

House Finance Committee Hearing on Act 32 of 2008  
October 6, 2015  
205 Ryan Office Building

Good morning, Chairmen O'Neill and Wheatley, and members of the House Finance Committee. My name is Joe Meade and I serve as the Deputy Secretary of Community Affairs at the Pennsylvania Department of Community and Economic Development.

I also want to introduce Sean Sanderson, Local Government Policy Manager, Governor's Center for Local Government Services. Thank you for inviting us to offer comments on Act 32.

Act 32, enacted on July 2, 2008, amended the Local Tax Enabling Act, Act 511 of 1965, to consolidate the collection of Earned Income Tax (EIT) on a countywide basis. The act was a result of a 2004 report published by the Department of Community and Economic Development (DCED) – a three-year study that documented the fragmentation, complexity and inefficiency of the earned income collection system.

Under the prior EIT system, 560 taxing authorities collected nearly \$1.9 billion in annual revenue for all local taxing jurisdictions. Pennsylvania currently has more taxing jurisdictions levying a local income tax than all other states combined. Because of inefficiencies in this system, it had been estimated that as much as \$237 million had been lost annually, revenues that should have been available to municipalities and school districts.

Additionally, the system had created a burden on employers that had led to an increase in the cost of conducting business within the commonwealth. The administration of the tax was fragmented, confusing and often unfair to taxpayers.

By reducing the number of collectors from 560 to 69, Act 32 streamlined the local tax collection system by reducing overhead and transferring tax revenues more efficiently and expediently. The legislation also made collection forms and procedures uniform. Finally, tracking, auditing and oversight requirements have provided accountability and added financial safeguards needed to restore integrity and transparency to the system.

We would like to offer the following suggestions regarding possible revisions to the current law.

**Suggestion #1:**

Amend Act 32 of 2008 to include the Local Services Tax (LST), the other local income tax required to be withheld and remitted by PA employers, in the consolidated local income tax collection system.

- Background:
  - Businesses attempting to enter and/or expand in PA often have difficulties understanding the local income tax system in PA. It takes a great amount of effort to comply with the requirements to withhold and remit the two local income taxes (local Earned Income Tax and Local Services Tax). Act 32 of 2008 consolidated the collection of the local EIT to a more countywide basis; however, the LST may still be collected by a different collector or collectors for each worksite location. In fact, it is not uncommon for a business having only one worksite location in PA to be required to remit local income taxes to three separate local tax collectors: local EIT collector, LST collector for municipal portion of LST, and yet another LST collector for the school district portion of LST (see the snapshot below for Homestead Borough, Allegheny County). Keep in mind that these local income tax withholding/remitting requirements are in addition to the requirements that exist at the federal and state levels.
- Pros:
  - By including the LST in the consolidated local income tax collection system established by Act 32 of 2008, it would be easier for businesses to understand and comply with the

local income tax withholding/remitting requirements, thus also making it more attractive for businesses to enter and expand in PA.

- Similar to what has been experienced with EIT collections under the consolidated system, LST collections would be more easily tracked and enforced, thus resulting in increased LST collections/revenues for local governments.
- Cons:
  - If there is a situation in which a current LST collector does not collect any other tax for the municipality/school district, then that LST collector would be forced out of a job as a result of moving LST collections to the consolidated collection system. (Note: An analysis is currently in progress as of 9/15/15 to determine the extent of this scenario; however, the frequency is anticipated to be minimal.)

HOMESTEAD BORO, ALLEGHENY COUNTY / STEEL VALLEY S D (PSD Code: 731501, ALLEGHENY SOUTHWEST TAX COLLECTION DISTRICT)						
Tax Rate				Tax Collectors		
Municipal Nonresident EIT	Total Resident Income Tax		Total LST	EIT	Municipal LST	School District LST
0.000 %	1.000 %		\$40.00	Jordan Tax Service	Keystone Municipal Collections	Legal Tax Service, Inc.
	Muni EIT	0.500 %	Muni \$35.00	102 Rahway Road McMurray, PA 15317 (412) 835-5243 Fax: (412) 835-5244 www.jordantax.com	118 Wendel Rd Irwin, PA 15642 (724) 978-0300 Toll-free: (866) 539-1100 Fax: (724) 978-0339 results@keystonecollects.com http://www.keystonecollects.com	P.O. Box 10060 Pittsburgh, PA 15236-6060 (412) 464-9555
	SD EIT	0.500 %	SD \$5.00			
	SD PIT	0.000 %				

**Suggestion #2:**

Amend Act 32 of 2008 to require that Local Services Tax withholdings be reflected on an employee's W2 tax form and be reconciled through the taxpayer's annual local tax return.

- Background:
  - Employers in PA are required to report an employee's local Earned Income Tax withholdings in "Box 19: Local Income Tax" of the employee's W2 tax form. Furthermore, employers in PA are required to include a code in "Box 20: Locality" of the W2 to indicate where the local EIT withholdings were remitted. All residents of PA are required to file a local annual tax return to reconcile the taxpayer's liabilities with respect to the local EIT. With all of this information, the local tax collector is able to compare what the taxpayer owes with what was received (and where it was sent). Nonetheless, employers in PA are currently not required to report the Local Services Tax withholdings on the employee's W2 tax form. Furthermore, the LST is excluded from the taxpayer's annual local tax return, which makes it impossible to reconcile taxpayer liabilities with respect to the LST.
- Pros:
  - In spite of not being required to do so, it is often the case that employers in PA will report LST withholdings in "Box 14: Other" on the W2 tax form. Therefore, requiring employers in PA to report LST withholdings on the W2 is not expected to increase any burden on PA businesses.
  - By requiring the LST to be reconciled with the taxpayer's annual local tax return, communities will be able to track and enforce the collection of LST due.

22222		Void <input type="checkbox"/>	Employee's social security number		For Official Use Only OMB No. 1545-0048	
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Control number			9		10 Dependent care benefits	
e Employee's first name and initial		Last name	Suffix	11 Nonqualified plans		12a See instructions for box 12
f Employee's address and ZIP code			13 <input type="checkbox"/> Salaried employee <input type="checkbox"/> Non-salaried plan <input type="checkbox"/> Third party catch-all		12b	
			14 Other		12c	
					12d	
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
						20 Unemployment

Form **W-2** Wage and Tax Statement

**2015**

Department of the Treasury—Internal Revenue Service  
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

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Thank you for this opportunity today. We would be happy to answer any questions.

### Act 32 Countywide Tax Collection Timetable Key Implementation Deadlines

Action	Deadline
DCED releases list and map of each Tax Collection District (TCD) and provides it to the Legislative Reference Bureau for publication in PA Bulletin on 1/28/09	January 16, 2009
Taxing Bodies in counties with existing consolidated collection to adopt uniform resolutions designating said collection entity as their TCC	July 1, 2009
DCED Provides weighted vote for each Tax Collection Committee (TCC)	September 1, 2009
Municipality Imposes an EIT – Delegate is voting member	June 30, 2009
TCC delegates named by each political subdivision.	September 15, 2009
Public Notice and notice to DCED of the First Meeting	September 15, 2009
First meeting held by each Tax Collection Committee (TCC)	November 15, 2009
DCED Completes EIT System Study and provides to all TCCs	December 31, 2009
DCED Promulgates Regulations	

Bylaws approved by TCC.	April 15, 2010
Appeals boards appointed by TCC.	June 1, 2010
Tax collectors for 2012 appointed for TCD by TCC.	September 15, 2010
Notify DCED of the appointment within 10 days of appointment	No later than September 25, 2010
Determine whether Tax Officer will collect 2011 income taxes	November 1, 2010
Notify DCED of determination of whether Tax Officer will collect 2011 taxes	December 1, 2010
Transition plans from old to new collector completed	July 1, 2011
Transfer of all documents and responsibilities to new collector	June 30, 2012
Full Implementation (New withholding rules & 69 collectors).	January 1, 2012
Legislative Budget and Finance Committee completes audit and evaluation	December 31, 2016

**Effect of Act 32  
Analysis & Methodology**

- There are **2,458** municipalities (excluding Philadelphia) that had enacted either a Resident EIT or Non-Resident EIT rate (or both) that was reflected in both the 2012 Official Tax Register and 2013 Official Tax Register.
- Of those 2,458 municipalities, there were **2,341** municipalities that had filed both the 2012 Annual Financial Report and 2013 Annual Financial Report with the Municipal Statistics Office within DCED; one municipality was excluded for failing to report EIT revenues on the Annual Financial Reports.
- Data that was self-reported by these **2,340** municipalities comprise the basis for the EIT analysis, shown below:

<b>Average Increase in EIT Revenue from 2012-2013 per Municipality (%)</b>	<b>Average Increase in EIT Revenue from 2012-2013 per Municipality (\$)</b>	<b>Total Increase in EIT Revenue from 2012-2013 Statewide (\$)</b>
9.22%	\$43,786	\$102,459,681
<i>*Includes EIT data from 2,340 municipalities that had enacted EIT rates that were reflected in both the 2012 and 2013 Official Tax Registers and that had also filed both the 2012 and 2013 Annual Financial Report, including necessary EIT revenue data</i>		

**Notes:**

- All data is based on information that was self-reported by municipalities using the Annual Financial Report form that is submitted to the Municipal Statistics Office each year.
- Because school districts do not file forms with the Municipal Statistics Office, school districts have been excluded from this analysis.
- Since Act 32 does not directly apply to Philadelphia, Philadelphia has been excluded from this analysis.
- Some municipalities may have increased the rate of the local EIT from 2012 to 2013; these municipalities have not been scrubbed for the purpose of this analysis.