Local Taxes & Our Community

5

What Should Be Our Local Tax Distribution?

This is the fifth and final workbook for your local dialogue about which local taxes should be used in your community. It is intended to help you learn more about how your community could be using local taxes and how those alternatives could affect local taxpayers. It also pulls together the different aspects of local taxes and tax fairness you've been exploring in the earlier four workbooks and helps you more fully understand local taxation in your own community.

Earlier workbooks 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, including the level of reliance on local tax revenue and which local taxes are used. They also helped you see how your community's taxes are distributed across different taxpayer groups, calculate how these taxes affect typical individual taxpayers, and relate this distribution of the tax burden to the tax fairness principles you've identified as being important for your community. 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.

Much of the information you will use in this workbook comes from the exercises completed and discussed in those earlier workbooks. In addition, a set of the school district, county, or municipality (city, borough, or township) information also required for the exercises in this workbook already is organized by exercise, and is available at http://www.psu.edu/dept/aers/ltoc/. Most of this information is from the U.S. Census and from school district and local government audit reports.

As with the earlier workbooks, the issues examined and questions discussed here are intended as starting places for your local discussion of tax fairness, not the entirety. Feel free to discuss additional information or questions beyond those considered in this workbook. If you have not completed the earlier workbooks, you may be unable to complete the exercises in this workbook and will find it much less useful.

How Can We Make Our Community's Local Taxes Fairer?

Many people often assume that the only way to make local taxes fairer is to replace the unfair taxes with different ones. This can improve local tax fairness, but it also can be time-consuming and difficult to accomplish, and it ignores the variety of other ways individuals and communities

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can improve local tax fairness. One obvious choice is cost reductions, which can be accomplished by reducing or eliminating unneeded or redundant services, or by finding more efficient ways of providing services. Partnerships with other local governments or school districts that provide similar services, for example, can improve efficiency. Sometimes new revenue sources such as user fees or grants can be used. When Federal Revenue Sharing was eliminated in the early 1980s, for example, many local governments responded to the loss of federal aid by funding some services through user fees instead of general tax revenues. Grants also can help reduce costs and thus the amount of local tax revenue needed.

The range of tax choices available to school districts and local governments in Pennsylvania also includes (1) making the administration of existing local taxes fairer, which makes the taxes themselves fairer; (2) modifying the existing local tax system to make it fairer and to reduce some of its negative aspects; and (3) substituting new local taxes for existing ones. Each will be discussed in turn.

Improve administration of existing system

Taxes can be only as fair as their administration; the fairest tax in principle can be terribly unfair if it is administered poorly. Tax administration includes identifying taxable items, maintaining tax records and keeping them current so tax bills can be calculated accurately, and enforcing the tax evenly so everyone subject to the tax pays what they owe. If tax administration is weak, complex taxes may be too costly or ineffective to be useful for a community.

Poor administration also can affect the fairness of those taxes. The personal property tax (levied by some counties), for example, sometimes is disparagingly called an "honesty" tax. It taxes mortgages held, other interest-bearing accounts, and stock in non-Pennsylvania corporations. Because counties generally have to rely upon taxpayers who own these assets to disclose their value, critics say that this tax affects only people who are honest enough to admit what they own to the county.

The administration of the real property tax sometimes is criticized in Pennsylvania because tax values generally are not adjusted frequently enough to reflect changing market conditions. Properties in one part of the county may have increased in market value faster than properties in more slowly growing parts of the same community. Without reassessment, property taxes still are based on old values, so property owners in the more slowly growing areas can end up paying more than their fair share, while those in areas that are growing faster pay less than their fair share. Reassessment decisions are made by county governments. Because reassessment occurs infrequently, residents generally are unfamiliar with it, making it more difficult for county officials to make the political decision to reassess.

Discussion questions:

1. How well are the different local taxes administered in your community? Is it difficult for your local government to determine who is subject to specific taxes, or how much they owe? Are taxable values updated frequently and consistently? How recently has your county reassessed, for example?

2. Who administers each local tax or makes decisions affecting tax administration? How much control does your community have over the administration of local taxes?

3. What could be improved in local tax administration, and how might this make taxes fairer?

Modify the existing system to make it fairer

Pennsylvania provides a variety of ways to make the existing reliance on local taxes fairer by targeting assistance to taxpayers who may be treated most unfairly by local taxes. Some of these options have been available for over 20 years, while several are newly authorized by Act 50 of 1998. Several options automatically are available to your community's taxpayers, while others require local school boards, county commissioners, or municipal officials to pass ordinances or take other action to make them available to your community's taxpayers.

1. Exempt low-income taxpayers from earned income and nuisance taxes

Under the Local Tax Enabling Act (Act 511), taxing jurisdictions can exempt low-income taxpayers from paying a variety of local taxes, including the per capita, occupation or occupational privilege, and earned income tax. As of 1992, the exemptions were possible for people with annual incomes of less than $5,000. School districts are authorized by Act 50 of 1998 to exempt taxpayers from paying the earned income tax if their annual total income is less than $7,500.

For these exemptions to be available in a community, the local government or school district has to authorize them for their own taxes through passage of an ordinance. The effective cost of these exemptions is paid by other taxpayers within the same community, either through higher taxes (to make up for the amount not collected due to the exemption) or through fewer services (if tax rates aren't raised to make up for the foregone tax revenue).

2. Provide property tax rebates to low-income seniors

Low-income senior citizens (those with an annual household income of less than $15,000 a year) also are eligible for real property tax rebates through the Senior Citizens Rebate and Assistance Act. The program provides an annual rebate of up to $500 on property taxes paid by eligible households on their primary residence. Rebates are available for eligible seniors if they either own their home or rent a home on which the landlord pays property taxes. This act thus explicitly recognizes that renters indirectly pay the real property tax through higher rents.

As of 1997, to be eligible for the Senior Citizens Rebate and Assistance Act, you were required to have a household income of $15,000 or less and owe property taxes on your home. In addition, you had to be: (1) age 65 or older (or have a spouse age 65 or older); (2) a widow or widower age 50 or older; or (3) age 18 or older, permanently disabled, and unable to work because of that disability. According to the Pennsylvania Department of Revenue, the Senior Citizens Rebate and Assistance Act helped more than 360,000 Pennsylvania households in 1997.

Local officials have no control over whether the program is available locally; eligible taxpayers need only fill out the appropriate state tax forms to participate in the program. The rebates are paid for through state lottery collections. Additional information on the program is available through each county's Area Agency on Aging, or through the offices of local state senators or representatives.

3. Allow low-income taxpayers to defer property tax increases

Under a new program created by Act 50 of 1998, low-income taxpayers can be allowed to defer real property tax increases on their primary residence until they either sell their home or pass it on to their heirs. Any tax increase above what the taxpayer paid in the year before he or she signed up will be deferred. To qualify, a taxpayer's income cannot be greater than the income limit defined by the Senior Citizens Property Tax and Rent Rebate program ($15,000 in 1997). In addition, the outstanding mortgage on the property cannot exceed 70 percent of the homestead's market value, and the combined value of the outstanding mortgage, deferred taxes, and other unpaid liens cannot exceed 85 percent of the market value. The program has no age restriction.

These tax deferments are available only in jurisdictions where the elected officials decide to offer the program. Taxpayers in participating jurisdictions must submit an application to their school district, county, or municipal government to receive the deferment.

4. Base farm property tax bills on what farmers can afford to pay

One popular farmland protection program in Pennsylvania, Act 319 (also known as "Clean and Green"), lets farmers pay real property taxes based on the agricultural value of their land instead of the land's higher development value. This keeps their taxes more in line with the income they can earn from the land, and helps prevent development pressures from raising farmers' taxes unduly. The amount of tax savings a farmer receives depends upon several factors, including the soil types of the land and agricultural prices in the county. How recently the county reassessed also is important, because in many counties without recent reassessment, the difference between the property's market-value and use-value assessments is negligible (so the program does not provide much of a tax break).

Land used in agriculture that consists of at least 10 contiguous acres or that has an expected annual gross income of $2,000 generally is eligible for the program, as is open space used for outdoor recreation or scenic enjoyment, or forest land, provided these lands are 10 acres or more in size.

Act 319 is administered by county tax assessment offices, and can be used in every community in Pennsylvania. Taxpayers wanting to participate in the program need only apply at their county office. The cost of these tax breaks is paid by other taxpayers within the same community, through either higher taxes (to make up for the amount not collected due to the lower assessments) or fewer services (if tax rates aren't raised to make up for the foregone tax revenue). For more information on Act 319, see your local Penn State Cooperative Extension Office or your county tax assessment office.

5. Target property tax relief to homesteads and farmsteads

Act 50 of 1998 also authorizes targeted property tax reductions to permanent residents through a homestead exclusion and a farmstead exclusion. The exclusions reduce the assessed values of homestead and farmstead properties, reducing the property tax on these homes and farms. The homestead exclusion provides the same dollar tax break to all eligible homestead properties in the taxing jurisdiction, including houses on farms, condominiums, single family homes, and other places of permanent residence.

Homestead and farmstead exclusions are available only in jurisdictions that have approved them through ordinance or (in the case of school districts adopting the new local tax structure under Act 50 of 1998) through the referendum authorizing the change in local taxes. The cost of these exclusions is paid locally through greater use of other taxes or through fewer services (if tax rates aren't raised to make up for the foregone tax revenue). School districts and local governments are forbidden from raising real property tax rates to pay for the exclusions. For more information on the homestead or farmstead exclusions, contact your county tax assessment office, or see the Penn State Cooperative Extension bulletin *Understanding the Homestead and Farmstead Exclusions*, available through your local Penn State Cooperative Extension office.

Discussion questions:

1. What local tax fairness problems do these programs address, and for whom? Which tax fairness problems are left unaddressed, and for whom?

2. Which of these strategies already are being used in your community? Which could be used?

3. What other programs are available that can provide local tax breaks or relief for selected taxpayers?

4. How familiar with these programs are the people who could benefit from participating in them? What could be done to help them learn more about these programs?

5. If eligible people participated fully in these programs, how would tax fairness in your community be affected? Would it be fairer? Less fair? Would there be no difference in local tax fairness?

6. Based on the key taxpayer information you examined in Workbook 4, how much of an impact could these programs have on the key taxpayers in your community?

Replace some local taxes with new ones

An obvious question to be considered is whether particularly unfair local taxes can be replaced by other, locally better taxes. The viability of this option depends upon the choices available to your community; how the school district, county or municipality, and taxpayers would be affected by the change; and how the changed local tax structure would compare to the current structure. A change might not make things any better, or might improve local taxes only for some taxpayers. Evaluating these changes is important.

1. What choices are available to us?

School districts and local governments are not allowed to make up their own local taxes, but instead can use only the taxes authorized for them by state law. In addition, state law also sets maximum tax rates for many of the local taxes available to such jurisdictions. School districts and local governments thus can choose only local taxes and tax rates within the range of options provided to them by the Commonwealth.

Table 1 shows which major taxes currently are available to county and municipal governments, and the maximum tax rate possible for each under Pennsylvania law. Note that some taxes are available only to some jurisdictions, and that maximum tax rates vary. The maximum tax rates in Table 1 are for general purposes; jurisdictions can exceed these caps for certain specified purposes (see Appendix A for more information). If you are unfamiliar with these taxes, more information on each tax is available in Workbook 3, *How Do We Currently Use Taxes?*, or in the Center for Local Government Services' *Taxation Manual.*

In Table 1, you may notice that some local taxes (such as the Occupation Tax) have several maximum tax rates listed. This occurs because some taxes are authorized under several different Pennsylvania laws; the maximum rate for these taxes depends upon under which law the tax is approved by a jurisdiction. Boroughs, for example, can levy the occupation tax under the borough code (maximum 30 mills), or under Act 511 as either a flat rate (maximum $10 per person) or millage (with no limit). Also notice that for many of the taxes, the maximum rate must be shared equally between municipalities and school districts if both jurisdictions levy the tax.

You already have calculated your own community's reliance on these taxes in Workbook 3, Exercise 5. Look at that table to see how your community's reliance on the various local taxes compares with the state averages. Two other publications, available through your local Penn State Cooperative Extension Office, also might be useful because they make regional comparisons of tax use by townships of the second class *(Which Taxes Do Local Governments in Pennsylvania Use?: Townships of the Second Class)* and boroughs *(Which Taxes Do Local Governments in Pennsylvania Use?: Boroughs).*

County governments

As Table 1 illustrates, county governments in Pennsylvania have little flexibility or choice over local taxes. The real property tax is the only local tax available to them that has sufficient capacity to generate enough revenue for their needs. They have no income tax available as an option.

The personal property tax is considered unfair by many taxpayers, and is not used by many counties. In addition, a court case currently pending in Pennsylvania likely will find the personal property tax unconstitutional, making it unavailable as an option.

City, borough, or township governments

Cities, boroughs, and townships have more local tax flexibility than do counties. The most important two taxes for most of these municipalities are the real property tax and the earned income tax. Both taxes typically can generate significant revenues. Other local taxes, such as the mercantile, amusement, or realty transfer taxes, also

Table 1. Maximum General-Purpose Tax Rates of Major Local Taxes in Pennsylvania, by Jurisdiction
(If blank, jurisdiction cannot use the tax—for more detailed information, see Appendix A.)

Tax	3rd–8th Class Counties	3rd Class Cities	Boroughs	Townships of 1st Class	Townships of 2nd Class	School Districts Under Act 511	School Districts Under Act 50 of 1998
Real Property	25 mills	25 mills	30 mills	30 mills	14 mills	25 mills[1]	25 mills[1]
Occupation	$5[2]	$10/no limit[3]	30 mills/$10/ no limit[3]	30 mills/$10/ no limit[3]	14 mills/$10/ no limit[3]	$10/no limit[3]	
Occupational Privilege[4]		$10	$10	$10	$10	$10	
Per Capita[4]	$5[2]	$10	$10	$10	$10	$5/$10[3]	
Earned Income[4]		1%	1%	1%	1%	1%	1.5%[5]
Realty Transfer[4]		1%	1%	1%	1%	1%	1%
Amusement[4]		10%/5%[6]	10%/5%[6]	10%/5%[6]	10%/5%[6]	[7]	[7]
Mechanical Devices		no limit	no limit	no limit	no limit	no limit	
Mercantile:[8]							
Wholesale		1 mill	1 mill	1 mill	1 mill	1 mill	1 mill
Retail		1 1/2 mills	1 mill	1 1/2 mills	1 1/2 mills	1 1/2 mills	1 1/2 mills
Other Business		no limit	no limit	no limit	no limit	no limit	no limit
Personal Property	4 mills						

[1] Additional millage may be levied to pay salaries and debt service charges for school buildings.
[2] Available only to 4th through 8th class counties. Can levy one or the other, but not both at the same time.
[3] Maximum tax rate depends upon under which law the tax is levied.
[4] If both the municipality and school district levy this tax, the total amount must be split equally between them.
[5] School districts can keep the full 1.5%. Municipalities are restricted to the rate used before the school changed to this new structure.
[6] Ten percent if levied at that rate before 12/31/97. Otherwise 5%.
[7] Cannot collect more revenue from the Amusement tax than was collected in the year ending 6/30/97.
[8] If not already in use on 11/30/88, it cannot be levied. Jurisdictions using it cannot raise tax rates above those in use as of 11/30/98.

can be significant, depending upon local circumstances. Many municipalities balance their budgets by adjusting the real property tax rate.

School districts

School districts have a variety of local taxes available to them, similar to municipalities. Because their revenue needs generally are greater than those of municipalities, however, a 1-percent earned income tax (the maximum under the Local Tax Enabling Act) often can't generate enough money for them and they typically have to rely more upon the real property tax. In addition, if the municipality also levies the earned income tax, the school district must share the revenue and receives only 1/2 percent. Many school districts balance their budgets by adjusting the real property tax rate.

A recent tax bill, Act 50 of 1998, provides another option for school districts to consider. Schools can choose to levy the earned income tax at a maximum rate of 1 1/2 percent, which does not need to be shared with municipalities. In exchange for the higher earned income tax limit, school districts adopting the tax structure under Act 50 are required to use the new revenues to eliminate nuisance taxes (the occupation tax, occupational privilege tax, and the per capita tax), and reduce the real property tax. These reductions in the real property tax must be made through the homestead exclusion, which also is authorized by Act 50. School districts are allowed to keep only a nominal amount of new revenue from the tax, not to exceed the percentage increase in the average weekly wage in Pennsylvania during the previous year.

The most significant change under the Act 50 option is that school districts adopting the new tax structure will be required to get voter approval of any future noninflationary increases in real property tax rates. Pennsylvania taxpayers previously have not had the ability to vote directly on tax increases. Any tax rate increase greater than the percentage increase in the average weekly wage in Pennsylvania will have to be approved by local voters through these "back-end" referenda.

There are six exceptions to this referendum requirement: (1) for an emergency declared by the governor; (2) to implement a court order or an administrative order from the state or federal government; (3) to pay interest and principal on existing debt; (4) to respond to conditions that pose a threat of serious physical harm to students or staff; (5) for special-purpose taxes authorized by voters; and (6) to maintain per-student tax revenue for those districts with enrollments growing faster than 10 percent over a 3-year period. If a ballot proposal to increase the real property tax rate fails at the polls, the rate stays at the rate already in effect at the time of the referendum. For more information about the possible impacts of Act 50 and how it can be implemented, see the Penn State Cooperative Extension publication *Understanding School Tax Change Under Act 50 of 1998.*

Discussion questions:

1. Which of the available taxes does your community already use? Which doesn't it use? (Refer to Workbook 3, Exercise 5, if you can't remember.)

2. How do your community's tax rates compare to the maximums allowed by Pennsylvania law? (Refer to Workbook 4, Table 8, for your community's tax rates.) Is there much room for raising some taxes to lower other taxes? Which taxes?

3. How much flexibility does your community have to change local taxes? What changes are possible?

2. How much revenue could our community raise with these alternative taxes?

An important consideration is how much revenue alternative taxes or higher tax rates can produce in your community. Without knowing how much revenue can be collected from new taxes, it is impossible to know how much existing taxes can be lowered. In addition, these calculations help you know which new taxes can generate enough money to allow you to lower existing unfair local taxes.

Use Table 2 to explore alternative local tax structures, using increases in some taxes to reduce others. In column 1, write in the tax base information for each tax your community uses or is considering using (available from http://www.psu.edu/dept/aers/ltoc/). In column 2, write in your community's current tax rate for each tax (from Workbook 4, Table 8). Estimate current tax revenues in column 4 by multiplying column 1 by column 2. Use the third column to write in alternative tax rates your community might use, and the fifth column to calculate the revenues they would produce (by multiplying column 1 by column 3). Make sure that the tax rates you use are comparable to the tax base you are using (i.e., if using assessed values, use the nominal tax rate; if using market values, use the equalized tax rate).

A computer spreadsheet (in Microsoft Excel format) also has been developed to assist you with these calculations, and is available at http://www.psu.edu/dept/aers/ltoc/. It makes developing and comparing alternative local tax structures easier.

Table 2. Revenue Possible with Each Tax

________________ Jurisdiction (County, Municipality, School District) (White areas must be calculated.)					
		Tax Rate		Tax Revenue	
Tax	Tax Base (from Web site)	Current (from Workbook 4, Table 8)	Alternative Being Considered	Current (column 1 X column 2)	Alternative Possible (column 1 X column 3)
Real Property Tax					
Realty Transfer Tax					
Earned Income Tax					
Per Capita Tax					
Occupation Tax					
Other Local Tax					
Other Local Tax					
Other Local Tax					
Other Local Tax					

3. How appropriate are these alternatives for our community?

As a community, how do you decide which local taxes are better for your community, or if the current system can be changed to make it better? Local tax decisions must balance fairness concerns with other factors. The fairest tax might not be viable in your community, for example, if it fails to produce sufficient tax revenues for your school district, county, or municipality to operate, or if it is too difficult to administer. People use a variety of criteria to evaluate local taxes, in addition to tax fairness. Several of these were discussed in Workbook 1 and are summarized in Table 3.

How these criteria are implemented in your community affects which taxes may be best for your community. In addition, other local tax criteria may be important to your community as well. The following discussion questions are intended to help you prioritize these criteria for your community and to identify others that might be important. The answers can be used later in this workbook on the "Local Tax Evaluation Form," as part of your local discussions about specific individual taxes.

Table 3. Common Criteria for Evaluating Local Taxes

1. Adequacy	An adequate revenue source is one that is regular and reliable in the face of fluctuations in economic activity.
2. Adaptability	Adaptable taxes allow tax rates to be changed to meet changing needs. When tax sources are not adaptable, school districts or local governments may be faced with revenue shortages or surpluses as needs or revenues change.
3. Administrative ease and economy	The complexity and costs of administering revenue from varied sources also is important. In general, the more complex a given tax to administer, the more costly and inconvenient to the citizen its administration will be.
4. Economic effects	The way different taxes affect the use of society's resources and community growth also must be considered. Does the tax change the prices of goods and services or create disincentives for socially desirable behavior?
5. Social acceptability	The social acceptability of a tax has to do with the way people perceive that source. If people feel that a particular tax is unacceptable, for whatever reason, it can be difficult to levy it.
6. Fairness	The fairness of a tax also is important. Does it conform to social definitions of fairness (such as the ability-to-pay principle), or does it treat some taxpayers unfairly?

Discussion questions:

1. What are some of the tax fairness questions most important to your community that you discussed in Workbook 1?

2. What major criteria do you think should be used to evaluate the appropriateness of different local taxes in your community? Why do you believe they are important? Which other local taxpayers also might believe they are important?

3. What major criteria do you think that *other* taxpayers in your community (such as renters, farmers, young families, small business owners, retirees, or nonresident property owners) would believe should be used?

4. How should tax fairness be balanced with other tax criteria, such as adequacy, adaptability, administrative ease, economic effects, and social acceptability? Which should be most important? Why?

Local discussions about tax alternatives need to focus on both the appropriateness of *individual* taxes (such as "how does the real property tax affect local businesses?" or "how do citizens view the occupational privilege tax?") as well as the *overall* impact of the total changes in local taxes you are considering (such as "if we increase the earned income tax and use the new revenues to reduce the real property tax, who will pay more and who will pay less?"). The following sections first help you consider each tax individually, to learn more about how well that single tax may work in your community. The possible overall impact on your community of all the taxes together then is examined.

Appropriateness of specific individual taxes

Thinking about each local tax individually is important if you are to fully understand its possible role in your own community. A list of suggested questions (entitled the "Local Tax Evaluation Form") based on the tax criteria just discussed appears in Appendix B and should be used to discuss the appropriateness of each local tax. Also use your answers to the questions in the previous section about the important criteria that should be used to evaluate local taxes in your own community.

Use the questions on the Local Tax Evaluation Form to consider each of the local taxes your community is using or is thinking about using. A summary form, Table 4, is designed to help you summarize your discussion about each tax. Use checkmarks (√) to highlight how well a tax meets each criterion (such as "adequacy"); one checkmark for a criterion means that it meets that criterion only poorly, two checkmarks means it moderately meets the criterion, three checkmarks means it meets the criterion very well, and no checkmark means it fails to meet the criterion at all.

Table 4. Local Tax Evaluation: Summary

Summarized from "Local Tax Evaluation Form" discussion (see Appendix B, pages 16–17).

	Evaluation*							
	Adequacy	Adaptability	Administrative Ease	Economic Effects	Social Acceptability	Fairness	Major strengths of this tax	Major weaknesses of this tax
Real Property Tax								
Realty Transfer Tax								
Earned Income Tax								
Per Capita Tax								
Occupation Tax								
Other Local Tax								
Other Local Tax								
Other Local Tax								

*√= *poor* √√ = *moderately* √√√ = *very well*

Overall impact of a change in local taxes

The overall impact of changing all these taxes also is important to consider. The calculations you did in Table 2 will let you see how much some taxes can be lowered in exchange for raising other local taxes. You can estimate the impact of these changes on individual taxpayers in your community using the same Tax Impact Worksheet you used in Workbook 4, which helped you estimate the impact of your community's current use of taxes. (For your convenience, this worksheet is reprinted for photocopying in Appendix C, along with a completed sample worksheet.)

Use these earlier calculations on the impact of current taxes as a baseline for comparing the impact of changing local taxes. In Table 5, column 1, write each key taxpayer's total tax paid (calculated in Workbook 4, Table 9). Then use the reprints of the worksheet in Appendix C to estimate the impact of a proposed change in local taxes. For example, you might redo the calculations in that worksheet using a higher earned income tax rate and a lower real property tax rate. Write these new estimated total taxes owed by each taxpayer into the second column of Table 5. To see how much of a dollar change this would make in the amount each key taxpayer pays, in column 3 subtract the amount currently paid (column 1) from the amount the taxpayer would pay with the change (column 2). The percentage change in taxes can be calculated in column 4 by dividing the change (column 3) by the amount currently paid (column 1) and then multiplying by 100 to convert it to a percentage.

The same computer spreadsheet you used in Workbook 4 can be used to make these calculations. The spreadsheet is available at http://www.psu.edu/dept/aers/ltoc/.

The personal income tax often is mentioned as a possible option in local tax reform discussions, but as of yet it is not permitted in local jurisdictions in Pennsylvania. The personal income tax is the same one used by the Commonwealth, and differs from the earned income tax primarily by including dividend and interest income. Some people claim that it is fairer than the earned income tax because it uses a broader definition of income. If you are interested in seeing how the personal income tax might affect key taxpayers in your community, you can use the regional profile data in the appendix of Workbook 2 to calculate this information.

Table 5. Impact of Tax Change on Typical Taxpayers

____________ Jurisdiction (County, Municipality, School District) (White areas must be calculated.)				
	Total Taxes Paid		**Net Impact on Taxpayer**	
Key Taxpayers:	**Under Current Tax System (from Workbook 4, Table 9)**	**Under New Tax System (from your calculations in Appendix C)**	**Dollar Change (column 2 – column 1)**	**Percent Change (column 3 ÷ column 1 X 100)**
	$	$	$	%
	$	$	$	%
	$	$	$	%
	$	$	$	%
	$	$	$	%
	$	$	$	%
	$	$	$	%
	$	$	$	%

Discussion questions:

1. How does the impact of this change in local taxes affect the key or typical taxpayers you looked at? Who would pay less in local taxes? Who would pay more in local taxes? Is this a fair change? Why or why not? What tradeoffs are there with these changes?

2. How does this new potential distribution of taxes relate to the tax fairness you discussed in Workbook 1 and other tax criteria?

2a. In Workbook 2, Table 1, you examined the number of working-age persons per child and per retirement-aged person. How would this change affect the tax burden on working people and on retirees?

2b. How much of the local tax burden in your community are nonresidents currently carrying? If you shifted the tax burden away from the real property tax, how much additional burden would residents pick up because it no longer would be paid by nonresidents?

2c. How would this change affect local businesses and major employers?

2d. How would this change affect renters?

2e. How would this change affect other taxpayers?

3. Would this change make local taxes better, worse, or the same? For whom? Does it make much of a difference?

4. Are there taxpayers who may be particularly affected by this tax change, whom you did not examine in Workbook 4 or here? If so, use the worksheets from Workbook 4 to calculate their current taxes and the worksheets from this workbook to estimate the potential impact of the change.

5. Is this alternative better than the existing system? Why or why not? How is it better? How is it worse? How is it the same?

Pulling it All Together

Through the past several workbooks, you've done a lot of work and study about how local taxes are used in your community and their impact on residents. You should have learned more about your local community, who lives there, how local taxes are used, and how they affect local taxpayers. You have examined the tax alternatives available to your community and estimated how changing local taxes would affect local residents and taxpayers. As a way of drawing this information together, it may be appropriate to reexamine some of the questions about tax fairness you first considered in Workbook 1.

Summary discussion questions:

1. How do attitudes toward tax fairness differ in your community? How would you characterize the perspectives of different taxpayer groups in your community? What are the similarities and what are the differences in their perspectives?

2. What are the major services your county, municipality, or school district provides? Who benefits from these services? Why does your community communally provide these services, instead of letting individuals or the private sector provide them?

3. How do the benefits received from services and the taxpayers' ability to pay relate to how much individual taxpayers owe in local taxes? How do other tax fairness principles you may prefer relate to how much individual taxpayers owe?

4. Considering all the information you've learned about your community, how fair is the *total amount* of tax dollars your community needs, and how fair are the *specific taxes* used in your community? Why do you feel that way?

5. In what ways is your community's use of specific taxes fair? In what ways is it unfair? Which taxpayers are most affected (both positively and negatively) by your community's use of taxes?

6. If your concern is more about the *total amount* of taxes than about the *specific* taxes used in your community, will a change to a more fair local tax make any difference? Why or why not? What could be done about the total amount of taxes needed? How can you reexamine the total amount of taxes needed and appropriately address that concern?

7. Does your community have enough local tax options to address its concerns? If not, what options do you believe your community should have? What are some of the ways you can communicate this to your legislators and state officials and help them learn about your needs?

8. Within the choices currently available to your community, what should be your local distribution of taxes? Which taxes should you use heavily, and which should you not use? Why?

9. Individual communities can do little by themselves to address inequities that cross jurisdictional boundaries; poor jurisdictions will remain poor and wealthy jurisdictions will remain wealthy. Are inequities across jurisdictional boundaries important? If so, what actions can communities, individual taxpayers, or others take to make taxes fairer across all jurisdictions?

10. In conclusion, how fair are local taxes in your community? How fair could they be?

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Selected Revenue Data and Equalized Mills for Pennsylvania Public Schools, 1994–5. Harrisburg: Pennsylvania Department of Education. 1995.

For more information on specific tax programs, contact or see:

***1. Senior Citizens Rebate and Assistance Act:* Your Area Agency on Aging or the Pennsylvania Department of Revenue.**

***2. Real Estate Tax Deferment Act:* Your school district or local government or your state legislator's office.**

***3. Act 319, "Clean and Green:"* Your local Penn State Cooperative Extension Office or county tax assessment office. See also:**

Becker, J. *Act 319 of 1974, Use Value Assessment Under Pennsylvania's 'Clean and Green' Act.* University Park, PA: Department of Agricultural Economics and Rural Sociology, Penn State. 1996.

Kelsey, T. W. *Farmland Preservation in Pennsylvania: The Impact of 'Clean and Green' on Local Governments and Taxpayers.* Extension Circular 411. University Park, PA: Penn State Cooperative Extension. 1994.

***4. Homestead and Farmstead Programs:* Your county tax assessment office. See also:**

Kelsey, T. W. *Understanding the Homestead and Farmstead Exclusions.* Extension Circular. University Park, PA: Penn State Cooperative Extension. 1998.

Appendix A: State-Mandated Tax Limits

1. Counties

Potential Tax Sources	Legal Limit[1]
General-Purpose Tax Levies	
Real Estate:	
Second Class Counties	25 mills
Second Class A Counties	30 mills
Third–Eighth Class Counties	25 mills[2]
Personal Property	4 mills
Per Capita or Occupation:	
Fourth–Eighth Class Counties Only	$5
Special-Purpose Taxes	
Debt Service	no limit
Lease Rental Payments to Authorities:	
Third–Eighth Class Counties	10 mills
Institution Districts:	
Second Class Counties	10 mills
Second Class A Counties	15 mills
Third Class Counties	10 mills
Parks and Playgrounds:	
Third–Eighth Class Counties	no limit
Second Class and Second Class A Counties	3 mills
Libraries	no limit
Roads and Bridges	6 mills
Memorial Hall	no limit
Tuberculosis Hospital	no limit
Bridges	no limit
Community Colleges	[3]
Hotel Room Rental:	
Second Class and Second Class A Counties	5 percent
Municipalities Financial Recovery Program	no limit

1. Counties adopting home rule charters may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents. They may not create new subjects of taxation. Home rule counties as of July 1, 1992 are: Delaware, Erie, Lackawanna, Lehigh, and Northampton.

2. Five additional mills available with court appeal.

3. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

2. Third Class Cities

Potential Tax Sources	Legal Limit[1]
General-Purpose Tax Levies	
Real Estate	25 mills[2]
Residence	$5
License	$100
Act 511 Taxes:	
Per Capita	$10
Occupation (Flat Rate)	$10
Occupation (Millage)	no limit
Occupational Privilege	$10
Earned Income	1 percent
Deed Transfer	1 percent
Mechanical Devices	no limit
Amusement	10 percent
Business Gross Receipts	1 mill wholesale 1 1/2 mills retail no limit other businesses
Special-Purpose Taxes	
Bonded Debt and Sinking Fund	no limit
Recreation	no limit
Library	no limit
Shade Trees	1/10 mill
Support Bureau of Charity	10 mills
Community Colleges	[3]
Distressed Pension System Recovery Program	no limit
Municipalities Financial Recovery Program	no limit

1. Home rule municipalities may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents. They may not create new subjects for taxation. Third class cities adopting home rule charters as of July 1, 1992 include: Carbondale, Chester, Clarion, Coatsville, Farrell, Franklin, Greensburg, Hermitage, Lebanon, McKeesport, Warren, and Wilkes-Barre.

2. Five additional mills available with court appeal.

3. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

3. Boroughs

Potential Tax Sources	Legal Limit[1]
General-Purpose Tax Levies	
Real Estate*	30 mills[2]
Occupation	30 mills[2]
*Act 511 Taxes:**	
Per Capita	$10
Occupation (Flat Rate)	$10
Occupation (Millage)	no limit
Occupational Privilege	$10
Earned Income	1 percent
Deed Transfer	1 percent
Mechanical Devices	no limit
Amusement	10 percent
Business Gross Receipts	1 mill wholesale 1 mill retail no limit other businesses
Special-Purpose Taxes	
Debt Interest and Sinking Fund*	no limit
Pensions and Retirement*	1/2 mill
Shade Trees*	1/10 mill
Street Lighting*	8 mills
Library*	no limit
Special Road Fund	5 mills
Recreation*	no limit
Fire Equipment & Firehouses	3 mills[3]
Gas, Water, Electric Light[4]	8 mills
Firehouse, Lockup or Municipal Building[4]	2 mills
Community College*	[5]
Debt Payment[6]	no limit
Ambulance and Rescue Squads	1/2 mill[3]
Distressed Pension System Recovery Program*	no limit
Municipalities Financial Recovery Program*	no limit[6]

1. Home rule boroughs may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents. They may not create new subjects of taxation. Home rule boroughs as of July 1, 1992 are: Bellevue, Bethel Park, Bradford Woods, Bryn Athyn, Cambridge Springs, Chalfont, Edinboro, Green Tree, Kingston, Monroeville, Murrysville, Norristown, State College, Tyrone, Whitehall and Youngsville.

2. Five additional mills available with court approval.

3. Higher rate may be approved by voters in referendum.

4. Must be approved by voters in referendum.

5. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

6. Levied only on court order.

* These taxes also are authorized for the incorporated town of Bloomsburg, 1972 P.L. 1441, No. 320.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

4. First Class Townships

Potential Tax Sources	Legal Limit[1]
General-Purpose Tax Levies	
Real Estate	30 mills[2]
Occupation	30 mills[2]
Act 511 Taxes:	
Per Capita	$10
Occupation (Flat Rate)	$10
Occupation (Millage)	no limit
Occupational Privilege	$10
Earned Income	1 percent
Deed Transfer	1 percent
Mechanical Devices	no limit
Amusement	10 percent
Business Gross Receipts	1 mill wholesale 1 1/2 mills retail no limit other businesses
Special-Purpose Taxes	
Firehouses and Equipment	3 mills[3]
Shade Trees	1/10 mill
Municipal Building	no limit
Debt Service	no limit
Pensions and Retirement	1/2 mill
Fire and Water District	2 mills
Permanent Improvement Fund	5 mills
Recreation	no limit
Library	no limit
Community Colleges	[4]
Ambulance and Rescue Squads	1/2 mill[3]
Distressed Pension System Recovery Program	no limit
Municipalities Financial Recovery Program	no limit[5]

1. Home rule townships may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents. They may not create new subjects of taxation. First class townships under home rule charters as of July 1, 1992 are: Cheltenham, Haverford, McCandless, Mount Lebanon, O'Hara, Penn Hills, Plymouth (Montgomery County), Radnor, Upper Darby, Upper St. Clair, Whitehall (Lehigh County), and Wilkes-Barre.

2. Five additional mills available with court appeal.

3. Higher rate may be approved by voters in referendum.

4. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

5. Levied only on court order.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

5. Second Class Townships

Potential Tax Sources	Legal Limit[1]
General-Purpose Tax Levies	
Real Estate	14 mills[2]
Occupation	14 mills[2]
Act 511 Taxes:	
Per Capita	$10
Occupation (Flat Rate)	$10
Occupation (Millage)	no limit
Occupational Privilege	$10
Earned Income	1 percent
Deed Transfer	1 percent
Mechanical Devices	no limit
Amusement	10 percent
Business Gross Receipts	1 mill wholesale 1 1/2 mills retail no limit other businesses
Special-Purpose Taxes	
Municipal Building	1/2 general rate
Firehouses and Equipment	3 mills[3]
Recreation	no limit
Debt Service	no limit
Permanent Improvement Fund	5 mills
Road Machinery Fund	2 mills
Library	no limit
Ambulance and Rescue Squads	1/2 mill[3]
Fire Hydrants for Water District	apportioned cost
Fire Hydrants for Township[4]	2 mills
Street Lights for District[5]	apportioned cost
Street Lights for Township[5]	5 mills
Police Protection District[5]	no limit
Debt Payment[6]	no limit
Community Colleges	[7]
Municipalities Financial Recovery Program	no limit[6]
Distressed Pension System Recovery Program	no limit

1. Home rule boroughs may set rates higher than the limits provided in state law for property taxes and for personal taxes levied on residents. They may not create new subjects of taxation. Second class townships under home rule charters as of July 1, 1992 are: Chester, Elk (Chester County), Ferguson (Centre County), Hampton, Hanover (Lehigh County), Horsham, Kingston, Middletown (Delaware County), Peters (Washington County), Pine, Richland (Allegheny County), Tredyffrin, Upper Providence (Delaware County), West Deer, and Whitemarsh.

2. Five additional mills available with court appeal.

3. Higher rate may be approved by voters in referendum.

4. Requires approval of voters in referendum.

5. Requires petition of majority of landowners.

6. Levied only on court order.

7. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

6. Second, Third, and Fourth Class School Districts

Potential Tax Sources	Legal Limit[1]
General Education Purposes	
Real Estate	25 mills[1]
Per Capita	$5
Act 511 Taxes:	
Per Capita	$10
Occupation (Flat Rate)	$10
Occupation (Millage)	no limit
Occupational Privilege	$10
Earned Income	1 percent
Deed Transfer	1 percent
Mechanical Devices	no limit
Amusement	10 percent
Business Gross Receipts	1 mill wholesale 1 1/2 mills retail no limit other businesses
Special-Purpose Taxes	
Debt Service[2]	no limit
Parks and Playgrounds	2 mills
Capital Reserve Fund	3 mills
Community Colleges	[3]

1. Additional millage may be levied to pay salaries and debt service charges for school buildings.

2. Levied only by court order.

3. Local sponsors may levy any tax permitted by law to support a community college. The tax cannot exceed 5 mills of the market value of real estate, except for first class cities and first class school districts where it cannot exceed 1 mill of the market value of real estate.

Source: Reproduced from the Center for Local Government Services' *Taxation Manual.*

Appendix B:
Local Tax Evaluation Form (For Photocopying)

Use this form to evaluate each specific tax your community is considering. Summarize your discussion in Table 4.

A. Adequacy:

1. How much revenue could be collected in our community from this tax? How does this amount compare to our total needs? Could it make a significant contribution?

2. How would collections from this tax change as the local economy booms or falls? Would it be adequate during economic upturns or downturns, or could it leave us vulnerable?

3. How does this tax's tax base change over time? How would these changes affect total tax collections, or would other action need to occur (such as reassessment) for collections to naturally increase? Is control over these other actions in the hands of our community, or in someone else's hands?

4. (other questions)

B. Adaptability:

1. How easily can tax rates be changed for this tax, in response to changing local needs?

2. Does this local tax have enough flexibility that it will allow our community to adjust its use in the future as needs change?

3. (other questions)

C. Administrative Ease and Economy:

1. How complex is this tax to administer? Is it easily understood by taxpayers? Is the administrative structure already in place, or would it need to be created?

2. How easily applied is this tax? Is it difficult for tax collectors to know who should pay it or to calculate how much someone owes, creating the opportunity for honest citizens to pay more than dishonest citizens?

3. (other questions)

D. Economic Effects:

1. What incentives and disincentives are created by this local tax? Does it encourage or discourage socially desirable activities (such as improving your property?)

2. How might this tax affect local businesses' ability to compete with businesses in neighboring communities?

3. (other questions)

E. Social Acceptability:

1. Are local taxpayers familiar with the tax, and how well do they understand it?

2. How do people in your community view this local tax? Who views it favorably, and who views it negatively?

3. How acceptable is this local tax, compared to other available local taxes? Which taxpayers find it most acceptable? Which find it least acceptable? Why?

4. (other questions)

F. Fairness:

1. Which taxpayers in your community are subject to this tax? Which are not? Are taxpayers treated effectively the same, or does this tax treat them differently in some way? How?

2. How does this tax treat taxpayers with the same income? Same wealth? Same demand for services? Does it treat them similarly, or does it discriminate in some way?

3. Which taxpayers receive special benefits or exception from this tax?

4. How would relying on this tax affect how the tax burden is distributed across different taxpayer groups?

5. (other questions)

G. Other Criteria:

1. (other questions)

2. (other questions)

3. (other questions)

4. (other questions)

Appendix C:
Tax Impact Worksheet (For Photocopying)

Local Government or School District ____________________

Scenario Number ____________________

Taxpayer ____________________

(White areas must be calculated.)

Tax	**Equalized Tax Rate (from Workbook 4, 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	*(from Workbook 2, Table 8, row 1)*	$
Earned Income Tax		Household earned income	*(from Workbook 2, Table 8, row 2)*	$
Mercantile Tax		Business sales	*(from Workbook 2, Table 8, row 3)*	$
Per Capita Tax		Adults in household	*(from Workbook 2, Table 8, row 4)*	$
Occupation Tax (if levied as flat rate)		Number of household members who work	*(from Workbook 2, Table 8, row 5)*	$
Occupation Tax (if levied as millage)		Value of occupation	*(from Workbook 2, Table 8, row 6)*	$
Other Local Tax				$
Other Local Tax				$
Total Tax Owed by Typical Taxpayer	—		—	$

Sample Tax Impact Worksheet

Local Government or School District Sample Township

Scenario Number Scenario #1

Taxpayer Middle-income, middle-aged family of

(White areas must be calculated.)

Tax	Equalized Tax Rate (from Workbook 4, 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 *(from Workbook 2, Table 8, row 1)*	$ .002 X 60,000 = $120
Earned Income Tax	.005 (1/2 percent)	Household earned income	$26,845 *(from Workbook 2, Table 8, row 2)*	$ .005 X 26,845 = $134.22
Mercantile Tax	0	Business sales	$0 *(from Workbook 2, Table 8, row 3)*	$ 0
Per Capita Tax	$5	Adults in household	2 *(from Workbook 2, Table 8, row 4)*	$ 5 X 2 = $10
Occupation Tax (if levied as flat rate)		Number of household members who work	*(from Workbook 2, Table 8, row 5)*	$
Occupation Tax (if levied as millage)	.100 (100 mills)	Value of occupation	$250 *(from Workbook 2, Table 8, row 6)*	$ .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

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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