

## **Your View from a Lehigh Valley lawmaker: Pa. should make these tax changes to help people deal with inflation**

By **RYAN MACKENZIE** | Pa. House of Representatives

A basic definition of inflation is “a general increase in prices and fall in the purchasing value of money.” Right now, inflation seems to be out of control, forcing many Pennsylvania families living paycheck to paycheck to make difficult spending decisions to stretch every available dollar.

There are several main causes of the high inflation rate we are all facing. They include supply chain issues resulting from COVID-related production disruptions and higher energy prices blamed on the war in Ukraine.

Another major contributing factor has been overspending by the federal government. Stimulus packages worth trillions were allocated during the pandemic to households and businesses to offset its impact on the economy. Economists warned that continued spending like that would cause inflation, but federal policymakers did not heed the warning.

The Washington spending spree continued after the pandemic subsided, and it has been identified as a primary cause of inflation and higher prices. A recent study by the New York Federal Reserve estimated 60% of the rise in prices during 2021 was due to demand-side factors (meaning too much money being pumped into the economy) and 40% to supply-side factors.

This kind of inflation is now also leading to a persistent, spiraling wage-price cycle. This occurs when employees logically ask for higher wages to offset the increase in prices. Businesses respond by raising their own prices to offset the higher salaries they are paying their employees. Consumers see those higher prices for goods and services, and in turn require higher wages from their employer to pay for these items. The cycle then continues.

The Federal Reserve has been raising interest rates to try to slow inflation, but that has an effect of potentially slowing the whole economy and creating a lot of collateral damage along the way. In the meantime, struggling Pennsylvania families are bearing the brunt of these bad policies and need relief now.

While state government did not create this problem and has a limited set of tools to help address the issue, a recent review by Pennsylvania’s Independent Fiscal Office compared tax burdens in all 50 states and provides insights for areas of improvement. The IFO study ranked Pennsylvania 21st in total taxes, which included the personal income tax, sales and use tax, and property taxes.

To help reduce this tax burden, I introduced the Pennsylvania Families Tax Relief plan in the state House of Representatives. The package includes 10 proposals that would result in more than \$2.2 billion in annual savings for Pennsylvania families, or an average of about \$400-\$500 in tax savings per year for every household.

This menu of options came from other states across the country, by looking at Pennsylvania’s tax ranking in various categories, and by analyzing monthly bills for goods and services, such as electricity and cell phones. The tax relief proposals include:

- Permanent sales and use tax exemptions to help families reduce the cost of purchases for their small children, including toys, books, cribs, strollers and sports equipment.
- Tax holidays for families making home improvements or preparing for the school year.
- Permanent gross receipts tax exemption on electric bills.
- Permanent sales and use tax exemption on pet food.
- Permanent sales and use tax and gross receipts tax exemption on cellphone bills.

- Increase funding for the homestead/farmstead exclusion to provide additional property tax relief.
- Reduce the personal income tax from 3.07% to 2.99% over a two-year period.
- Permanent sales and use tax exemption on protective equipment purchases by volunteer firefighters and emergency medical services personnel.
- Reduce the inheritance tax for direct descendants and siblings from 4.5% and 12%, respectively, to align with the personal income tax.
- Increase the state's child and dependent care tax credit to match the federal credit of \$3,000 for one qualifying individual and \$6,000 for two more qualifying individuals over a three-year period.

According to the Tax Foundation's 2023 Facts and Figures Report, Pennsylvania has the seventh-highest cellphone tax at 16.6%, the 11th-highest property tax paid as a percentage of home value at 1.49%, the 17th-highest sales tax at 6%, and is one of only six states with an inheritance tax.

Making changes like these would have a real impact for Pennsylvania families by bringing down the cost of necessities, reducing monthly electric and cellphone bills, leaving more money in people's paychecks, and bringing down the high burden they face when opening tax bills.

The state budget proposal for Fiscal Year 2023-24 presented by Gov. Josh Shapiro in early March has garnered a mixed response so far. Pennsylvania families and the higher prices they are dealing with should have received more attention. Making sure a balanced budget, with no new taxes, is in place by the June 30 deadline should be the baseline agreement.

Reducing state taxes to allow people to keep more money in their pockets would be a win for all Pennsylvanians and a way to help them deal with the higher prices brought on by bad policy from the federal government.

*Ryan Mackenzie is the state representative in the 187th District in Lehigh County.*