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## Our viewpoint

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# Income tax right target for state

Pennsylvania doesn't just have a fiscal deficit. It has an achievement deficit in too many school districts. Dealing with both of those problems will require political courage from state-level politicians and an acceptance of reality on the part of taxpayers.

After nearly 10 months of delay, the state House last week approved a 16 percent increase in the state income tax, which will drive it from the current 2.8 percent to 3.25 percent. It would remain at that level until the beginning of the 2004-2005 fiscal year, next July 1, when it would drop to 3.1 percent, 10.7 percent higher than today's 2.8 percent.

The additional revenue would enable the state government to begin closing a persistent, systemic revenue shortfall in the state budget, while enabling it to better fund early childhood education initiatives that have been shown to improve student achievement over the long term.

During the first six months of next year, the 3.25 percent rate would generate \$600 million in state revenue. For the 12 months after that, it would generate about \$750 million.

Local school districts would receive average 3 percent increases in their state subsidies and average increases of about 4 percent for their special education budgets.

Although many senators, Republicans and Democrats, say that the tax rates are open to debate, it appears certain that some income tax increase will take effect. That won't

cause dancing in the streets, but the income tax is the right target, and the approach is realistic.

Pennsylvania's combined state and local income tax average ranks 34th in the nation, whereas its local property taxes are among the highest in the nation.

The impact of those high local property taxes is compounded in Pennsylvania because of the state's high percentage of older residents, who no longer earn enough money to keep up with exponentially increasing property tax bills — bills driven by the costs of locally funded education.

Shifting a portion of the local tax burden to the state income tax will help to provide local school districts with the opportunity to reduce property taxes, particularly when the state government finally reaches a consensus on how to establish slot machine gambling as a source of education revenue.

The income tax is the least regressive tax option that the state government has, in that exemptions exist for the lowest-income wage earners. That is not so for the sales tax, which the Legislature considered increasing as an alternative to the income tax hike.

Ideally, an improving economy will help to close some of the revenue hole. Inevitably, however, Pennsylvania has to invest more in its schools if it hopes to sustain long-term economic improvements, and that requires a shift away from the property tax.

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