Pennsylvania and Local Taxes
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If you live in Pennsylvania, you have a lot for which to be thankful. Pennsylvania’s local tax system unfortunately isn’t one of them. In fact, it is one of those aspects of life Pennsylvanians have come to dread and deplore. And they should. The state’s local tax system is arguably the worst in the entire country.

It hasn’t become the worst over night. Our government leaders have had to work at it. A little state history is useful here. The state’s local tax system has roots in English history and in the colonial era, but the modern period dates back to the 1960s with the passage of a notorious piece of legislation codified as Act 511. Under Act 511, the state’s local communities raise their revenue from a rogue’s gallery of tax sources given them by the state legislature in 1965. In that year, the legislature, pressed to find new sources of money for schools and municipalities – and apparently clueless what to do about it -- came up with a creative solution. Why not enable municipalities to tap a variety of tax bases not already used by the state itself.

Known widely and appropriately as “the tax anything law,” Act 511 has spawned an odious array of local taxes, including wage taxes and (aptly called) nuisance taxes, such as the “occupation “ tax and the “occupation privilege” tax. In addition, some fortunate municipalities get to enact an amusement tax, a mercantile tax, and, we kid not, something somewhat lewdly called a mechanical devices tax. In any other state or jurisdiction, these taxes would be barely defensible as ways to raise public revenue in modern times. But bad as they are, they are even worse here in Pennsylvania because the 1965 legislation enabled virtually all of the state's local governments and school districts to adopt them willy-nilly. Originally meant as a temporary means of raising money, the taxes permitted under Act 511 have become a permanent source of revenue for local governments. The result today is a crazy quilt of local taxes that confront Pennsylvanian’s across 67 counties, 501 school districts and some 2,500 municipalities

So just how bad are local taxes in Pennsylvania? Very bad! Here’s a short list of the problems:

- Pennsylvania’s local taxes violate elemental fairness. Most and maybe all of the local taxes used in the state are regressive. Lower income taxpayers pay them at a higher rate than do higher income taxpayers. The so-called nuisance taxes are the worst offenders here, followed closely by the wage tax and then property taxes.

- Pennsylvania’s local taxes are hard to administer and expensive to collect. Most of the nuisance taxes are hard to administer and expensive to collect. Some estimates are that it costs as much as ten times more to collect these taxes compared to the cost of collecting income or even sales taxes.

- Pennsylvania’s local taxes are inadequate to fund schools and local government. Economist use the term “inelasticity” to describe taxes such as the property tax and the nuisance taxes. They don’t grow with the rest of the economy, and so rates have to be raised frequently just to keep up. A related problem is the inequity in tax revenues that grow over time among local governments, though while worse for property taxes remains a serious problem for the use of Act 511 taxes.
Pennsylvania’s local taxes are complex and confusing to most taxpayers. The property tax with its archaic mileage rates and assessment ratios is difficult enough to fathom, but who can explain the difference between the occupation tax and the occupation privilege tax? Could anyone explain what it means when the occupation tax may be based on a “millage applied against the assessed value of occupations?” And then there is the 1 percent wage tax. In some areas the school district and municipality share it – and taxpayers are actually expected to file two separate wage tax returns, one for each one-half percent paid.

The list of problems with Pennsylvania’s local tax system could be expanded exponentially. The local tax system is complex and confusing if not outright byzantine. It’s also unfair, and inefficient. Nor is any of this particularly new or shocking information.

State political leaders have been aware of the problems for a long time – and piecemeal proposals to solve one part of it or another are common. But “tax reform” itself lost its cachet in 1987 when then Gov. Bob Casey championed a statewide referendum that proposed to shift the local tax base from property owners to wage earners. That referendum lost by a four-to-one margin.

Since then our state political leaders have seemed timid if not downright skittish about the issue. The current gubernatorial administration has virtually ignored it. State Democrats have tried to make tax reform the central legislative issue, but without success.

No issue quite intimidates politicians, as does the subject of tax reform. They fear it and the wrath of voters should reform be perceived as a tax increase. The 1987 referendum defeat stands as a powerful object lesson to many state politicians: caution--talk of tax reform may be hazardous to your political health.

But the clock is running out. Driven by the demographics of an aging population, resistance to the property tax is growing. At the same time, the rising costs of education and increasing demands on local governments are producing inexorable pressures on local spending. Things cannot long continue the way they are. A crisis looms.

The challenge to our political leadership is clear and obvious. The time for delay and denial is just about over. We have always known that sooner or later fundamental change must come to Pennsylvania’s local tax system. The question has never been if that change must come, but only when. When is now. Let’s get to it.

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