Sources of Pennsylvania Income

This research brief is the first in a series that describes a model the IFO will use to evaluate the distribution of state-local taxes paid by state residents across various income and age groups and homeownership status. The model will provide insights into the progressivity or regressivity of state-local taxes. This brief describes the amount and types of income received by state residents. Data sources are noted on the next page.

2022 Pennsylvania Income Comparison

Type of Income	Cash Income	Census ACS	Difference Dollar	Difference Percent
Wages and Salaries	$423.0	$391.2	$31.8	8%
Divs, Interest, Rent	$52.0	$26.7	$25.3	95%
Capital Gains	$46.3	n.a.	$46.3	n.a.
Business	$75.1	$21.5	$53.6	250%
IRA and Pension	$73.3	$41.1	$32.2	79%
Social Security	$56.4	$43.1	$13.2	31%
Income Maintenance				
Supp Sec Income	$2.5	$3.4	-$0.9	-26%
SNAP	$6.0	n.a.	$6.0	n.a.
Refund Tax Credit	$5.1	n.a.	$5.1	n.a.
Housing Vouchers	$1.8	n.a.	$1.8	n.a.
Vets, UC, Other	$6.8	$7.2	-$0.3	-4%
Total Income	**$748.4**	**$534.2**	**$214.2**	**40%**

Note: Billions of dollars. ACS is American Community Survey. Divs, Interest and Rent includes royalty and estate income. Business includes self-employment income. UC is unemployment compensation. Other includes TANF and WIC.

Cash Income includes all forms of income received during the year. For 2022, total Cash Income received by state residents was $748 billion. This includes five income categories. The largest is wages and salaries paid to employees. Capital income is the sum of (1) dividends, interest, rent, royalties, and estates and (2) realized capital gains. Business income includes income from S corporations, partnerships and self-employment. Retirement income includes IRA withdrawals, pensions and Social Security (retirement and disability). Income maintenance includes Supplemental Security Income, SNAP, refundable tax credits (earned income and child), housing vouchers, veterans' benefits, and others.

State income distribution models have typically used one of two data sources: U.S. tax return and administrative data (used by Cash Income) or the U.S. Census Bureau's American Community Survey (ACS, latest data year shown in table). The two data sources are relatively close for wages and salaries, but the ACS misses substantial income in most other categories. By design, the ACS also excludes capital gains and certain transfer income such as SNAP and housing vouchers, and refundable tax credits. However, those federal programs are appropriate to include as income because they facilitate the direct purchase of goods and services. Cash Income is 40% higher than ACS Total Income: 11% due to the exclusion of income and 29% due to underreporting. Most of the difference occurs at the top (capital gains) and low end (federal programs) of the distribution. Neither measure includes income earned in the informal economy, such as "under the table" payments, which could be material.

The ACS data are also used to compute annual **state poverty rates**. For 2022, the published rates are 12.6% for the U.S. and 11.8% for Pennsylvania.[1] Due to the significant understatement of reported income and the exclusion of large federal transfers and refundable tax credits, computed poverty rates will be overstated. The U.S. Census is aware of the understatement and makes periodic updates to improve the survey.[2] The distribution

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[1] See Poverty in States and Metropolitan Areas 2022.

[2] For example, see Bee and Mitchell "Do Older Americans Have More Income Than We Think?"

model uses Cash Income, which is based on federal and state tax return data (with adjustments for misreporting on tax returns), data published by the U.S. Bureau of Economic Analysis (BEA) and data published by various federal agencies (e.g., Social Security Administration, HUD).

Data Sources for Cash Income

Wages and Salaries ($423 billion)   State data published by the BEA in the National Income and Product Accounts (NIPAs). Includes the Adjustment for Residents ($14 billion). By comparison, $386 billion (91%) was reported on the state income tax return and $364 billion (86%, preliminary) on the federal income tax return. Excludes employer provided health and pension benefits.

Dividends, Interest, Rent, Royalties and Estate ($52 billion)   State tax data published by the IRS for tax year 2021 grown to 2022 based on data from all state income tax returns filed for tax years 2021 and 2022. Reported amounts adjusted for misreporting and non-reporting based on the most recent IRS tax gap study: dividends-interest (4% misreporting percentage), estates (12%) and rent-royalties (53%).

Capital Gains ($46 billion)   State tax data published by the IRS for tax year 2021 grown to 2022 based on state income tax return data. Reported amounts are adjusted for misreporting (12%).

Business Income ($75 billion)   Includes S corporation and partnership income (federal Schedule E) and self-employment income (Schedule C). State tax data published by the IRS for tax year 2021 grown to 2022 based on data from state income tax returns. Reported amounts are adjusted for misreporting and non-reporting based on IRS tax gap study: S corporation/partnerships (14%) and self-employment (50%).

IRAs and Pensions ($73 billion)   IRA withdrawals use state tax data published by the IRS for tax year 2021 grown to 2022 based on federal income tax returns. Total income from defined benefit (DB) and defined contribution (DC) pensions use (1) the annual U.S. Census DB Pension Survey, (2) state data published by IRS and (3) national DB and DC pension withdrawals reported in the NIPAs (NIPA Tables 7.20 to 7.25).

Social Security ($56 billion)   Published data from the U.S. Social Security Administration (also published in the NIPAs) for all recipients. Includes retirement and disability payments.

Veterans Benefits and SNAP   Published data from the NIPAs for all recipients. For 2022, Veterans' Benefits were $4.8 billion and the Supplemental Nutrition Assistance Program (SNAP) was $6.0 billion.

Housing Vouchers   Published data from the U.S. Department of Housing and Urban Development.

Refundable Tax Credits   Published data from NIPAs for refundable portion of Earned Income Tax Credit (EITC, $2.2 billion) and Child Tax Credit (CTC, $2.9 billion).

Unemployment Compensation and Other   Published data from the NIPAs for all recipients (Table SA35). Other includes Temporary Assistance for Needy Families (TANF), Women-Infants and Children (WIC) and alimony (ACS only).

Cash Income excludes filers that reported net negative adjusted gross income (AGI) on the federal income tax return. Certain tax filers will report losses carried forward from prior years that cause reported AGI to be negative, and those filers cannot be separated from filers with negative net income for the reporting tax year.