Pennsylvania

#30

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
30 –	35 ▼ 1	34 ▲ 1	18 –	11 ▲ 1	35 ▼ 1

Pennsylvania has a low, flat state-level individual income tax rate of 3.07 percent, but many residents are subject to local earned income taxes imposed by municipalities and school districts. Although these taxes apply mainly to wages and other earned income rather than the broader state income tax base, they can significantly increase tax liability in certain jurisdictions within the Commonwealth. Additionally, Pennsylvania maintains an uncompetitive "convenience of the employer rule," which can lead to double taxation for remote employees working for businesses located in the Commonwealth—ultimately a disincentive for businesses to locate in the state if they want to be able to hire across the country. Pennsylvania also requires individual income tax filing and withholding for nonresidents working even a single day in the state.

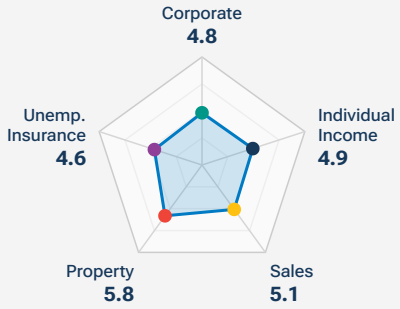
Pennsylvania's corporate income tax rate is unusually high at 7.49 percent, but it is slowly phasing down to a competitive 4.99 percent. Pennsylvania is among the very few states to significantly cap net operating loss carryforwards, limiting them to 50 percent of taxable income in tax year 2026. Legislation enacted in 2025 will phase this cap up to 80 percent by 2029. The Commonwealth is decoupled from federal bonus depreciation—Section 168(k)—which permanently allows immediate full expensing of qualified machinery and equipment investments. The state is also decoupled from Section 174A, which permanently restores full expensing for domestic research and development costs. Additionally, it limits Section 179 expensing for pass-through businesses to $1.25 million in annual expenses, whereas most states offer $2.56 million. Conformity to these provisions could improve the Commonwealth's tax competitiveness.

Pennsylvania's local taxes are among the most complex and burdensome in the country. Localities with existing gross receipts taxes are allowed to retain them, though new local gross receipts taxes cannot be created. Local governments, meanwhile, operate under a patchwork of different state-imposed tax rules, with Philadelphia possessing unique authority given to no other jurisdiction.

Pennsylvania is one of only five states that still impose an inheritance tax, making the state less attractive to high-net-worth individuals.

Component scores

out of 10



Pennsylvania and its neighbors

Overall rank, 2027 Index, with change from 2026

Delaware	#22	▼ 1
West Virginia	#29	▲ 6
Pennsylvania	**#30**	–
Ohio	#36	▲ 2
Maryland	#44	▲ 1
New Jersey	#48	▲ 1
New York	#50	–