

GRAD. INCOME TAX

3040
10051111



HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG

August 27, 1974

Subject: Graduate Income Tax
State Debts

To: Republican House Members

From: Eugene M. *EMF*
Director of Research

Because many have been asking, "What about the income tax", we thought the enclosed would be helpful.

We are also enclosing the Chamber of Commerce Spectrum on State Debt. This is an excellent information piece. You may wish to keep it for your reference, or share it with another.

EMF:lm1

Encl.

HOUSE MAJORITY LEADERS LEGISLATIVE PRIORITIES

Number 7 Graduated Income Tax

In his letter to the Governor on December 29, 1972, Representative Butera said:

"We believe action already taken to be unconstitutional. Therefore, our major effort will be to exact an equitable State tax with adequate citizen safeguards that also protect the taxpayer from a graduated wage tax at the local level."

BACKGROUND

During the summer of 1972, Pennsylvania appeared to be well on the road towards enactment of a Constitutional amendment which would permit a State graduated income tax.

A Conference Committee report on the graduated income tax amendment was prepared for consideration by June 19, 1972. While the time ticked away during July and early August, however, neither the Governor nor the Democratic legislative leadership made any effort to call the report up for a final vote. On August 7th, time ran out. Tax reform appeared to be set back two years from 1973 to 1975.

Article XI, Section 1 of the Pennsylvania Constitution requires agreement by two separate sessions of the General Assembly before a proposed Constitutional amendment is placed on the ballot for approval by the voters. After passage by the initial session of the General Assembly, the Constitution sets forth this requirement:

The Secretary of the Commonwealth shall cause the same to be published three months BEFORE the next general election in at least two newspapers in every county in which such newspapers shall be published....(emphasis supplied)

The Constitution further provides that this procedure is to be repeated if the General Assembly, next afterwards chosen, concurs in the action of the prior assembly.

Governor Shapp had declared tax reform to be the number one priority of his administration. Through carelessness and inattention to rules of law this priority appeared to be pushed back to at least 1975, one year after the expiration of his present term of office.

REPUBLICAN POSITION

To allow the Constitution to be amended in the form advocated by the Governor would have allowed the State to enact a tax much like that of the Federal government. This would include, as well as the graduated rate, all the millionaire loopholes and other inequitable exemptions and deductions allowed by the Internal Revenue Code. In addition, the wording of the proposed amendment left open the possibility that a graduated rate tax could filter down to the local level.

REPUBLICAN PROPOSAL

On May 29, 1973, the Republicans first unveiled their tax relief proposal. The idea was to grant a uniform dollar value exclusion to each person receiving taxable income. The original proposal was for a \$2,000 exclusion but was subsequently reduced to \$1,500 in an effort to compromise and gain a solution to the stalemated budget controversy.

The purpose of a uniform exclusion would be to help the persons at the lower end of the income scale. Unfortunately, the House Republicans could not get the Senate Democrats to accept the idea and as a result had to settle for a reduction in the rate of tax from 2.3 percent to 2.0 percent.

Another aspect of the tax relief granted was a poverty exemption designed to exempt persons and families with very low incomes from paying all or part of their State income taxes. Republican amendments to this proposal extended their benefits to senior citizens who must try to survive today's rampant inflation on relatively fixed incomes.

An income tax levied upon gross income is unquestionably the fairest form of taxation because it distributes the biggest tax burden on those who produce the most income. With a Federal graduated type of tax structure, many of those who produce the most income have the means to find loopholes and tax shelters that greatly reduced their tax liability and, hence, throw the biggest burden of taxation on the middle and lower income persons.

If the "exclusion" idea could gain enough support to be enacted, it would be a means to help alleviate the tax burden on middle income families. This then, together with the poverty and senior citizens exemptions, would place a fairer burden on those persons in the upper income brackets and, hence, remove the one valid argument supportive of a graduated income tax.