COMMONWEALTH FOUNDATION | FACT SHEET

The Taxpayer Protection Act

SUMMARY

- Pennsylvania faces a $3.6 billion structural deficit that will force lawmakers to cut spending or increase taxes.
- State spending growth far outpaces inflation, population growth, and economic growth. This rapid spending growth is the cause of the budget deficit.
- The Taxpayer Protection Act (TPA) would create a fiscal guardrail by limiting state spending growth to the average rate of inflation plus population growth or personal income growth. If Harrisburg had enacted TPA in 2019, taxpayers would have saved $23.5 billion over the past six years, roughly $7,267 per family of four. Moreover, Pennsylvania would have a $2.8 billion surplus in fiscal year (FY) 2024–25.

PENNSYLVANIA'S SPENDING PROBLEM

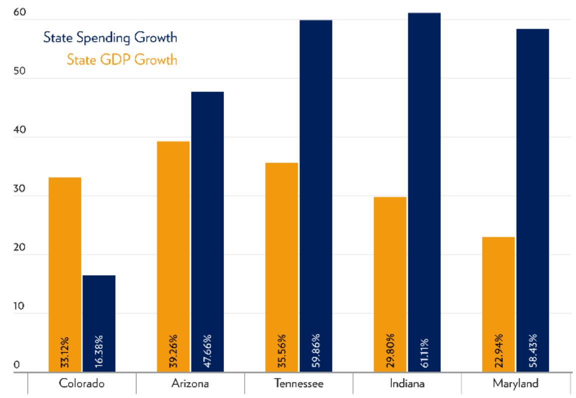
- Since FY 2019–20, General Fund expenditures have grown by more than $12 billion, or roughly 35.19 percent. Pennsylvania's FY 2024–25 budget spends $47.6 billion, representing a $2.7 billion, or 4.9 percent, spending increase from FY 2023–24.
- The enacted FY 2024–25 state budget spends more than state revenues, creating a $3.6 billion structural deficit. To cover the current fiscal year's budget deficit, the state drains its General Fund balance.
- The Pennsylvania Independent Fiscal Office (IFO) estimates a $2.9 billion General Fund balance remaining at the end of FY 2024–25 and projects the commonwealth to exhaust its General Fund reserves during FY 2025–26.
  - Without a fund balance, projected spending growth of 4 percent, and estimated 1.6 percent revenue growth Pennsylvania's structural deficit will expand in future years.
  - Furthermore Pennsylvania's aging and out-migrating population simultaneously shrinks the tax base and drives up state expenditures, compounding budgetary challenges.
- In short, lawmakers will face a choice between increasing taxes or cutting spending next fiscal year.

THE TAXPAYER PROTECTION ACT

- The TPA is a tax and expenditure limit that would index future government spending increases to the three-year average rate of inflation and population growth or to the three-year average rate of personal income growth, whichever is lower.
  - The TPA would keep government spending in line with what taxpayers can afford and ensure that government spending growth would not outpace economic growth.

- The TPA would not require the government to cut spending but rather slow the rate of spending growth. The General Assembly can override the TPA limit with a two-thirds majority vote.
- Even in times of high inflation, tax and expenditure limits are effective at limiting government spending.
    - Colorado's state constitution includes a Taxpayer Bill of Rights (TABOR) amendment that limits state government revenue growth to the rate of inflation and population growth. From 2019 to 2023, when inflation was at its highest in decades, Colorado state spending grew by 16.38 percent, while state GDP grew 33.12 percent. Of states with a similar GDP, Colorado was the only state where state GDP grew faster than state spending.

State Spending Growth vs. GDP Growth, 2019-2023

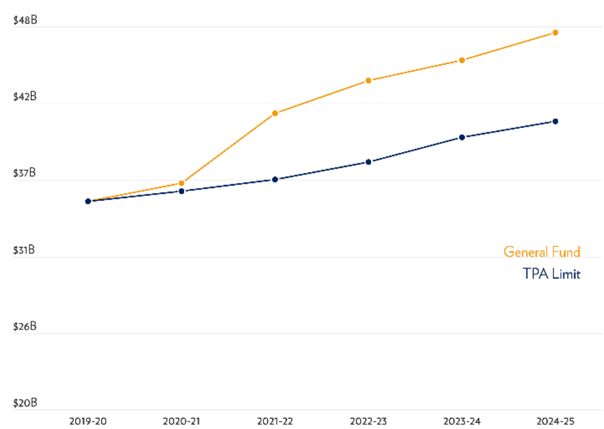


Sources: Bureau of Economic Analysis, GDP by State: All Industry (Millions of Current Dollars) Table SAGDP2N, https://apps.bea.gov/itable/?ReqID=70&step=1&_gl=1*12a2zca*_ga*MTk4ODM4MDM0MC4xNzI4NDIxOTQy*_ga_J4698JNNFT*MTcyODQyMTk0MS4xLjEuMTcyODQyMTk2MS40MC4wLjA.
Urban Institute, State Fiscal Profiles. Accessed October 8, 2024. https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-fiscal-briefs

- The TPA index—which the Commonwealth Foundation has tracked since 2003— more than doubled from 2.12 percent in 2019 to 4.66 percent in 2023 because of high inflation. Yet, if Pennsylvania had enacted TPA in 2019, the state would have a $2.8 billion budget surplus in FY 2024–25. Taxpayers would have saved a total of $23.5 billion over the past six years, roughly $7,267 per family of four.

State Spending Vs. Taxpayer Protection Act

Savings if the TPA was enacted in 2019



Sources: Pennsylvania Office of the Budget, "Governor's Executive Budget, Financial Statement of the General Fund, Actual Appropriations," (Fiscal years 2019-20 through 2024-25).
The TPA Limit is calculated using data from the U.S. Bureau of Labor Statistics, the U.S. Census Bureau, and the U.S. Bureau of Economic Analysis. For more information, visit https://www.commonwealthfoundation.org/policyblog/detail/the-taxpayer-protection-act