

Budget Takeaways – the Governor’s Proposed 2021-2022 State Budget

On February 3, 2021 Governor Wolf gave his second to last budget address which was unlike proposals from prior years, as the governor’s address was taped and given remotely due to COVID-19. Although the governor’s budget had many of his same proposals which he has offered in prior years, the biggest component of his budget centers around \$1.5 billion in new education spending.

In order to pay for this spending and balance the budget, Governor Wolf is asking the legislature to approve a 1.42% increase in the Personal Income Tax. This proposal, as anticipated, has been met with opposition by the Republican-Controlled General Assembly. As the General Assembly begins holding hearings over the budget here are the major takeaways from the governor’s proposed budget:

1. Constitutional or Unconstitutional?

Governor Wolf’s budget is built around a 46% increase in the Personal Income Tax which that will be paid by Pennsylvanian workers and 80% of all of the state’s businesses. However, the governor is expanding the state’s tax forgiveness program.

Under the governor’s proposal married couple with \$50,000 in total family income would not pay any state income tax. At the same time a family of four with \$84,000 or less would see a reduction in their income tax liability. Republicans are claiming this proposal violates the Pennsylvania Constitution which requires taxes to be levied uniformly for all Pennsylvanians.

2. Budget Impact on Community Banks

The proposed budget by Governor Wolf does not include an increase in the Bank Shares Tax or a transfer from the Banking Fund. The budget would impact banks in so much as it affects our customers by raising the income tax on individuals and small businesses along with raising the minimum wage. However, as the Republican-Controlled General Assembly has opposed large-scale tax increases, we will continue having to work to ensure the budget doesn’t raise the Bank Share Tax or raid the Banking Fund.

3. Boosting State Spending

The proposed budget by Governor Wolf spends \$40 billion when you combine state and federal tax dollars. This represents an 8.5% increase in state spending over the 2019-2020 budget and as the Associated Press is reminiscent of the governor’s 2015 proposed budget. If the AP is accurate in this assessment this could mean Pennsylvania could face a contentious and drawn-out budget battle.

4. Going Green?

Similar to years past, the governor is attempting to balance the budget through the legalization of recreational marijuana. Former Auditor General DePasquale has estimated this would raise \$400 million in new tax revenue. This proposal could find life this year, particularly as Senate Democrats in Washington including Senate Majority Leader Chuck Schumer (D-NY) move to legalize marijuana. Depending on what happens in D.C. the debate in the legislature could move from whether to legalize marijuana to how to regulate and tax the new industry. Governor Wolf’s proposal doesn’t provide any details of what the state legalizing marijuana would mean for the financial services industry.

5. **What was Old is New Again?**

Not only does the governor propose legalizing recreational marijuana like he has in years past, but the governor also asked for several of his past priorities be included in this budget including:

- Raising the minimum wage to \$12.00/hr with a path to \$15.00
- Levying a Severance Tax on Marcellus Shale and Natural Gas
- Reducing Charter School Funding
- Campaign Finance Reform

If you would like to learn more about the governor's proposed budget you can find out more [here](#).

Regards,

Jordan Grant
Director of Government Relations
Pennsylvania Association of Community Bankers (PACB)
3211 N. Front Street, Suite 102
Harrisburg, PA 17110
Phone: (717) 934-0082
Cell: (630) 294-6770

Jordan@pacb.org | www.pacb.org

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