assume that this increase in the "state share" to 50 percent will be half of the total revenue after the $1 billion increase and scheduled increases in pension funds.

By our estimations, these two proposals would cost state taxpayers more than $4.6 billion in additional taxes.

Cost of Wolf's Major Education Proposals	
Total School District Revenue (2012-13)	$26,004,969,178
Proposed $1 Billion Increase	$1,000,000,000
Increase Pension Contributions for 2015-16	$581,302,434
Total	**$27,586,271,612**
State Share at 50 Percent	$13,793,135,806
2012-13 State Share	$9,152,393,973
Addition State Tax Dollars Needed	**$4,640,741,833**
Sources: PA Department of Education; Tom Wolf's "Fresh Start Plan"	

Wolf's Tax Proposal

Wolf has supported a plan to make Pennsylvania's income tax system more "progressive." In other words, he believes the "rich" should bear a larger portion of the tax burden in the state.

Regrettably, Wolf has not provided the specifics of his tax plan, and has only put forth a hypothetical tax structure when discussing his proposal with the media. So while we cannot analyze the Wolf tax plan without specifics, we can calculate the approximate tax rate needed to pay for $4.6 billion in new education spending.

Our analysis is based on two tax models, each raising an additional $4.6 billion in revenue.

First, we calculated what the income tax rate would need to be by a simple increase in the income tax rate. The second model looks at the increase necessary if incorporating Wolf's proposal of a "universal exemption." That is, taxpayers would not be required to pay income tax until they hit a certain income level. But for income above that level, taxpayers would be required to pay a higher tax rate than the current 3.07 percent, making the income tax system more "progressive."

Model 1: No Universal Exemption

The move toward a more progressive income tax system may hit a roadblock: Pennsylvania's Constitution. Article 8, Section 1 of the Pennsylvania State Constitution requires "All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws." Wolf's "two-tiered" tax system appears to be in violation of the state constitutional requirement that taxes be uniform throughout the state.

Model 1 assumes Wolf is unable to impose his universal exemption, and must rely on a simple increase in the income tax rate. By our calculations, taxpayers would see their income tax rate increase to 4.44 percent, an increase of **more than 44 percent**. This would raise taxes on all Pennsylvania taxpayers.

Tax Rate Needed to Pay for Wolf Education Proposals, No Exemption	
Taxable Income Under Current System	$340,161,668,000
Current Tax Rate	3.07%
Revenue Raised Under Current System	$10,442,963,000
New Tax Rate	***4.44%***
New Revenue Raised	$4,660,215,059
Source: Pennsylvania Department of Revenue, Income Tax Statistics	

Model 2: $30,000 Universal Exemption

The second model estimates what a tax structure would look like using a universal exemption of $30,000, which Wolf suggested during an interview. That is, every taxpayer would subtract $30,000 from their actual income to determine their "taxable income." Put another way, only income earned above $30,000 would be taxed.

We then used the threshold to calculate the tax rate necessary to fund his education proposals. Our analysis found Wolf would need to impose a tax rate of 6.8 percent to fund his education spending proposal. That would require **more than a 121 percent increase** in the current income tax rate.

Tax Rate Needed to Pay for Wolf Education Proposals, $30,000 Exemption	
Total Taxable Income With Exemption	$221,828,643,000
Tax Rate	***6.80%***
Total Revenue Raised	$15,084,347,724
Revenue Under Current Tax Structure	$10,442,963,000
Additional Revenue Under Wolf Plan	$4,641,384,724
Source: Pennsylvania Department of Revenue, Income Tax Statistics	

As indicated in the chart above, a tax rate of 6.8 percent would raise enough revenue to pay for the more than $4.6 billion in new spending.

Because of this tax structure, some taxpayers would see their tax bill rise, while others would see a decrease. Under Model 2, with a $30,000 exemption and 6.8% tax rate estimate, any individual or family with an income of more than $54,692 would see a tax increase.

Income Level	$54,692	$54,692
Current/Wolf Tax Structure	3.07%	6.80%
Current/Wolf Tax Bill	$1,679	$1,679

What will Wolf's Proposals Cost You?

The chart below highlights the impact of both models on four different families—one earning $50,000, one earning $70,000, one earning $100,000 (essentially two adults with $50,000 income), and one earning $140,000.

Income Level	$50,000	$70,000	$100,000	$140,000
Tax Bill at Current Rate	$1,535	$2,149	$3,070	$4,298
Tax Bill at New Rate (No exemption)	$2,220	$3,108	$4,430	$6,202
Increase in Tax Bill	*$685*	*$959*	*$1,360*	*$1,904*
Tax Bill at New Rate (With exemption)	$1,360	$2,720	$4,760	$7,480
Increase in Tax Bill	*-$175*	*$571*	*$1,690*	*$3,182*

Wolf's proposed spending and tax plans will result in significantly higher taxes on middle class families. Pennsylvania already has the 10th highest state and local tax burden in the country and Wolf's proposal would impose significant new burdens on families and more than 763,000 small businesses owners that pay the personal income tax.

Assumptions

This analysis is based on a number of assumptions due to the lack of specifics in Wolf's "Fresh Start" plan. Once Wolf provides more concrete numbers, we will adjust our analysis accordingly.

Both school revenue data and personal income tax data are taken from the 2013 fiscal year, the most recent data available. The estimates would be slightly different using current data, especially if the rate of growth in taxable income differs significantly from the rate of growth in revenues for public schools in 2014 and 2015.

While Wolf has also proposed a 5 percent natural gas severance tax and an excise tax on smokeless tobacco and cigars, our analysis assumes these taxes will be consumed by Wolf's other spending initiatives, a generous assumption given the number of new spending proposals.

Below is a non-exhaustive list of Wolf's new spending initiatives in his "Fresh Start" plan.

Expand pre-kindergarten to all children of age	Expand Medicaid
Expand STEM Programming	Increase access to higher education
Reinvest in state parks and forests	Borrow to make pension contributions (Taxpayers will have to pay the interest)
Expand full-day kindergarten	Provide access for career training to prekindergarten teachers
Provide additional funding for "high poverty" school districts	Fund "training-to-career" grant initiatives
Hand out cash payments to business that increase their payroll by $1 million	Focus state investments on "fix it first" developments
Provide technical assistance to older communities	Fund an "innovative cities" program
Fund mixed-use development projects for low income residents	Create a Keystone Tech Talent Bank
Provide $3 million to expand the pool of primary physicians	Increase funding for the Department of Environmental Protection