



Bucks County Association of Township Officials

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Sterling Act Testimony

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The Bucks County Association of Township Officials was created in 1907 in accordance with Section 1401 of the Second Class Township Code and is comprised of 30 second-class townships and its supervisors, managers, tax collectors and auditors. The organization is governed by an Executive Board comprised of members throughout the county and appoints an Executive Director to run the day to day operations.

The Background:

The Sterling Act was passed in 1932 and grants Philadelphia - Pennsylvania's only first-class city – taxing powers that surrounding communities do not have. In 1939 as it struggled to recover from the Great Depression, Philadelphia passed the nation's first city income tax.

As suburban communities continued to see growth, the Local Tax Enabling Act was enacted in 1965 and, among other taxes, enabled municipalities to earned income taxes capped at 1 percent. But they don't receive that money from residents who work in Philadelphia, or from workers who live in the city.

The Problem:

According to 2014 data, Bucks County municipalities lost a total of \$6.4 million in revenue that Philadelphia kept under the Sterling Act - \$5.4 million in revenue lost to Philadelphia's Wage Tax and \$1 million in revenue lost to the Sterling Act Credit.

Specifically, the \$5.4 million refers to residents living in a municipality and working in Philadelphia. Even though the municipality levies a percentage EIT (up to 1%), Philadelphia does not send this revenue back from non-resident employees to the home municipality.

In regards to the \$1 million lost to the Sterling Act Credit, this refers to a resident working part-time in Philadelphia and part-time in another municipality. The resident receives a credit for taxes paid in Philadelphia which offsets their home municipality EIT. The result is a credit for the taxpayer but lost revenue for the home municipality.

Both of these issues do not include lost revenue for school districts, which receive a fluctuating amount of credit back under a formula implemented by the state Department of Education.

The Solution:

Twenty-four municipalities in our county have passed a resolution encouraging the state to amend the Sterling Act to bring the 1% earned income tax revenue back to support municipal operations. However, our school districts need help too. Instead of allowing "Super Credits," we believe that House Bill 2256 and House Bill 2257 helps both municipalities and school districts by providing a reimbursement of up to 1% of earned income tax revenue that is a necessity in a time of fiscal crisis for suburban communities.