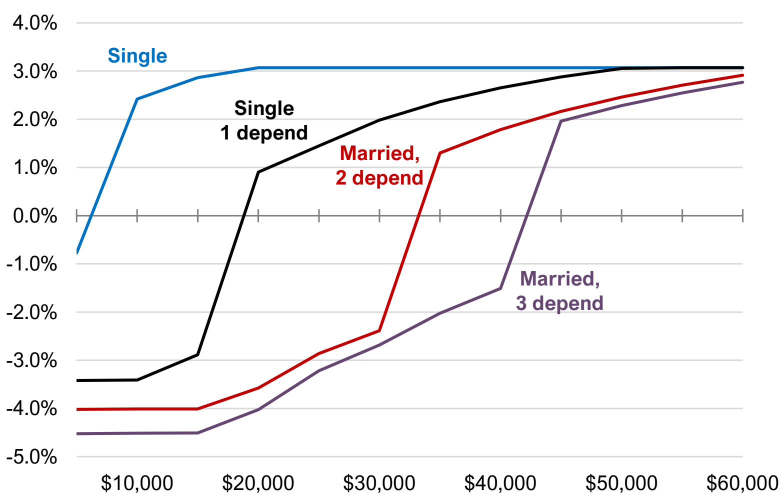
Personal Income Tax Progressive at Low End

Independent Fiscal Office | Budget Brief | August 2026

Pennsylvania levies a flat 3.07% personal income tax (PIT) on eight classes of income. However, two provisions make the tax progressive for lower-income filers. The first provision is **tax forgiveness**, which eliminates or reduces tax liability if taxable income falls below specified thresholds based on filing status and number of dependents. The second provision is the new **Working Pennsylvanians Tax Credit** (WPTC), which is equal to 10% of the federal earned income tax credit. For tax year 2025, the Independent Fiscal Office estimates that tax forgiveness eliminated $190 million of tax liability and the new WPTC provided $220 million of relief. The WPTC is fully refundable, which means that filers receive a refund even if they have no state income tax liability due to tax forgiveness.

Personal Income Tax: Effective Tax Rate



The graph displays **effective tax rates** (ETRs, tax liability divided by taxable income) using four filing types: single (non-dependent), single with one dependent, married with two dependents, and married with three dependents.[1] The examples assume that filers are wage earners (or self-employed) who qualify for the federal earned income tax credit. Notable trends and outcomes include:

- Single filers receive modest tax relief. The ETR quickly approaches the 3.07% statutory rate as tax forgiveness begins to phase out at $6,500 of taxable income.
- Filers with dependents receive considerably more tax relief, and the ETR also increases rapidly when the tax forgiveness phase-out begins. For 2025, these tax forgiveness thresholds applied: $16,000 (single, 1 dependent), $32,000 (married, 2 dependents) and $41,500 (married, 3 dependents). The provision fully phases out when taxable income increases by $2,250 over those thresholds.
- For single filers with one dependent, the maximum WPTC is $433 for taxable income between $15,000 and $20,000. For married filers, the maximum WPTC is $715 (2 dependents) and $805 (3 dependents) for taxable income between $20,000 and $30,000. The new WPTC yields a negative ETR for many filers, which implies that a filer remits no tax and receives an income transfer.

For these examples, the computed ETRs use only taxable income such as wages, interest and dividends. The Commonwealth does not tax retirement income such as Social Security and pensions. The ETR computations also exclude significant federal transfers such as SNAP, housing vouchers, veteran's benefits and supplemental security income. Non-taxable retirement income and federal transfers are typically included in ETR computations, such as those computed by the Congressional Budget Office.[2] If retirement income and federal transfers had been included, then computed ETRs would be considerably more progressive at the lower end of the income distribution.

1 All computations use income thresholds for tax year 2025.

2 See: CBO Distribution of Household Income 2022.