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Senate of Pennsylvania

JOHN H. EICHELBERGER, JR.
30TH DISTRICT

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EMERGENCY SERVICES CAUCUS

June 4, 2009

TO: All Senators
FROM: John H. Eichelberger, Jr. 
SUBJECT: Balanced Options-Local Decisions on Tax Reform

I plan to introduce legislation to provide municipalities in Third through Eighth class counties with options to obtain a more fair and balanced tax system, and reduce the over-reliance on property taxes. Under the bill, a county-wide sales, or earned or personal income, tax could be adopted. However, under this alternative, the imposition of such a tax will not be an additional levy, but will require a dollar-for-dollar reduction in property and other taxes.

In order to transition from as great a reliance on the property tax, the issue would first be studied in detail by a local commission that will look at the overall fiscal structure within the county and its political subdivisions to maximize the benefits of the act to the taxpayer. After the study, any proposal to transition tax structures would have to be put before the voters at referendum.

The study process may be initiated in one of two ways – by passage of a resolution by county commissioners, unless a majority of townships and boroughs pass a resolution opposing the study within 30 days; or by passage of a resolution by a majority of townships and boroughs in the county.

The local commissions shall be nonpartisan and consist of residents of the county who have qualifications or experience with regard to collection or assessment of local taxes, or local government administration. It must hold at least 3 public meetings, and shall be subject to Sunshine and Open Records laws. The subjects of the study shall include consideration and recommendations regarding:

- The repeal of existing “nuisance taxes” in combination with the reduction of property taxes;
- Property tax reduction funds received or expected under Title 4 (Gaming);

- Tax exempt properties;
- The cost of current collection of the various taxes under Act 511
- Debt burden and limits to be placed on the incurring of debt
- Distribution and collection of taxes under a new tax system

The local commission will also be empowered to receive and transmit proposals for cost savings from experts and the public, in addition to determining the appropriate tax rates to effectuate the plan. These proposals shall be presented at a public meeting. However, only the shift in tax rates and corresponding reductions would be the subject of the county-wide referendum. Proposals that do not pertain to local tax rates and reductions may be considered by the governing body of the affected jurisdiction(s).

The referendum process will require that voters be informed of the impact on their individual tax burden of the proposal on the ballot. A chart with which taxpayers can calculate the approximate impact of the proposal must be made widely available. The ballot question must contain the current and proposed rates of the taxes, as well as the method(s) of real property tax reduction, and if the homestead exemption is used the class(es) of property for which taxes will be reduced and the estimated amount of real property tax reduction, in a nonlegal interpretive statement accompanying the ballot question.

If the referendum is approved, 50 percent of the revenue from the sales or income tax would be returned to the participating county, and 50 percent would be distributed to municipalities in that county. The county and municipalities would have to first use the revenue to replace revenues lost from elimination of nuisance taxes. The remainder must be used for a dollar-for-dollar reduction in property taxes.

This plan will provide several alternatives by which property taxes can be reduced. The proposal may consist of a combination of several options, to include:

- reduction in millage rates;
- the homestead exemption;
- a universal exemption; and
- establishment of tax freeze or deferral programs.

Further all current senior and low-income exemptions and programs would stay in place.

Since the new tax structure will be based on estimates, the bill will provide for an acceptable margin of error. If total revenues under the new plan exceed total revenues under the old structure by more than 2% in the first year, then in the following tax year excess revenues must be credited to the taxpayer and the tax rate re-adjusted to fall within the margin of error. Any excess between zero and 2% would be required to be used to retire debt or put towards inadequacies in pension liabilities.

I believe that, to be effective, local government funding must be based on a mix of taxes. A mix of taxes ensures more stability and predictability. We must provide statutory options where local governments can replace existing taxes with better alternatives, while keeping the overall tax burden substantially the same. That mix should be tailored to the local situation, as an over-reliance on an income or sales tax can be as bad as over-reliance on the property tax. One size does not fit all. Any proposal that would recast our system of property tax must take into account the dramatic differences in income and property wealth among our municipalities, and allow taxpayers to tailor their local tax menu to the unique profiles of their communities.

If you would like to join me in sponsoring this legislation, please contact my Harrisburg office at 717-787-5490 or email Lee Derr at lderr@pasen.gov.