

4 How Do The Taxes We Use Affect Taxpayers?

An important concern about local taxes is how they affect taxpayers, including both how the tax burden is distributed across taxpayer *groups* (i.e., which groups end up paying the taxes), and how the mix of taxes affects *individual* taxpayers (i.e., how much a typical local taxpayer pays). The types of local taxes used and your community's level of reliance on them influence these effects. If your community uses only the earned income tax, for example, the local tax burden will be carried solely by people with earned income. Understanding the mix of local taxes and their impact on taxpayers is important when considering how local taxes can (or should) be changed.

This workbook is intended as a fourth step in your local dialogue about which local taxes your community should use. Earlier bulletins in this *Local Taxes and Our Community* series helped you learn more about tax fairness, the mix of taxpayers in your community, and how your community currently uses taxes. This workbook will help you understand how your community's taxes are distributed across taxpayer groups and how the types of taxes used affect typical individual taxpayers. It also will help you relate this distribution of the tax burden to the tax fairness principles you identified in Workbook 1 as being important for your community. In addition, this workbook can be used to predict the effects of a local tax change on your community's taxpayers.

The calculations in this workbook rely upon information you calculated in earlier workbooks. If you have not completed them, you likely will be unable to complete the following exercises. 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.

Tax Shifting

In local tax considerations, it is important to remember that the taxpayer who officially receives the bill may not be the one who ultimately pays it. Landlords, for example, usually try to pass on real property taxes to their renters by setting rents high enough to cover the expense. This transfer of the tax burden is called "tax shifting." Economists disagree about how *much* local tax money is shifted, but generally agree that it does occur. Before we explore how local taxes affect taxpayers in your community, we first must briefly consider tax shifting and what it might mean in your community.

A popular myth about local taxes is that renters do not pay the real property tax. This is technically correct, but if landlords are smart they set their rents to cover their expenses. If real property taxes go up, they raise the rent to cover the added costs.

Renters end up indirectly paying the real property tax through higher rent payments.

Local businesses similarly will try to shift taxes to their customers by raising their prices. If most of their customers are local residents (such as people who use a local dry cleaner), taxes are merely shifted to other local taxpayers. If most of their customers are from outside the community (such as people who buy the cars made in a local automobile factory), local taxes can be “exported” to others.

The ability of local businesses to shift taxes depends upon a variety of factors. If a local business is in a highly competitive field, raising prices to cover its local tax bills can make it less competitive with businesses in other communities and less likely to survive. Similarly, if the local business has little control over the prices it receives (as is the case with most dairy farms), it must absorb the taxes itself because it is unable to raise prices.

The existence of tax shifting necessitates caution in examining the distribution of the local tax burden. You can't assume that the person receiving the formal tax bill bears the cost of that tax. One taxpayer group may be able to pass on at least part of its taxes to others. The numbers you estimate in the following sections reflect who formally receives the tax bill; if tax shifting occurs in your community, the actual distribution of the tax burden may be different.

Discussion questions:

1. Who in your community might be shifting taxes, and to whom would they be shifted? What businesses are located in your community and are subject to local taxes? Who are their primary customers? How competitive is their business, and how able are they to control the prices they charge?
2. How much of the tax burden might be shifted in this way?
3. How common do you think tax shifting is in your community? How does this affect who ends up paying the local tax burden?

How Are Taxes Distributed Across Taxpayer Groups?

Examining how the tax burden is distributed in your community is important in helping you assess its fairness. You will be able to see whether your local taxes are distributed by age, income, or the other local criteria your community believes make taxes fair or unfair.

The following exercises estimate the distribution of your local government or school district's local tax burden across different broad taxpayer groups, focusing on the type of real property owned and using information from the exercises you've completed in the preceding workbooks. To make calculations easier, tables are provided for only the major local taxes used in Pennsylvania. Note that if you are doing these calculations for your *county* government, most of these taxes are unavailable. In addition, some taxes not listed here may be important to your own school district or local government, but not to most school districts, townships, boroughs, and counties in Pennsylvania. You will need to consider whether any omitted taxes are important and should be included in your calculations.

The exercises ask you to look at how your local tax burden is distributed across business, agricultural, and residential properties. Note that considering agricultural land presents difficulties because such land typically includes both the farm business and a residential household. Unfortunately, available data sources do not allow us to determine easily how much revenue from typically residential taxes (such as the earned income, per capita, or occupation tax) comes from farm residences and how much comes from nonfarm residences. The American Farmland Trust and others make an assumption in their land use cost studies that can be helpful here. They assume that agricultural land includes only the land itself, and they consider farm residences to be residential land. The following calculations use this assumption. When interpreting your results, therefore, keep in mind that "residential land" includes farm households, while "agricultural land" is only the land itself.

Local reliance on different taxes

In Workbook 3, Exercise 5, you calculated the percentage of total local tax revenue coming from each of the different local taxes in your community. That information now will be combined with tax base information about your community to estimate *how* these taxes are distributed in your community. The first step is to fill in Table 1, using the answers you calculated in Workbook 3, Exercise 5. Simply transfer the percentages over to the appropriate spots in Table 1. Make sure that you continue to do these calculations for the same taxing jurisdiction (county, municipality, or school district) that you studied in Workbook 3. If you copy *school district* tax rate information into Table 1, for example, you cannot use it to examine your *county* government.

Table 1. Our Community's Reliance on Different Local Taxes (from Workbook 3, Exercise 5)

_____ Jurisdiction (County, Municipality, School District)	
(White area must be calculated.)	
Tax	Percent of Local Taxes
Real Property Tax (<i>row 3</i>)	
Occupation Tax (<i>row 5</i>)	
Per Capita Tax (<i>row 7</i>)	
Earned Income Tax (<i>row 11</i>)	
Realty Transfer Tax (<i>row 13</i>)	
Mercantile Tax (<i>row 15</i>)	
Other Local Taxes (<i>add rows 9, 17, 19, and 21</i>)	

Table 2. Share of Total Taxes from the Real Property Tax

Jurisdiction (County, Municipality, School District)						
(White areas must be calculated.)						
% of Total Taxes from Real Property Tax (from Table 1)	Business (Commercial & Industrial)		Agriculture		All Residential	
	% of Real Property Tax Base	% of Total Taxes (column 1 X column 2 ÷ 100)	% of Real Property Tax Base	% of Total Taxes (column 1 X column 4 ÷ 100)	% of Real Property Tax Base	% of Total Taxes (column 1 X column 6 ÷ 100)
%	%	%	%	%	%	%

1. Real property tax

Description

The real property tax is a tax on the value of the real property (land, buildings, and other improvements) owned by a taxpayer. It sometimes is called the real estate tax. The amount of real property tax a taxpayer owes depends upon the value of his or her property and the local tax rate. Property values for tax purposes are determined by an assessment process conducted by the county government. These assessed values may be very different from the actual market value of the properties.

Tax base

The tax base for the real property tax is the value of all taxable land, buildings, and improvements in the jurisdiction. Real property tax base information for your community is available from your county assessment office or at <http://www.psu.edu/dept/aers/ltoc/> on the World Wide Web.

Tax burden in your community

Your community's reliance on the real property tax can be combined with the real property tax base information to calculate the percent of your local government's or school district's total local tax revenues paid by owners of each of the different land types. In Table 2, multiply the percent of total local taxes in your community coming from the real property tax (found in Table 1) by each land use's share (percent) of the real property tax base. If the real property tax provides 50 percent of your community's local taxes, for example, and business properties account for 30 percent of the real property tax base, multiply 50% by 30% and divide the answer by 100 ($50 \times 30 \div 100 = 15\%$). In this example, we found that real property taxes paid by business property owners account for 15% of total tax revenues.

Table 3. Share of Total Taxes from the Realty Transfer Tax

Jurisdiction (County, Municipality, School District)						
(White areas must be calculated.)						
% of Total Taxes from Realty Transfer Tax (from Table 1)	Business (Commercial & Industrial)		Agriculture		All Residential	
	% of <i>Real Property</i> Tax Base	% of Total Taxes (column 1 X column 2 ÷ 100)	% of <i>Real Property</i> Tax Base	% of Total Taxes (column 1 X column 4 ÷ 100)	% of <i>Real Property</i> Tax Base	% of Total Taxes (column 1 X column 6 ÷ 100)
%	%	%	%	%	%	%

2. Realty transfer tax

Description

The local realty transfer tax (sometimes referred to as the “real estate transfer” tax) is a tax on the sale of real estate. It exists in addition to the realty transfer tax levied by the state. The maximum levy for the local tax is 1 percent of the sales price. If both the municipality and school district levy this tax, both must share the 1 percent.

Tax base

The tax base for the realty transfer tax consists of all real property sales in your community. The more annual sales, the more revenue can be collected by the same tax rate.

Tax burden in your community

The breakdown of real property sales in your community by land use provides the best indication of how the realty transfer tax is distributed in your community. This information is difficult to obtain, however, so a useful substitute is the real property tax base (which was just used for allocating the real property tax). This should be a reasonable approximation of actual sales in most communities, assuming that property sales occur in your community in proportion to the total tax base. For example, if residential properties account for 60 percent of your community’s real property tax base, about 60 percent of the value of property sales should be residential property.

For the realty transfer tax, calculate the percent of total taxes coming from the different land types in the same way you did for the real property tax. In Table 3, multiply the percent of total local taxes in your community coming from the realty transfer tax (found in Table 1) by each land use’s share (percent) of the *real property* tax base, and divide by 100.

Table 4. Share of Total Taxes from the Earned Income Tax

Jurisdiction (County, Municipality, School District)						
(White area must be calculated.)						
% of Total Taxes from Earned Income Tax (from Table 1)	Business (Commercial & Industrial)		Agriculture		All Residential	
	% of Earned Income Tax Base	% of Total Taxes (column 1 X column 2 ÷ 100)	% of Earned Income Tax Base	% of Total Taxes (column 1 X column 4 ÷ 100)	% of Earned Income Tax Base	% of Total Taxes (column 1 X column 6 ÷ 100)
%	0%	0%	0%	0%	100%	%

3. Earned income tax

Description

The earned income tax is an income tax levied only on earned income (such as wages, salaries, or other reimbursements for work). Unearned income such as interest, dividends, pensions, and social security is not taxed. Unlike the federal or state income taxes, the local earned income tax allows no exemptions or standard deductions. The maximum combined levy for municipalities and for school districts who have not adopted the tax changes in Act 50 of 1998 is 1 percent of earned income. If both the municipality and school district levy the earned income tax, they must share the collections, which gives each 1/2 percent. School districts having adopted the tax changes in Act 50 can levy a maximum of 1 1/2 percent of earned income, regardless of what municipalities do. (See the Penn State Cooperative Extension publication *Understanding School Tax Change Under Act 50 of 1998* for more information on Act 50.)

Tax base

The tax base for the earned income tax is the amount of earned income in the community. The more earned income in the community (by virtue of either the number of working residents or the size of their incomes), the more earned income tax that will be collected. Employees in local businesses who live in other communities that do not collect the earned income tax must pay it to your community, so the earned income of these employees also is part of your community's earned income tax base.

Tax burden in your community

The information available about the earned income tax doesn't provide enough detail to avoid making several assumptions in your calculations. For example, it isn't clear how much local earned income tax revenue comes back into your community from nonresidents who work at local businesses. But because most municipalities levy their own earned income tax, thus obligating nonresident workers to pay that tax in their *home* communities, it usually is reasonable to assume that all of your local earned income tax money comes from residents. Available data similarly are limited with regard to how much local earned income tax money comes from agriculture. Allocating the entire tax to residential land becomes inaccurate if farming provides a large share of your community's earned income.

Allocate all of the earned income tax collections to residential land. In Table 4, multiply the percent of total local taxes in your community coming from the earned income tax (found in Table 1) by residential land use's share (percent) of the earned income tax base (which is approximately 100%) and divide by 100.

Table 5. Share of Total Taxes from the Mercantile Tax

_____ Jurisdiction (County, Municipality, School District)						
(White area must be calculated.)						
% of Total Taxes from Mercantile Tax (from Table 1)	Business (Commercial & Industrial)		Agriculture		All Residential	
	% of Mercantile Tax Base	% of Total Taxes (column 1 X column 2 ÷ 100)	% of Mercantile Tax Base	% of Total Taxes (column 1 X column 4 ÷ 100)	% of Mercantile Tax Base	% of Total Taxes (column 1 X column 6 ÷ 100)
%	100%	%	0%	0%	0%	0%

4. Mercantile tax

Description

The mercantile tax is levied on the gross receipts of local businesses. It sometimes is known as the business gross receipts tax, or the business privilege tax. The mercantile tax can be levied on wholesale and retail trade, as well as restaurants. The Local Tax Reform Act of 1988 prohibited imposing any new mercantile taxes after November 30, 1988, though jurisdictions that were using the tax at that time are allowed to continue to levy it.

Tax base

The tax base for the mercantile tax is the value of the wholesale and retail trade in your community. Because it is levied as a percentage of sales, the more wholesale and retail trade that occurs in your community, the larger the mercantile tax base.

Tax burden in your community

Calculating the distribution of the mercantile tax is easy because it is paid only by businesses. All collections should be allocated to business properties. In Table 5, multiply the percent of total local taxes in your community coming from the mercantile tax (found in Table 1) by business land use’s share (percent) of the mercantile tax base (which is 100%) and divide by 100.

Table 6. Share of Total Taxes from the Occupation Tax

Jurisdiction (County, Municipality, School District)						
(White area must be calculated.)						
% of Total Taxes from Occupation Tax (from Table 1)	Business (Commercial & Industrial)		Agriculture		All Residential	
	% of Occupation Tax Base	% of Total Taxes (column 1 X column 2 ÷ 100)	% of Occupation Tax Base	% of Total Taxes (column 1 X column 4 ÷ 100)	% of Occupation Tax Base	% of Total Taxes (column 1 X column 6 ÷ 100)
%	0%	0%	0%	0%	100%	%

5. Occupation tax

Description

The occupation tax can be levied as a flat rate tax or as a proportional tax. If it is levied at a flat rate, every employed resident pays the same amount, regardless of his or her occupation. The maximum flat rate levy is \$10 per person. If the occupation tax is levied as a proportional tax, the local jurisdiction levies a tax rate on the assessed values of residents' occupations; each occupation has an assessed value assigned to it, as determined by the county tax assessment office. There is no maximum tax rate for school districts if the occupation tax is levied in this way. The occupation tax is collected from residents without regard to where they actually practice their occupation.

Tax base

If the occupation tax is levied as a flat rate, the tax base is the number of employed adults who live in the community. If the tax is levied as a proportional tax, the tax base is the total assessed value of employed residents' occupations.

Tax burden in your community

Regardless of which way the occupation tax is levied, it is collected solely from residents. Tax revenues from the occupation tax thus should be allocated entirely to residential land. In Table 6, multiply the percent of total local taxes in your community coming from the occupation tax (found in Table 1) by residential land's share (percent) of the occupation tax base (which is approximately 100%), and divide by 100.

What is the impact across all these local taxes?

The total impact of these local taxes on different taxpayer groups in your community can be calculated by summing the information you just calculated in Tables 2 through 6. In Table 7, for each land use and tax, copy the percent of total taxes provided by that tax (from Tables 2 through 6, columns 3, 5, and 7). Then add up the total percentage provided by each land use.

You should use these results to revisit the list of key taxpayers you developed in Workbook 2, Table 8. If business or agricultural property owners bear a large share of the local tax burden, make sure you include them in your list of key taxpayers. If residential property owners bear a large share of the burden, make sure you include a variety of different residential property owners in your list. Add missing key taxpayers to your list in Workbook 2 and complete profiles for them.

Table 7. How is the Local Tax Burden Distributed?

Jurisdiction (County, Municipality, School District)			
(White areas must be calculated.)			
	Percent of Total Taxes		
	Business (Commercial & Industrial)	Agriculture	All Residential
Real Property Tax <i>(from Table 2)</i>	%	%	%
Realty Transfer Tax <i>(from Table 3)</i>	%	%	%
Earned Income Tax <i>(from Table 4)</i>	0%	0%	%
Mercantile Tax <i>(from Table 5)</i>	%	0%	0%
Occupation Tax <i>(from Table 6)</i>	0%	0%	%
Total (add column of numbers)	%	%	%

Note: Because not all taxes are listed here, the totals may not add to 100%.

Discussion questions:

1. What surprised you about these numbers? What did you expect to find?
2. Which land uses and taxpayer groups in your community bear the largest share of the real property tax? Realty transfer tax? Earned income tax? Mercantile tax? Occupation tax? Other local taxes? Which bear the least?
3. Which groups seem to be most affected by the total local tax burden across all the taxes? Which groups are least affected?
4. How widely or narrowly is the tax burden distributed in your community? Who benefits from this? Who loses?
5. In these calculations, data limitations meant that you had to consider the homes on farms as residential land. How do you think agriculture's share would change if the data allowed you to include farm houses as part of agricultural land in these calculations?
6. Who are the major businesses in your community, and how much tax shifting do you think they are able to do? If tax shifting is occurring, who are the taxes likely being shifted to—local residents, or to people outside the community?
7. How fair does this distribution seem to be? What criteria are you using to make this judgment?

How Do These Taxes Affect Individual Taxpayers?

The distribution of the tax burden is useful to consider because it helps you see how the local taxes in your community affect different taxpayer groups. But what does this mean for *individual* taxpayers? A heavy burden on a particular taxpayer group hurts individual taxpayers more if fewer of your community's taxpayers fall into that group; if your calculations suggest that one group pays about 40 percent of your local government's taxes, for example, it makes a difference whether members of this group comprise 50 percent of your community's taxpayers (so this tax burden is spread across a lot of individual taxpayers) or whether they comprise only 10 percent (so this tax burden is carried by only a relatively small number of taxpayers).

What is the impact of your school district or local government's local taxes on typical individual taxpayers in your own community, and how are different typical taxpayers affected? Which individual taxpayers are particularly affected? These are important questions to consider, and the answers can be estimated using two steps: (1) assemble the tax rate information for your community, and (2) calculate the taxes paid by each taxpayer.

Tax rate information

Before you can estimate the effect on individual taxpayers, it is necessary to list the tax rates for all the local taxes your local government or school district uses. These tax rates are the values your local government or school district uses when preparing individuals' tax bills, and must be used on the following worksheets to estimate the impact of its local taxes on typical taxpayers in your community. Some of these tax rates (such as the Real Property Tax Equalized Millage) can be gathered from *Local Government Financial Statistics, Selected Revenue Data and Equalized Mills for Pennsylvania Public Schools*, or <http://www.psu.edu/dept/aers/ltoc/>, but others may have to be obtained from your local government officials. Complete Table 8 as appropriate.

Be sure to write the tax rates as decimals instead of as percents or mills (for example, write "0.01" instead of "1%"), or your calculations later may be inaccurate.

If you get the real property tax rates from a source *other* than <http://www.psu.edu/dept/aers/ltoc/>, be aware that real property tax rates can be expressed either in terms of *assessed values* (used by local officials), or in terms of *market values*. The amount of tax owed is the same, but basing the tax on a property's *market* value (known as an "equalized rate") makes it easier to compare tax rates across county boundaries. Because your key taxpayer information uses market values, you'll need to make sure you use equalized tax rates to calculate the real property tax owed. The tax rates on <http://www.psu.edu/dept/aers/ltoc/> are equalized, so use them to avoid confusion if you are not familiar with equalization.

Table 8. Our Community's Tax Rates

_____ Jurisdiction (County, Municipality, School District)			
(Darkened cells indicate that the tax currently is not available to that type of jurisdiction.)			
	Tax Rate—write as a decimal (i.e. "0.01" not "1%")		
Tax	County	School District	Municipality
Real Property Tax			
Realty Transfer Tax			
Earned Income Tax			
Mercantile Tax			
Per Capita Tax			
Occupation Tax			
Personal Property Tax			
Other Local Tax			
Other Local Tax			
Other Local Tax			

Calculate for each key taxpayer

In the second *Local Taxes and Our Community* workbook (Workbook 2) you identified key taxpayers of interest in your community. Information from this earlier bulletin now can be used to estimate the impact of local taxes on these taxpayers. Information on selected taxpayers also is available from the regional profiles found in the Appendix of that workbook.

For each key taxpayer, photocopy the Tax Impact Worksheet (Figure 1a) and use it to estimate the local tax impacts on that taxpayer. A sample completed worksheet appears in Figure 1b. A Microsoft Excel spreadsheet also has been prepared to do these calculations if you would prefer to use a computer, and is available at <http://www.psu.edu/dept/aers/ltoc/>.

On each row of the Tax Impact Worksheet, copy the appropriate tax rate information from Table 8. Then for each local tax, copy the taxpayer’s taxable asset information from Workbook 2, Table 8. In each row, multiply the “Tax Rate” (in column 2) by the “Typical Value” (in column 4) to estimate the amount the typical taxpayer will owe for that tax. If the tax rate for the real property tax is .002, for example, and the typical value of this type of taxpayer’s home is \$60,000, the real property tax owed will be \$120 (.002 X 60,000 = \$120).

When you have calculated the amount owed for each tax, add them to see the total local tax impact on this taxpayer. Repeat these calculations for each of the key taxpayer groups you have identified.

As you complete the Tax Impact Worksheet for each group, copy the key taxpayer group name and the total estimated tax impact into Table 9 so you can compare the total amount of taxes owed by different taxpayers.

Table 9. Tax Impact on Key Taxpayers

_____ Jurisdiction (County, Municipality, School District)	
Key Taxpayers (from Workbook 2, Table 7)	Total Taxes Paid (from Tax Impact Worksheet, Figure 1a)
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$

Figure 1a. Tax Impact Worksheet (For Photocopying)

Local Government or School District				
Scenario Number				
Taxpayer				
(White areas must be calculated.)				
Tax	Equalized Tax Rate (from Table 8)	Taxable Asset (from Workbook 2, Table 8)		Tax Owed by This Typical Taxpayer [Tax Rate (column 1) X Typical Value (column 3)]
		Asset	Typical Value for This Taxpayer	
Real Property Tax		Market value of real property	<i>(from Workbook 2, Table 8, row 1)</i>	\$
Earned Income Tax		Household earned income	<i>(from Workbook 2, Table 8, row 2)</i>	\$
Mercantile Tax		Business sales	<i>(from Workbook 2, Table 8, row 3)</i>	\$
Per Capita Tax		Adults in household	<i>(from Workbook 2, Table 8, row 4)</i>	\$
Occupation Tax (if levied as flat rate)		Number of household members who work	<i>(from Workbook 2, Table 8, row 5)</i>	\$
Occupation Tax (if levied as millage)		Value of occupation	<i>(from Workbook 2, Table 8, row 6)</i>	\$
Other Local Tax				\$
Other Local Tax				\$
Total Tax Owed by Typical Taxpayer	—		—	\$

Figure 1b. Sample Tax Impact Worksheet

Local Government or School District <i>Sample Township</i>				
Scenario Number <i>Scenario #1</i>				
Taxpayer <i>Middle-income, middle-aged family of 3</i>				
(White areas must be calculated.)				
Tax	Equalized Tax Rate (from Table 8)	Taxable Asset (from Workbook 2, Table 8)		Tax Owed by This Typical Taxpayer [Tax Rate (column 1) X Typical Value (column 3)]
		Asset	Typical Value for This Taxpayer	
Real Property Tax	.002 (2 mills)	Market value of real property	\$60,000 <i>(from Workbook 2, Table 8, row 1)</i>	\$.002 X 60,000 = \$120
Earned Income Tax	.005 (1/2 percent)	Household earned income	\$26,845 <i>(from Workbook 2, Table 8, row 2)</i>	\$.005 X 26,845 = \$134.22
Mercantile Tax	0	Business sales	\$0 <i>(from Workbook 2, Table 8, row 3)</i>	\$ 0
Per Capita Tax	\$5	Adults in household	2 <i>(from Workbook 2, Table 8, row 4)</i>	\$ 5 X 2 = \$10
Occupation Tax (if levied as flat rate)		Number of household members who work	<i>(from Workbook 2, Table 8, row 5)</i>	\$
Occupation Tax (if levied as millage)	.100 (100 mills)	Value of occupation	\$250 <i>(from Workbook 2, Table 8, row 6)</i>	\$ 100 X 250 = \$25
Other Local Tax Occupational Privilege	\$10	Number in household working in township	1	\$ 10 X 1 = \$10
Other Local Tax				\$
Total Tax Owed by Typical Taxpayer	—		—	\$ 299.22

Discussion questions:

1. What surprised you about the amounts that different taxpayers owe (as summarized in Table 9)? Why?
2. How do the amounts of local taxes owed by different typical taxpayers compare? Who pays more in local taxes? Who pays less? Which tax(es) seems to particularly affect individual taxpayers?
3. How much tax shifting might occur for these taxes in your community? Remember that these results you've calculated assume that no tax shifting occurs, even though it likely does happen. How would this affect results?
4. How do the local tax bills compare to the distribution of income and other important characteristics (such as age) you explored in Workbook 2?
5. How do these impacts compare to the principle(s) of tax fairness discussed earlier? Does this seem like a fair distribution? Why or why not? Who benefits from this distribution, and who loses?
6. If you calculated these impacts on taxpayers separately for school district, county, and municipal taxes, what is the total impact of all these local taxes on typical taxpayers? Does considering all local taxes in total across all three jurisdictions (county, municipality, and school district) change the fairness (or unfairness) of the local tax burden?
7. If you could change the local tax burden, how would you redistribute it? Who should pay more? Who should pay less? Why?

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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/lto/> 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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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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