



**TESTIMONY BY
THE PENNSYLVANIA STATE ASSOCIATION OF
TOWNSHIP SUPERVISORS**

**BEFORE THE
HOUSE FINANCE COMMITTEE**

ON

HOUSE BILL 2330

PRESENTED BY

**ELAM M. HERR
ASSISTANT EXECUTIVE DIRECTOR**

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4855 Woodland Drive Enola, PA 17025-1291 Internet: www.prats.org

PSATS Pennsylvania Township News Telephone (717) 763-0930 Fax (717) 763-9732

Trustees Insurance Fund Unemployment Compensation Group Trust Telephone (800) 382-1268 Fa* (717) 730-0209

Chairman Benninghoff and members of the House Finance Committee:

Good morning. My name is Elam M. Herr, and I am the assistant executive director for the Pennsylvania State Association of Township Supervisors. Thank you for the opportunity to appear before you today on behalf of the 1,455 townships in Pennsylvania represented by the Association.

Townships comprise 95 percent of the commonwealth's land area and are home to more than 5.5 million Pennsylvanians — nearly 44 percent of the state's population. These townships are very diverse, ranging from rural communities with fewer than 200 residents to more populated communities with populations approaching 60,000 residents.

At all levels, government's role is to provide the facilities, programs, and services that individuals cannot otherwise provide for themselves and that the private sector cannot or will not deliver. Like that of the Commonwealth, local government's funding to deliver these services is primarily generated by taxes. However, unlike the commonwealth, local government's taxing capacity is limited to the authority granted by the state.

For local officials to respond adequately to the needs and demands of their citizens, they must have the authority and flexibility to tailor their tax structure to best meet these needs. Local governments must be able to choose the proper mix of taxes to generate sufficient tax revenues to meet the needs of the community. The tax base must be fair to all citizens and maintain a balance between residential and business taxpayers.

Local tax reform

Local tax reform is needed to provide municipalities with more flexible options. Townships in Bucks County face different challenges than those in Juniata County. As such, until we undertake the effort needed to substantially reform our local tax system and achieve a broad-based, long-term solution, revenue challenges will continue for local governments of all sizes, in all areas of our commonwealth.

We believe that any reform or restructuring of the local tax system must establish a broad-based, long-term solution. To that end, local tax reform must be comprehensive and must provide a full, optional menu of taxes for townships, including but not limited to, the property tax, the earned income or personal income tax, the business privilege and mercantile tax, the amusement tax, the local services tax, and sales taxes.

The current taxation system requires local governments to rely on the property tax, a tax that has been shown to be an unfair burden on those with limited incomes. Part of the problem is that three local taxing jurisdictions — the municipality, county, and school district — must rely on the same property tax base for a major portion of their revenues.

I want to be clear that PSATS opposes the elimination of the property tax. Many townships rely heavily on the property tax as a reliable source of revenue. Although the

earned income tax is a greater source of revenue for some townships, it varies due to demographics and economic conditions. Also, many bedroom communities, particularly in border counties, have few tax options and could not continue to operate without the property tax.

Optional county sales tax

Over the past several years we have worked closely with the other municipal associations and with CCAP to develop and support what we believe to be a reasonable, beneficial proposal for a county optional sales tax. Under our proposal, a majority of the municipalities within the county could compel that the referendum be placed on the ballot if the county chooses not to place it on the ballot. The revenues from our joint proposal would be shared between the county and the municipalities within that county. It would have provided the county with a diversification of its tax base and decrease its reliance on the property tax, while providing municipalities with an additional source of tax revenue and further diversification. For these reasons, we prefer our optional county sales tax proposal to that in HB 2330.

Earned income tax

The earned income tax, not the property tax, is the biggest source of tax revenue for many townships. Because it is based on income, the earned income (wage) tax is generally perceived to be more equitable and therefore, more politically acceptable.

Although the statutory limit on this tax for townships is 1 percent, the tax must be shared with the school district, so in reality, the current cap is 1/2 of 1 percent. The sharing provision prevents the earned income tax from becoming a more important and equitable source of revenue for most townships.

We believe that the sharing provisions between the school district and municipalities for the earned income and other Act 511 taxes should be eliminated by giving each taxing jurisdiction its own exclusive tax base. Further, we support the concept of authorizing townships to levy a higher earned or an optional personal income tax, thereby giving them the flexibility to reduce their reliance on the property and nuisance taxes, if they so desire.

HB 2330: Earned income tax and personal income tax provisions

While HB 2330 does provide for an increased earned income tax and the option of converting to a personal income tax, we are concerned that the proposed rules are rigid and would result in a tax shifting rather than a true tax diversification. First, all three types of local government would be independently given the option of tax shifting from the property tax to the earned or personal income tax while meeting the criteria in the legislation, such as achieving a 30 percent decrease in property tax revenues, while at the same time prohibiting future property tax increases for those local governments that choose to increase their EIT or levy a PIT.

HB 2330 calls for a 30 percent across-the-board reduction to the property tax, which would require working families, individuals, and small business to shoulder more

of the local tax burden, while decreasing the share borne by the business community. If a local government chooses to shift to the personal income tax, this would add retirees to those whose tax burden is increased.

The property tax is the only local tax paid by the business community. While a few communities retain the mercantile and business privilege tax, this has not been an option for municipalities in decades. Meanwhile, residents and small business pay a diverse array of local taxes, including the property tax, the earned income tax, and the per capita tax while those individuals working in the municipality pay the local services tax.

We have several suggestions for your consideration. First, any dollar for dollar tax reduction should be first made through the homestead and farmstead provisions and if the maximum reduction is reached, then the general millage could be decreased. Second, the earned income tax and personal income tax provisions should allow local governments the flexibility to shift the tax burden *up to at least 30 percent*. We prefer a more flexible approach as to an all-or-nothing style approach. Finally, for many townships, the permanent cap on the property tax will not be worth the trade-off of a small increase in the earned income tax.

As mentioned earlier, the weaknesses of our current system of local taxation lies in the limited options, lack of flexibility, and the reliance of all three types of local government on the same tax base. What would happen if all three local governments choose to shift to the earned income tax, personal income tax, or a combination? While this may at first appear to be an attractive option, the new combined total for the earned income or personal income tax should be considered, particularly with the ability in HB 2330 to increase these rates in future years.

And while the property tax is over relied upon today, it is a stable source of revenue. While both the earned income tax and personal income tax have the potential to grow as incomes rise and employment grows, over the last four years we have seen these taxes decrease, sometimes drastically, as wages grow stagnant and unemployment rises. This creates a situation where needed and necessary services cannot be provided.

Mandate relief

Finally, local tax reform should be considered along with mandate relief. This legislature has made significant strides in loosening the burdens on local government through common sense reforms such as increased bid limits and, we hope, reforms to the prevailing wage. Unfortunately, local governments are forced to find ways to pay for unfunded mandates and all common sense reforms free us to provide increased value for our taxpayers.

In closing, local tax reform must be made with all types of local governments in mind, which this proposal does consider. However, it needs to be a flexible measure with a menu of options that each community can choose from that will allow the local tax burden to be shared most equitably while retaining local elected officials' ability to pay for the services that they must provide.

Thank you for the opportunity to testify today and I will now attempt to answer any questions that you may have.