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POLICY SPOTLIGHT

Reversing Pennsylvania's Outmigration

Tax, housing, and labor reforms to grow the Commonwealth

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Americans made nearly 34 million interstate moves between 2018 and 2023, redistributing population, income, and economic activity among the states. Pennsylvania ranked 33rd in net interstate migration, losing 69,000 residents and nearly $10 billion in income.[1] Research suggests taxes, economic freedom, and housing supply are key factors behind the state's migration outcomes. Pennsylvania faces competitive pressure on those fronts: Its overall tax competitiveness ranks 36th nationally, and its per-capita housing permitting rate runs at roughly one-third the rate of neighboring Delaware.

Tax Policy Reforms

The competitive landscape

Pennsylvania ranks 36th out of 50 states on the Tax Foundation's State Tax Competitiveness Index, with weak scores on individual income, corporate, and unemployment insurance taxes. Local income taxes often push the combined income tax burden above 6%, while high corporate taxes and a complex local tax structure make the state less competitive than neighboring West Virginia.

West Virginia	Reduced top income tax rate from 5.12% to 4.58% in recent years.
Pennsylvania	Flat income tax rate of 3.07%; local income taxes add up to 3% in many jurisdictions. Corporate tax rate cut from 9.99% to 7.49%, phasing down to 4.99% but still among the highest in the region. Ranks 36th on State Tax Competitiveness Index.

Recommended reforms

- **Maintain the corporate income tax reduction** of 0.5 percentage points per year, to reach 4.99%.
- **Cap combined state and local income tax rates** and streamline local tax administration.
- **Reduce unemployment insurance tax burdens** to bring costs in line with regional peers and lower a significant nonwage cost of employment that discourages hiring.

[1] See Jack Salmon, "Interstate Migration Trends in the United States, 2018–2023: Where Are Americans Moving, and Why?" (Mercatus Policy Brief, Mercatus Center at George Mason University, July 2026). For the full analysis including sources, scan the QR code on the next page.

Housing Policy Reforms

The supply gap

Pennsylvania issues fewer than 2 housing permits per 1,000 residents annually—one-third the rate of neighboring Delaware (approximately 5.6 per 1,000). Tight supply raises housing costs, reduces affordability for incoming residents and workers, and diminishes Pennsylvania's attractiveness relative to peer states. The barriers are not primarily financial, but regulatory. Slow permitting processes impose developer costs that further raise final housing prices.

Recommended reforms

- **Streamline discretionary zoning approvals** through standards-based review.
- **Develop model zoning and land use ordinance standards** that municipalities can adopt directly.
- **Establish a housing case management system** that improves coordination between agencies and reduces the cost and duration of the approval process.
- **Allow licensed professionals to self-certify** that they comply with all applicable zoning, subdivision, and land development requirements.
- **Limit standing to appeal development decisions** to parties with a direct, demonstrable interest.

Labor Market Freedom Reforms

The licensing burden

Pennsylvania has a heavily regulated labor market. Unlike neighboring West Virginia and many of the fastest-growing states in the South and Mountain West, Pennsylvania does not have a right-to-work law and continues to maintain labor market institutions that increase hiring and investment costs. States with greater labor market flexibility generally see stronger job growth, more business formation, and greater in-migration.

The portable benefits gap

More than a million Pennsylvanians work independently, yet many lack access to benefits because companies risk legal liability when providing benefits to nonemployees. Importantly, survey evidence shows that 80.3% of self-employed workers in the United States want to remain independent while 80.1% want access to portable benefits. Portable benefits legislation in the state would allow workers to access benefits without compromising worker flexibility or exposing companies to legal risk.

Recommended reforms

- **Enact a right-to-work law** to protect worker choice, prohibiting mandatory union membership or dues.
- **Expand universal recognition of out-of-state licenses** to eliminate unnecessary barriers to recognizing out-of-state licenses to attract talent and support workforce mobility.
- **Enact portable benefits legislation** that allows workers to create portable benefits accounts while enabling firms to contribute without triggering worker reclassification rules. This reform would modernize workforce policies, empowering businesses to innovate and enabling workers to thrive.

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