

**SENATE APPROPRIATIONS COMMITTEE
FISCAL NOTE**

BILL NO. Senate Bill 653

PRINTER NO. 1374

AMOUNT

See Fiscal Impact

FUND

Local Funds

DATE INTRODUCED

May 24, 2017

PRIME SPONSOR

Senator Browne

DESCRIPTION AND PURPOSE OF BILL

Senate Bill 653, as amended, amends Act 511 of 1965, known as The Local Tax Enabling Act ("LTEA"), to expand the powers and duties of a tax officer to collect each tax that is authorized under sections 301.1 and 303 of the LTEA, except tax upon the transfer of real property or of an interest in real property.

Presently, under the LTEA, there is one tax officer appointed in each tax collection district, which is coterminous with the county in which it is created, except that a county of the second class has four tax collections districts. Because the LTEA does not apply to Philadelphia, there is one tax collection district in 65 counties and four tax collection districts in one county for a total of 69 tax collection districts governed by the provisions of the LTEA. Two or more tax collection districts may appoint the same tax officer, and so there are approximately 20 or fewer tax collectors. Currently, these tax officers are limited to collecting local income taxes.

In addition to income taxes, Senate Bill 653 further consolidates the collection of local taxes by allowing tax officers to collect business privilege taxes, occupational privilege taxes, per capita taxes, local services taxes, and a payroll tax levied in a city of the second class. However, the powers and duties of a tax officer do not extend to the collection of real estate taxes (i.e. property taxes).

The legislation also provides that a contingent fee audit may not be conducted in the collection of delinquent taxes.

Senate Bill 653 provides that nothing in this act shall be construed to terminate or modify the terms of a contract in effect on the effective date of this act for the term of that contract unless otherwise agreed to in writing by the parties to the contract.

This act shall take effect January 1, 2019 or immediately, whichever is later.

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FISCAL IMPACT:

Senate Bill 653 will have no adverse fiscal impact on Commonwealth or local funds.

Act 32 of 2008 was enacted to consolidate and modernize the collection of local income taxes. Act 32 required the Legislative Budget and Finance Committee ("LBFC") to assess the status of implementation of the act and make recommendations to improve the system. The LBFC report, which was published in October 2016, estimates that Act 32 has increased local earned income tax collections by approximately \$173 million annually since 2012, which was the first full year of implementation.

Act 32 streamlined the collection process, increased the efficiency of collections, reduced the costs of collection and provided earned income tax revenues to school districts and municipalities in a timelier manner. Senate Bill 653 would make similar improvements for other types of taxes that are levied and collected at the local level by utilizing the consolidated collection system established in Act 32.

The LBFC report indicates that Act 32 resulted in an 8.6% increase in earned income tax collections over the average annual collections for the three-year period prior to its implementation. Based upon these results, Senate Bill 653 would have a substantial positive impact on local tax revenue collections.

The Department of Community and Economic Development maintains information regarding municipal tax statistics. A review of DCED's database indicates that local municipalities (excluding Philadelphia) collected approximately \$506 million in local taxes other than earned income taxes and real estate taxes in calendar year 2015.

The Pennsylvania Department of Education maintains information regarding school finances, and PDE's website indicates that school districts (excluding Philadelphia) collected approximately \$133 million in taxes other than earned income taxes and property taxes in fiscal year 2015-16.

Therefore, taking into account both municipal and school district tax data, Senate Bill 653 would further consolidate local tax collections of approximately \$640 million annually.

Based upon information contained in the LBFC report, if the further consolidation of local taxes increased collections by 8.6%, local municipalities and school districts could realize increased revenues of approximately \$55 million per year statewide beginning in calendar year 2019.