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Pa.'s tax collections rebound: A cautionary tale

By Colin McNickle

It might be tempting to pronounce Pennsylvania's economy as "recovered" as revenues rush into state tax coffers with the many effects of the coronavirus pandemic waning. Tempting, but not necessarily wise, concludes an analysis by the Allegheny Institute for Public Policy.

For the impetus for "recovery" has been, in no small part, the result of federal transfer payments that cannot be sustained (and should not continue). And they run the risk of creating ancillary problems of their own, says Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 21, No. 28*).

Indeed, Pennsylvania's total general fund revenues have become robust after taking a shellacking in the second quarter of 2020.

Overall, fiscal 2020-21's total general fund revenues amounted to $40.39 billion—25 percent higher than fiscal 2019-20. That surpassed state Department of Revenue projections of $36.95 billion by 9.3 percent.

The previous high occurred in fiscal 2018-19 when the commonwealth collected $34.86 billion.

For fiscal 2020-21, the commonwealth collected $4.42 billion in corporate net income taxes, which was 56 percent more than fiscal 2019-20 ($2.83 billion) and 30 percent above fiscal 2018-19, which also was the previous high collection with $3.4 billion.

Personal income tax collections, the largest of the general fund categories, brought in $16.3 billion in fiscal 2020-21. The amount from the withholding group -- $10.84 billion – beat projections by 1.6 percent but the non-withholding amount of $5.45 billion beat state expectations by 14.3 percent.

And for sales and use tax revenue, collections for fiscal 2020-21 hit $12.8 billion, 19 percent more than fiscal 2019-20 and 16 percent better than fiscal 2018-19.

But, and this is big “but,” there are a number of extenuating circumstances that make the numbers appear more encouraging than perhaps they really are.

“First, due to the pandemic and lockdown of April 2020, fiscal 2020-21 included two income tax deadlines, the previous fiscal year’s (July 2020) and its own,” Gamrat reminds.

“Without that statistical anomaly, the (general fund) amount would have been closer to the estimated $36.95 billion rather than the $40.39 billion that materialized.”

Second, the federal government flooded the economy with stimulus payments and enhanced unemployment benefits.

“While not subject to the personal income tax, it did put money in the hands of consumers who went on a buying spree, causing a jump in sales and use tax collections,” the Ph.D. economist says.

“Clearly, the federal government pumping up incomes through direct payments and unemployment supplements were key elements in retail sales, auto sales and home remodeling.”

Such increased sales undoubtedly boosted the incomes of businesses that were allowed to remain open and pushed up their corporate net income tax liabilities, causing that revenue stream to tick up as well.

“But there is also the inflation component,” Gamrat notes; rising prices on consumer and business goods generate more tax revenue but hurt customers, particularly the poor, as a stealth tax.

“With a general fund flush with cash, and $3.935 billion from the CARES Act with additional federal funding through the American Rescue Plan ($7.3 billion), there will be temptation to spend on wasteful pet projects,” Gamrat cautions.

“But these are temporary bumps to the revenue stream and decision makers should carefully consider their use,” he says. “The goal should be to make Pennsylvania more friendly to businesses and taxpayers.”

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