

3 How Do We Currently Use Taxes?

A good understanding of how taxes *are* used in Pennsylvania and in your own community is necessary if you are to understand how taxes *could* be used locally. Pennsylvania local tax codes provide for a wide variety of local taxes at the municipal (township, borough, and city) and school district level, and a much smaller variety for county governments. Understanding these taxes is important, as is knowing how and why your local government and school district rely upon specific local taxes.

This workbook is intended as a third step in a local dialogue about which local taxes should be used in your community. It helps you understand how local taxes currently are used in your community and explores some of the basic factors affecting how much tax revenue your community requires. It then helps you examine how much your local government relies upon different taxes and why it relies upon some more than others.

A set of the school district, county, or municipality (city, borough, or township) information required by this workbook already has been organized by exercise, and is available at <http://www.psu.edu/dept/aers/ltoc/> on the World Wide Web. Most of this information is from the U.S. Census and from school district and local government audit reports. Before beginning, you will need to decide whether you will do the exercises for your school

district, county government, or municipal government. Do all the exercises for that jurisdiction alone. To save space, workbooks in the series will be referred to by number, not by formal name. “Workbook 1,” for example, refers to *Tax Fairness: What’s Fair for Our Community?*, the first workbook in the series.

What Affects How Much Tax Money Our Community Needs?

The amount of local tax revenue needed by a local government or school district is a result of several interrelated factors: the type of services provided by the local government or school district and how cost-efficiently they are provided (and thus the total amount of money needed); and the amount of nontax revenue the local government or school district receives from other sources (which determines how much it must collect from local taxes). The influence of each will be explored in turn.

How do the services provided affect local taxes?

1. Types of services

The number and extent of services provided by a local government or school district have important influences on the need for local taxes; if governments and school districts provided no services, they

would have little need for money and thus little need to collect taxes. Some services are provided because they are mandated by state law. Local road maintenance (with the exception of state roads), for example, is the responsibility of townships, boroughs, and cities. Other infrastructure needs, such as sewerage and public water, similarly are the responsibility of these municipalities.

County governments are mandated by state law to provide a range of services, including human services, corrections, and courts. In fact, federal and state mandates dictate how 80 percent of county budgets are spent, leaving counties discretionary control over only about 20 percent of their budget.

Other services are provided by local governments as a result of citizen demands or needs. The range and extent of services provided depend, in part, upon the number of residents in the jurisdiction, the age and income distribution of residents, the type and relative number of businesses in the jurisdiction, and the local government's proximity to metropolitan areas. The amount of services provided by boroughs generally is greater than that provided by townships for some of these reasons. Services may be needed in one community but not in another because the communities are different.

2. Efficiency

How cost-efficiently services are provided also affects the need for local taxes. Greater efficiency lowers the cost of providing the service, reducing the need for local taxes. Some townships, boroughs, and cities have found that cooperating with neighboring municipalities allows them to provide a wider range of services for less money. How well this works depends a lot upon the communities and the specific type of services involved, how arrangements are made, and local leadership.

3. How services are paid for

How services are paid for also affects the need for local taxes. Local governments receive dedicated funding from the federal

and state governments to help pay for some of the mandated services they provide. Municipalities in Pennsylvania, for example, receive a direct share of the commonwealth's gasoline tax to help pay for road maintenance and repair. These funds are called "Liquid Fuels" funds, and by law can be used only on road work. Counties receive similar dedicated funds from the federal and state governments to help pay for the services they are required to provide.

An issue among many local officials is whether this dedicated funding is enough to cover the costs of federal and state mandates. When a local government or school district is required to provide a new service but receives no additional funds from the state or federal government to pay for these new costs, it has little choice but to cut services, raise taxes, or tighten its belt.

Some local services, such as public sewerage and public water, largely are paid for through user fees designed to cover the entire cost of the service. Other services are paid for by beneficiaries through special taxing districts. Some boroughs and townships, for example, pay for street lights in residential neighborhoods with a special "street light" tax (based on the real property tax) assessed only on residents of those neighborhoods with street lights. Tax dollars from property owners in other parts of these townships are not used for the lights. Services that do not have a dedicated source can affect the need for general taxes.

4. Comparing local service expenditures

Comparing the total expenditures per capita of several local governments or school districts can be a useful beginning place for local discussion about the type and range of services your school district and local governments provide. This information is available from *Local Government Financial Statistics* (for local governments), *Selected Expenditure Data for Pennsylvania Public Schools* (for school districts), or from the Web address <http://www.psu.edu/dept/aers/ltoc/>.

For the purposes of this comparison, select other nearby local governments or school districts to which you commonly compare the jurisdiction you are studying. When analyzing municipalities, comparisons with similar types of municipalities (i.e., "borough to borough" or "township to township") often are the most useful because population density and other characteristics are more similar. Use Exercise 1a if you are examining your county or municipal government and Exercise 1b if you are examining your school district's expenditures. Note that these numbers are not adjusted for inflation.

Two caveats need to be remembered when interpreting the information in Exercise 1a. First, the per capita values are based on the number of *residents*, not the number of people who may *work, recreate, or make service demands* in your municipality or county. If your community is a center of employment with a lot of workers commuting into it, these calculated values may inaccurately assign the costs of services to residents even though some local government expenditures can be related to the in-commuters. If your community provides sewerage or water at cost to other communities, this also can make the expenditures per capita appear high. Second, the number of residents used to calculate the per capita values comes from the 1990 U.S. Census of Population, even though the expenditures are from 1995. If your municipality has had a lot of growth or decline since 1990, the per capita values can be misleading because they assume that you have the same number of residents as in 1990 even though your municipal budget may have declined or increased since then due to population change.

In Workbook 2, Table 5, you calculated the percentages of your local government's or school district's budget that go to different local services. That information might be helpful in discussing what you found in Exercise 1a or 1b.

Exercise 1a: Comparison of Per Capita Local Government Expenditures

_____ County, Township, Borough, or City		
All table references are to <i>Local Government Financial Statistics</i> . (Statewide averages, for comparison, are in italics.)		
	1990	1995
1. What were the total Expenditures Per Capita of your local government in 1990 and 1995? <i>(Municipal—Table VII, Column 5)</i> <i>(County—Table IV, Column 5)</i>	<i>municipal \$233.83</i> <i>county \$255.05</i>	<i>municipal \$294.83</i> <i>county \$356.43</i>
2. What were the Expenditures Per Capita of neighboring or nearby local governments in 1990 and 1995? <i>(Municipal—Table VII, Column 5)</i> <i>(County—Table IV, Column 5)</i>		
(local government)		
(local government)		
(local government)		
(local government)		

Exercise 1b: Comparison of Per Pupil School District Expenditures

_____ School District		
All table references are to <i>Selected Expenditure Data for Pennsylvania Public Schools</i> . (Statewide averages, for comparison, are in italics.)		
	1990	1995
1. What were the total Current Expenditures (Per Pupil) of your school district in 1990 and 1995? <i>(Table 5, Column 6)</i>	<i>\$5,101.37</i>	<i>\$6,345.45</i>
2. What were the Current Expenditures (Per Pupil) of neighboring or nearby school districts in 1990 and 1995? <i>(Table 5, Column 6)</i>		
(local school district)		
(local school district)		
(local school district)		
(local school district)		

Discussion questions:

1. How do the per capita expenditures in your local government or per pupil expenditures in your school district in 1990 compare to those in 1995? Are they the same or different? If they are different, what services or costs might have changed? How might demand or need for these have changed? Why else might they be different? How might they change in the future?
2. How do the expenditures in your local government or school district compare to the expenditures in neighboring or nearby jurisdictions?
3. What services does your local government or school district provide? What services do other nearby governments or school districts provide?
4. Who demands these services? Who benefits from these services? Why does your school district or local government provide these services?
5. What impact might nonresidents have on the services your local government provides? These could include people commuting to (or through) your community to work or school; other communities who buy sewerage or water from your local government; or nonresidents who come to your community for recreation (such as for amusement parks, sports events, hunting, fishing, etc).
6. How accurate do you think these numbers are? Has there been much population growth or decline in your community since 1990?
7. In Workbook 2, you developed a population pyramid for your community. How might expenditures per capita change in the future as your population ages and changes?
8. How might the expenditures your local government or school district provides affect the need for local taxes?

How important are nontax revenues and local taxes in our community?

Another important influence on the amount of tax dollars needed is how much nontax revenue is collected by the local government or school district. Local jurisdictions pay for services with a mix of nontax and local tax revenue. Revenue needed for services that cannot be obtained from nontax sources must be raised through local taxes. Both nontax and tax sources are important. Each will be discussed in turn.

1. Nontax revenues

A popular misconception is that all the revenue received by local governments and school districts comes from local taxes. In fact, local taxes account for only around half of all revenues to Pennsylvania school districts and municipalities, and about a third of all revenues to counties. Revenues from the state and federal governments provide a significant amount of revenues to most Pennsylvania local governments and school districts. Forty-four percent of county revenues in Pennsylvania comes from these sources, as does 42 percent of school district revenues. This revenue ultimately comes from taxpayers (through state and federal taxes), but it does help keep local taxes lower than they would be without these transfers. Other local nontax revenues come from licenses and fees, interest from investments, and user charges for services, such as sewerage and water. The more nontax revenue a local government or school district is able to collect, the less it needs to rely on local taxes, as long as these nontax revenues do not bring new responsibilities.

2. Local taxes

Local taxes historically have been used by local officials in Pennsylvania to keep their budgets balanced. At the end of each year, officials consider how much money their local government or school district will need during the upcoming year and where those monies will come from. The amount of this needed revenue that

Exercise 2a: Importance of Nontax and Tax Revenues for Local Governments

_____ County, Township, Borough, or City		
All table references are to <i>Local Government Financial Statistics</i> . (Statewide averages, excluding Philadelphia, are in italics. White areas must be calculated.)		
	1990	1995
1. What was the amount of Total Revenues received by your local government in 1990 and 1995? (<i>Table I, Column 2</i>)		
2. What was the amount of Total Taxes Collected by your local government during these years? (<i>Table I, Column 3</i>)		
3. What percentage of Total Revenues was provided by Total Taxes Collected in these years? (<i>row 2 ÷ row 1 X 100</i>)	county 36% municipal 47%	county 30% municipal 47%
4. What percentage of Total Revenues was provided by nontax revenues? (<i>100% – answer in row 3</i>)	county 64% municipal 53%	county 70% municipal 53%
From the information you have, choose several nontax revenue sources that seem large or important, and calculate their contribution to total revenues.		
5. What was the total nontax revenue contributed by _____?		
6. What percentage of Total Revenues was provided by the source in row 5? (<i>row 5 ÷ row 1 X 100</i>)		
7. What was the total nontax revenue contributed by _____?		
8. What percentage of Total Revenues was provided by the source in row 7? (<i>row 7 ÷ row 1 X 100</i>)		

Exercise 2b: Importance of Nontax and Tax Revenues for School Districts

_____ School District		
All table references are to <i>Selected Revenue Data and Equalized Mills for Pennsylvania Public Schools</i> . (Statewide averages, for comparison, are in italics. White areas must be calculated.)		
	1990	1995
1. What was the amount of Total Revenue received by your school district in 1990 and 1995? (<i>Table 2A, Column 1</i>)		
2. What was the amount of Total Local Taxes collected by your school district during these years? (<i>Table 2A, Column 2</i>)		
3. What percentage of Total Revenue was provided by Total Local Taxes in these years? (<i>row 2 ÷ row 1 X 100</i>)	54%	55%
4. What was the total nontax revenue contributed by state aid? (<i>Table 2B, Column 1</i>)		
5. What percentage of Total Revenue was provided by state aid? (<i>row 4 ÷ row 1 X 100</i>)	43%	38%

cannot be raised from nontax sources (such as from state aid, license fees, fines, grants, and user fees) has to be collected from local taxes.

It is useful to understand the percentages of total revenues that your own local government receives from nontax sources and from local taxes. The data is available from *Local Government Financial Statistics, Selected Expenditure Data for Pennsylvania Public Schools*, or <http://www.psu.edu/dept/aers/lto/>. Use Exercise 2a to look at the relative importance of nontax and tax sources to your county or municipal government. Use Exercise 2b to examine the same information for your community's school district.

What does this mean for tax dollars needed in our community?

The type and extent of services your local government or school district provides and the nontax revenues it is able to collect affect the amount of local tax dollars that must be collected every year. The amount of local tax revenues collected per capita in your community can be seen in Exercise 3, which compares total tax collections per capita in your own county or municipal government (Exercise 3a) or school district (Exercise 3b) with taxes per capita in nearby jurisdictions. Select other nearby local governments or school districts to which you commonly compare your own jurisdiction.

Be a little cautious in interpreting these numbers. If your community contains a large percentage of businesses and farms (which likely pay a good share of the local taxes), the per capita figures may appear high while the average bill received by homeowners may be much smaller than the per capita average. In addition, these *are* averages; some taxpayers in your community are paying much more than these figures, while others will be paying less. How this tax burden is distributed among your community's taxpayers will be examined in Workbook 4. The amount of nontax revenue your local government or school district receives also affects how much tax money it needs. Note that these numbers are not adjusted for inflation.

Discussion questions:

1. What surprised you about this information? Why?
2. How much of your local government or school district's total revenues came from sources other than local taxes in 1995?
3. How does your local government or school district's reliance on these other revenue sources in 1990 compare to that in 1995? If the level of reliance is different, why might it have changed? What implication did this change have for local taxes?
4. What are some of these nontax revenue sources, and which are most important? Over which sources do local officials have much control? Who controls the other revenue sources?
5. What can the local government or school district do—or what is it already doing—to increase the amount of nontax revenue it receives?
6. How much of your local government's or school district's total revenues came from local tax sources in 1995?
7. How does your local government or school district's reliance on local taxes in 1990 compare to that in 1995? Was the level of reliance the same or different? If it was different, why might it have changed?

Exercise 3a: Taxes Per Capita Comparison

_____ County, Township, Borough, or City		
All table references refer to <i>Local Government Financial Statistics</i> . (Statewide averages, for comparison, are in italics.)		
	1990	1995
1. What were the total Taxes Per Capita collected by your local government in 1990 and 1995? <i>(Municipal—Table VII, Column 6)</i> <i>(County—Table IV, Column 6)</i>	<i>municipal \$98.22</i> <i>county \$85.34</i>	<i>municipal \$124.61</i> <i>county \$116.11</i>
2. What were the Taxes Per Capita collected by neighboring or nearby local governments in 1990 and 1995? <i>(Municipal—Table VII, Column 6)</i> <i>(County—Table IV, Column 6)</i>		
(county, township, borough, or city)		
(county, township, borough, or city)		
(county, township, borough, or city)		
(county, township, borough, or city)		

Exercise 3b: Taxes Per Pupil Comparison

_____ School District		
Note that this information comes from two different publications. (Statewide averages, for comparison, are in italics. White areas must be calculated.)		
	1990	1995
1. What were the total Local Taxes collected by your school district in 1990 and 1995? <i>(Selected Revenue Data and Equalized Mills for Pennsylvania Public Schools, Table 2A, Column 2)</i>		
2. What was the total Average Daily Membership (pupils) in your school district in 1990 and 1995? <i>(Selected Expenditure Data for Pennsylvania Public Schools, Table 2A, Column 1)</i>		
3. What were the Taxes Per Pupil collected in your school district in 1990 and 1995? <i>(row 1 ÷ by row 2)</i>	<i>\$2,884.04</i>	<i>\$3,793.50</i>
4. What were the Taxes Per Pupil collected by neighboring or nearby school districts in 1990 and 1995? <i>(calculate similarly to rows 1 through 3)</i>		
(school district)		
(school district)		
(school district)		
(school district)		

Discussion questions:

1. What surprised you about the taxes per capita or per pupil in your community? Why?
2. How do the taxes per capita or taxes per pupil in 1990 compare to those in 1995? Are they the same or different? If they are different, why might they be different? Has your population changed? Services changed? Nontax revenue changed?
3. How do the taxes per capita or per pupil in your community in 1995 compare to the expenditures per capita or per pupil in your community (explored in Exercise 1a and 1b)? How do the taxes per capita or per pupil in other jurisdictions compare to their expenditures per capita or per pupil?
4. How do your community's taxes per capita or taxes per pupil in 1995 compare to the taxes per capita or per pupil in other nearby jurisdictions? Why do you think there are differences?
5. What strategies does your community use to keep taxes low? What strategies do other communities use?
6. What strategies does your community use to keep service expenditures low? What strategies do other communities use?

Which Local Taxes Are Used in Our Community?

As previous sections have discussed, the total amount of local tax revenue needed by your community depends upon the type and extent of services provided and the amount of nontax revenues the local government or school district is able to generate from state and federal transfers, user fees, and other nontax revenue sources. Whatever monies required to fund services that cannot be collected from these other revenue sources must come from local taxpayers.

The decision about *which* local taxes to use and *how much* should be collected by each tax has important implications for how the local tax burden is distributed across taxpayers, and hence on how much local taxes individual taxpayers end up paying. Tradition, as exemplified by the statement “we’ve always used the XX local tax, and our residents are used to it,” often plays a big role in determining which taxes are used, as do a variety of tax criteria including fairness, adequacy, adaptability, administrative ease and economy, economic effects, and social acceptability (these were discussed in Workbook 1). The tax base also plays an important role by affecting how much revenue any one tax rate can generate. If a community has a large tax base, it will be able to collect sufficient tax revenues more easily (and perhaps with fewer taxes) than if it has a small tax base.

Why is the tax base important?

A *tax base* is the total value of the items (or the total number of people) on which a local tax is assessed. Each tax has its own tax base. The real property tax base, for example, is the total assessed value of all taxable real property in a community (the sum of the assessed value of all homes; all commercial, farm, and industrial properties; and mineral rights). The tax base for the occupational privilege tax (levied equally on all people who work in the municipality) is the number of adults who work in that community, and so forth.

The size of the tax base is important because it helps determine how much revenue any one tax rate can generate. A larger tax base means that tax rates can be lower to raise the same amount of tax revenue for a local government or school district. The more people who work in your municipality, for example, the larger your occupational privilege tax base and thus the more tax revenue your municipality could collect from the tax.

A good example of the influence of tax base on real property tax rates and tax bills can be found in Adams County. Liberty Township and York Springs Borough both are located in Adams County, but had very different real property tax bases in 1995; Liberty Township had a total real property tax base of \$45,496,000 (market value per capita was \$48,503), while York Springs Borough's real property tax base was only \$14,031,000 (market value per capita was \$25,651). Both municipalities collected approximately the same amount of real property tax in 1995 (\$24,896 and \$24,993, respectively), but had to use different millage rates to do so; Liberty levied 1.2 mills and York Springs levied 4.735 mills (almost four times greater).

This difference in tax base makes a real difference for property owners; a homeowner with a property worth \$100,000 in Liberty Township paid about \$120 a year in real property tax to the municipality, while a homeowner with a similarly valued property in York Springs Borough paid about \$473.50. The difference in the tax bill is directly attributable to the size of the tax base; Liberty's larger tax base allows it to use a lower tax rate to raise the same amount of tax revenue as York Springs, which has to tax its residents at a higher rate.

Property owners in the jurisdictions with a larger tax base benefit because they bear less of the tax burden, all things being equal. This also is one reason that Pennsylvania allocates state monies to local school districts; wealthier school districts have a much easier time generating tax revenues than do poorer districts, and state subsidization of schools helps to

offset this inequity. A 1992 study of Pennsylvania school districts found that taxpayers in poorer districts generally end up facing higher tax rates than taxpayers in wealthier districts simply because their districts' tax bases are not as big (see Table 1). Local governments and school districts have to carefully consider the size of their tax bases when they decide which taxes to use, because these affect the choices they have available to them.

It is useful to compare the real property tax base per capita (per person) of your local government (Exercise 4a) or school district (Exercise 4b), to that of neighboring or nearby jurisdictions. A larger tax base per person means the local government can generate a larger amount of real property tax revenue with a given tax rate (and thus have a smaller tax impact on individual taxpayers) than can a municipality with a smaller tax base. The data for

comparison are available in *Local Government Financial Statistics, Selected Expenditure Data for Pennsylvania Public Schools*, or at <http://www.psu.edu/dept/aers/ltoc/>. Note that these numbers have not been adjusted for inflation.

Table 1. Influence of Tax Base on School District Real Property Taxes in Pennsylvania, 1990–91 (excludes Pittsburgh and Philadelphia)

	1990–91 School District Property Wealth per Pupil Decile									
	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest
Market Value Per Pupil	\$65,138	\$80,862	\$93,196	\$106,757	\$124,741	\$143,107	\$167,884	\$198,236	\$238,464	\$368,639
Personal Income Per Pupil	\$39,968	\$48,761	\$54,924	\$61,295	\$71,469	\$74,557	\$82,539	\$97,877	\$102,623	\$155,824
Real Estate Taxes Per Pupil	\$1,149	\$1,429	\$1,543	\$1,734	\$2,033	\$2,411	\$2,732	\$3,238	\$4,056	\$5,208
Local Tax Effort (Mills)	23m	24m	23m	21m	21m	21m	20m	20m	19m	16m
Total Spending Per Pupil	\$4,667	\$4,904	\$4,982	\$4,996	\$5,191	\$5,330	\$5,524	\$5,980	\$6,600	\$7,354

Source: National Conference of State Legislatures, 1992.

Exercise 4a: Real Property Tax Base (Market Value) Per Capita Comparison

_____ County, Township, Borough, or City		
All table references are to <i>Local Government Financial Statistics</i> . (Statewide averages, for comparison, are in italics.)		
	1990	1995
1. What was the Market Value Per Capita of your local government in 1990 and 1995? (Municipal—Table VII, Column 7) (County—Table IV, Column 7)	<i>municipal \$28,407</i> <i>county \$27,182</i>	<i>municipal \$47,653</i> <i>county \$34,130</i>
2. What were the Market Values Per Capita of neighboring or nearby local governments in 1990 and 1995? (Municipal—Table VII, Column 7) (County—Table IV, Column 7)		
(county, township, borough, or city)		
(county, township, borough, or city)		
(county, township, borough, or city)		
(county, township, borough, or city)		

Exercise 4b: Real Property Tax Base (Market Value) Per Pupil Comparison

_____ School District		
Note that this information comes from two different publications. (Statewide averages, for comparison, are in italics. White areas must be calculated.)		
	1990	1995
1. What was the Market Value in your school district in 1990 and 1995? <i>(Selected Revenue Data and Equalized Mills for Pennsylvania Public Schools, Table 5, Column 8)</i>		
2. What was the total Average Daily Membership (pupils) in your school district in 1990 and 1995? <i>(Selected Expenditure Data for Pennsylvania Public Schools, Table 2A, Column 1)</i>		
3. What was the Market Value Per Pupil in your school district in 1990 and 1995? <i>(row 1 ÷ by row 2)</i>	\$138,072.85	\$189,012.89
4. What were the Market Values Per Pupil in neighboring or nearby school districts in 1990 and 1995? <i>(calculate similarly to rows 1 through 3)</i>		
(school district)		
(school district)		
(school district)		
(school district)		

Discussion questions:

1. How does your local government or school district's real property tax base (market value) per capita or per pupil in 1990 compare to that in 1995? Are they very different or the same? If they are different, why might it have changed? Has there been new development? Factory closings? Other real property change?
2. How does your community's real property tax base (market value) per capita or per pupil in 1995 compare to the real property tax base per capita in nearby communities? Are they different or the same? If they are different, why might they be so?
3. What implications does this have for the size of the real property tax rates necessary to generate revenue in your community, compared to the tax rates needed in other jurisdictions?
4. What impact might the size of your real property tax base have on taxpayers in your community, compared to the impact of tax bases in nearby communities?
5. This exercise focused on the real property tax base. What other important tax bases does your community have? Are they large or small? How might they change in the future?

How much are different taxes relied upon in our community?

Which specific taxes are used by your local government and school district, and how much revenue is collected from each one, have important implications for how the tax burden is distributed in your community. If most local tax revenue is collected from the earned income tax, for example, the tax burden primarily will be distributed among employed working-age people. The choice of local taxes affects how much of the local tax burden is shared with outsiders (such as through the occupational privilege or amusement taxes), with property owners, with businesses, with working people, and so forth. It has an obvious impact on the fairness and efficiency of the local tax system, and is a key choice involved in tax reform.

Exercise 5 (see next page) is a useful way of looking at which local taxes your municipality, county, or school district currently relies upon, and how this reliance has changed over the past 5 years. It shows you how taxes currently are used in your own community. The data is available from the same sources as in the earlier exercises. If you are unfamiliar with some of these taxes, see Table 2a. Not all taxes are available to each type of local jurisdiction; county governments, for example, have only a few local taxes available as options (see Table 2b). This information will be examined more in later workbooks.

Table 2a. Taxes Available to Local Governments and School Districts in Pennsylvania

Local governments and school districts can levy a variety of taxes, not all of which are available to counties. The most important ones include:

Real Property Tax

Tax levied on the value of real estate. Sometimes called the “real estate” tax.

Occupation Tax

Tax levied on residents’ occupations. Can be levied as a flat rate tax or as a millage.

Occupational Privilege

Tax on the privilege of working in the jurisdiction.

Per Capita Tax

Tax levied on adults who live in the jurisdiction.

Earned Income Tax

Tax on residents’ earned income and net profits. Unearned income such as dividends, pensions, and social security is exempt. People who work in the jurisdiction but live elsewhere pay if their home municipality or school district doesn’t levy this tax.

Realty Transfer Tax

Tax on the sale price of real estate. Sometimes called the “real estate transfer” tax.

Amusement Tax

Tax levied on the admissions prices to places of amusement, entertainment, and recreation. Only schools using the amusement tax before June 30, 1997, are allowed to use this tax.

Mechanical Devices Tax

Tax levied on coin-operated machines, such as jukeboxes, pinball machines, and video games.

Mercantile Tax

Tax levied on the gross receipts of businesses. Since December 1, 1988, no new municipalities have been allowed to levy this tax.

Personal Property Tax

Tax levied on the value of mortgages, other interest-bearing obligations and accounts, public loans, and corporate stocks.

Table 2b. Local Taxes Available to Types of Jurisdictions in Pennsylvania *

	3rd-Class Through 8th-Class Counties	3rd-Class Cities	Boroughs	Townships of 1st Class	Townships of 2nd Class	School Districts Under Act 511	Under Act 50 of 1998
Real Property	X	X	X	X	X	X	X
Occupation	X ¹	X	X	X	X	X	
Occupational Privilege ²		X	X	X	X	X	
Per Capita ²	X ¹	X	X	X	X	X	
Earned Income ²		X	X	X	X	X	X
Realty Transfer ²		X	X	X	X	X	X
Amusement ²		X	X	X	X	X ³	X ³
Mechanical Devices		X	X	X	X	X	
Mercantile ⁴		X	X	X	X	X	X
Personal Property	X						

* "X" = tax is available.

¹ Available only to 4th- through 8th-class counties. Can levy one or the other, but not both at the same time.

² If both the municipality and school district levy this tax, the total amount must be split equally between them.

³ Cannot collect more revenue from the Amusement tax than was collected in the year ending 6/30/97.

⁴ If not already in use on 11/30/98, it cannot be levied. Jurisdictions using it cannot raise tax rates above those in use as of 11/30/88.

Exercise 5: Relative Importance of Different Taxes

_____ County, Township, Borough, City, or School District		
(Statewide averages, excluding Philadelphia, are in italics. White areas must be calculated.)		
	1990	1995
1. What was the amount of Total Taxes Collected by your local government or school district during these years?		
2. What was the amount of Real Property Taxes collected by your local government or school district in these years?		
3. What percentage of the Total Taxes Collected was provided by Real Property Taxes in these years? (<i>row 2 ÷ row 1 X 100</i>)	<i>county 93.6%</i> <i>municipal 50%</i> <i>schools 78%</i>	<i>county 92.3%</i> <i>municipal 49%</i> <i>schools 79.1%</i>
4. What was the amount of Occupation Tax collected by your local government or school district in these years?		
5. What percentage of the Total Taxes Collected was provided by Occupation Taxes in these years? (<i>row 4 ÷ row 1 X 100</i>)	<i>county 0.5%</i> <i>municipal 0.1%</i> <i>schools 2.1%</i>	<i>county 0.5%¹</i> <i>municipal 0.1%</i> <i>schools 2.0%</i>
6. What was the amount of Per Capita Tax collected by your local government or school district in these years?		
7. What percentage of the Total Taxes Collected was provided by Per Capita Taxes in these years? (<i>row 6 ÷ row 1 X 100</i>)	<i>county 0.5%</i> <i>municipal 1.0%</i> <i>schools 0.8%</i>	<i>county 0.5%</i> <i>municipal 1%</i> <i>schools 0.5%</i>

	1990	1995
8. What was the amount of Personal Property Tax collected by your county government in these years?		
9. What percentage of the Total Taxes Collected was provided by Personal Property Taxes in these years? (row 8 ÷ row 1 X 100)	county 5.4% %	county 4.3% %
10. What was the amount of Earned Income Tax collected by your local government or school district in these years?		
11. What percentage of the Total Taxes Collected was provided by Earned Income Taxes in these years? (row 10 ÷ row 1 X 100)	municipal 31.9% schools 8.1% %	municipal 32.9% schools 7.4% %
12. What was the amount of Realty Transfer Tax collected by your local government or school district in these years?		
13. What percentage of the Total Taxes Collected was provided by Realty Transfer Taxes in these years? (row 12 ÷ row 1 X 100)	municipal 5.7% schools 2.0% %	municipal 5.2% schools 1.4% %
14. What was the amount of Mercantile/Business Privilege Tax collected by your local government or school district in these years?		
15. What percentage of the Total Taxes Collected was provided by Mercantile/Business Privilege Taxes in these years? (row 14 ÷ row 1 X 100)	municipal 6.7% schools 0.5% %	municipal 7% schools 0.5% %
16. What was the amount of Amusement Tax collected by your local government or school district in these years?		
17. What percentage of the Total Taxes Collected was provided by Amusement Taxes in these years? (row 16 ÷ row 1 X 100)	municipal 0.9% schools 0.1% %	municipal 0.7% schools 0.1% %
18. What was the amount of Occupational Privilege Tax collected by your local government or school district in these years?		
19. What percentage of the Total Taxes Collected was provided by Occupational Privilege Taxes in these years? (row 18 ÷ row 1 X 100)	municipal 1.6% schools 0.3% %	municipal 1.3% schools 0.2% %
20. What was the amount of All Other Taxes collected by your local government or school district in these years?		
21. What percentage of the Total Taxes Collected was provided by All Other Taxes in these years? (row 20 ÷ row 1 X 100)	municipal 1.6% schools 8.4% %	municipal 2.4% schools 8.8% %

¹ This is the total percent for *both* the Occupation and the Per Capita tax.

Discussion questions:

1. Are you surprised about the role of the different taxes in your community? Why or why not?
2. Which taxes are the most important to your local government or school district?
3. Which taxes are not used? Why might they not be used?
4. How might the tax base information you considered earlier be affecting the use of local taxes in your community?
5. Why do you think your community is using the taxes it does, instead of relying upon other taxes? How does this relate to the information you've been considering such as the population mix of your community, the ability to pay, the mix of local services provided, nontax revenues, and the tax base?
6. How does the mix of taxes relate to the services your local government or school district provides?
7. Which taxpayer groups do you think are most affected by these taxes?
8. In general, what can you say about how taxes are used in your community?

Further examination and discussion of how this mix of taxes affects individual local taxpayers in your community occurs in Workbook 4, the next workbook in this series.

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Local Taxes and Our Community: A Comprehensive Program on Local Taxes and Tax Reform

Pennsylvania's local tax codes provide a variety of different local taxes for use by municipalities and school districts. Communities can pick and choose the taxes that they feel are fairest and best for themselves, taking into account their local needs, values, and population. Understanding the available options and their effects on the community is important if local taxes are to be used appropriately.

The *Local Taxes and Our Community* series of workbooks is intended to help local officials and citizens move beyond stereotypes to better understand local taxes in their own community. The series is participatory and discussion-oriented, and extensively uses community-level information. It helps people collect and discuss accurate information about who lives in the community, who creates demands for local services (and thus affects the level of taxes), how groups in the community vary in their ability to pay local taxes, and how the different taxes may affect these people. It provides a basic background of available local tax options, so communities will know what choices they have, and explores the effects of those options on local residents and taxpayers. The series does not advocate for one tax over another, but instead tries to teach people objective local information so they can use their own experiences and values to make local tax decisions appropriate to their community.

For more information, contact your local Penn State Cooperative Extension office or access <http://www.psu.edu/dept/aers/ltoc/> on the World Wide Web.

Local Taxes and Our Community: Materials List

Workbook 1, *Tax Fairness: What's Fair for Our Community?*

Workbook introduces basic concepts of tax fairness and provides a common language for understanding why some taxes seem fairer than others.

Video, *Local Taxes in Pennsylvania: What's Fair?*

Introductory video on tax fairness, designed to complement Workbook 1, *Tax Fairness: What's Fair for Our Community?*

Workbook 2, *What's Going On in Our Community?*

Workbook to help you better understand your community, who creates demands for services, and who has the ability to pay local taxes. It also helps develop profiles of key taxpayer groups in your community.

Workbook 3, *How Do We Currently Use Taxes?*

Workbook to help you examine the current uses of local taxes in your community, including which taxes are being used, which public services are provided, the role of nontax revenue, and the size of the tax base.

Workbook 4, *How Do the Taxes We Use Affect Taxpayers?*

Workbook and computer spreadsheet to help you examine the effect of local taxes on key taxpayer groups in your community, and how this compares to the demand for services, the ability to pay, and other tax fairness principles.

Workbook 5, *What Should Be Our Local Tax Distribution?*

Workbook and computer spreadsheet to help you learn about the available tax alternatives and how these alternatives might affect various taxpayer groups, and to reach a community consensus on which taxes should be used.

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Prepared by Timothy W. Kelsey, associate professor of agricultural economics

This publication is intended strictly to help you know and understand more about local taxes. The material is general and educational, and is not intended to be legal advice nor to replace the need for such advice. If you need legal advice, you are encouraged to seek the aid of a competent professional in your area.

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