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

PSATS opposes the reduction or elimination of any local government fees, revenues, or taxing authority unless these revenues are replaced dollar for dollar. When the state takes away a local revenue source without replacement or supersedes a local taxing authority, local governments are forced to either increase property taxes or reduce or cut services to their residents. In addition, the Association strongly believes that the use of funds derived from any general-purpose tax should not be limited or restricted by the General Assembly but should be left to the township’s discretion.

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 and ensure that the tax burden is shared equitably among all categories of taxpayers, including individuals, businesses, and industry. This tax structure must include property, revenue, and income taxes.

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 provide a full, optional menu of taxes for townships, including but not limited to, an income tax, business privilege tax, amusement tax, local services tax, property tax, and sales taxes.

**Property tax**

The current system requires local governments to rely on the property tax, which has been shown time and time again 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.

Many townships rely heavily on the property tax as a reliable source of revenue. Although the earned income tax can be a greater source of revenue, it varies due to economic conditions. Also, many bedroom communities, particularly in border counties, have few tax options and could not continue to operate without the property tax. As such, PSATS must oppose the complete elimination of the property tax.

The Association supports fair and flexible options to reduce the property tax burden on residential property. While municipalities may implement the Homestead Amendment to maintain a balance between the residential and business tax burden, without a new source of revenue, such as the authority to levy a higher income tax, few townships have the financial means to do so.

PSATS also supports legislation that would assess billboards as taxable real estate.

PSATS supports legislation that promotes continued education for elected tax collectors and opposes any legislation that would eliminate the position of elected tax collector.

**Earned and personal income tax**

The earned income 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.

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Because the current taxation system in Pennsylvania relies heavily on the property tax and many townships depend on it, PSATS opposes the complete elimination of the tax. Instead, it supports fair and flexible options that would enable townships to reduce the property tax burden on residential property in a way that works for them.
The Philadelphia Tax Credit should not be used to reduce earned income tax owed to a municipality on income not earned within Philadelphia.

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 cap is ½ of 1 percent. The sharing provision prevents the earned income tax from becoming a more important and equitable source of revenue for most townships.

The sharing provisions between school districts 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, townships should be authorized to levy a higher earned or optional personal income tax, thereby giving them the flexibility to reduce their reliance on the property and nuisance taxes if they so desire.

PSATS opposes any legislation that would designate the state as the collector of the local earned income tax.

Sterling Act

PSATS has long supported amendments to the Sterling Act to authorize municipalities that levy the earned income tax to collect and retain earned income taxes from municipal residents who work in Philadelphia, as well as to require Philadelphia to provide offsetting credits for income taxes paid to an individual’s home municipality.

In addition, PSATS supports the apportionment procedure for calculating the Philadelphia Tax credit, whereby a tax collection committee, appeals board, and tax collector honor credits for wage taxes paid to Philadelphia to the extent that such credits are accurately calculated using apportionment.

The Philadelphia Tax Credit should not be used to reduce earned income tax owed to a municipality on income not earned within Philadelphia.

Realty transfer tax

The sharing provision on the 1 percent portion of the reality transfer tax between the municipality and school district should be eliminated to allow the municipality to levy a full 1 percent on the sale of real estate.

Hotel occupancy tax

Townships should be authorized to levy a 1 percent hotel occupancy tax. The majority of hotel occupants are non-residents, and revenues from the hotel occupancy tax should be used to benefit tourism and other travelers through the preservation of open space, improved infrastructure, and the provision of public safety.

Business privilege and mercantile tax

Municipalities’ option to adopt and collect a mercantile or business privilege tax should be restored. The authority to levy this tax was repealed by Act 145 of 1988 (Local Tax Reform Act.) This tax would provide greater balance between the local tax burden borne by residents and the business community.

Amusement tax

PSATS opposes any legislation that would reduce or eliminate the amusement tax, and the authority to levy this user fee on admissions to motion pictures and similarly exempted businesses should be restored.

This user fee pays for infrastructure and services used primarily by non-residents. If this tax were eliminated without replacement revenues, townships would be forced to increase property taxes on their residents.
Special-purpose taxes

Real estate taxes levied and used exclusively for specific township services are a fair way to assess the cost of these services directly on those who benefit. Townships should be given more flexibility to levy these taxes at a millage rate sufficient to fund the actual cost of the service and should be given authority to levy special-purpose taxes for police, libraries, and emergency response services and increase the ambulance tax levy from .5 to 1.5 mills.

The levying of special-purpose taxes directs the tax dollars to the service the government is providing. If these services are demanded by the people and the limitations of the general taxing authority do not enable funding for these services, townships should have the authority to adopt special tax levies targeted to that particular service.

Tax-exempt properties

Fair and equitable taxation is based on the premise that everyone pays his fair share of taxes. Responding to political pressures from special-interest groups, the legislature granted exemptions to various entities from the payment of local taxes.

For instance, townships do not receive any real estate tax revenue or payments in lieu of taxes for the municipal services provided to schools, churches, hospitals, colleges, and government-owned buildings. Consequently, fewer taxpayers are supporting more expensive services, and the burden on these taxpayers continues to increase to the benefit of the tax-exempt special interests.

The Association believes that federal and state governments should not be allowed to adopt legislation to exempt any entity from the payment of local taxes without adequate reimbursement from the state.

Assessment reform

Without changes to the assessment process, the effect of any local tax reform will be greatly diminished. The Association supports a task force to examine and facilitate the implementation of recommendations that would modernize the state’s assessment system to ensure that assessed values are determined fairly.

Some counties have not reassessed property for decades. In others, the assessment ratios remain artificially low and the same millage rate brings in decreasing tax revenue. When the disparity in assessed values exceeds a reasonable balance or uniformity in property assessments, it results in an unfair tax burden for some property owners while others do not pay their fair share.

Further, the county assessment laws should be amended to require the assessed value of all property in the county to better reflect the changing market values over time. Townships in those counties with unrealistically low assessment ratios should have the authority to make periodic adjustments to their statutory limits on real estate taxes. The result will be that the actual millage limits and effective revenue bases are more equitable, regardless of the county in which a township is located.

The Association believes that federal and state governments should not be allowed to adopt legislation to exempt any entity from the payment of local taxes without adequate reimbursement from the state.

Referendum

Township supervisors are elected by their residents to make revenue-raising and expenditure decisions on behalf of their electors, just like members of the General Assembly. By requiring taxing decisions to be made by referendum, the legislature would tie the hands of local officials and make it difficult, if not impossible, to raise the revenues needed for local governments to continue to provide the services demanded by their citizens. PSATS opposes referendum requirements for local tax increases.

One growing threat has been special tax concessions for profit-making interests. For example, ski resorts, bowling alleys, golf courses, and businesses have successfully sought exemptions or reductions in local taxes through the legislative process. The Association opposes the granting of special exemptions from such taxes by the legislature.