



# HOUSE COMMITTEE ON APPROPRIATIONS

## FISCAL NOTE

HOUSE BILL NO. 245

PRINTERS NO. 4110

PRIME SPONSOR: Dunbar

### COST / (SAVINGS)

FUND	FY 2016/17	FY 2017/18
General Fund	\$0	\$0

**SUMMARY:** House Bill 245, Printer's Number 4110, amends Act 511 of 1965 known as the Local Tax Enabling Act (LTEA) further providing for consolidated collection of local income taxes and delinquent taxes; for tax limitations and for limitations on assessment; for income tax rate limits in optional occupational tax elimination; and providing for powers and duties of the Department of Community and Economic Development (DCED).

**ANALYSIS:** House Bill 245 makes several technical changes clarifying limitations for the optional occupational tax elimination and clarifying certain provisions related to consolidated collection of local income taxes and delinquent taxes.

A school district or municipality is currently authorized to eliminate its occupation tax by implementing an increased earned income tax (EIT) rate which rate must be established to generate the amount of revenue collected from the occupation tax in the fiscal year ending in 2009. Section 404 is amended updating the revenue neutral calculation of the new EIT rate to reflect the current collections of the occupation tax. Specifically, Section 404(b.2) is added providing that a school district or municipality may not adopt an EIT rate that generates more funds than the amount actually collected from the occupation tax in the fiscal year ending immediately prior to the implementation of the EIT rate.

Section 502(c) is amended providing for a safe harbor payment of 100% of the prior year's tax or 90% of the current year's tax when filing for declaration and minimum payment of estimated payments on net profits.

Section 505(a.3) is added providing that beginning January 1, 2020, no political subdivision, tax collection committee or tax officer may use any form other than that which is provided by DCED unless, for religious reasons, DCED specifically grants an exception to this requirement.

Section 505(h) is amended providing that audits of taxes received and disbursed shall be conducted on a calendar year basis. An examination conducted on any other basis will not be accepted by DCED.

Other changes made in the legislation are as follows: (1) adds the definitions of “contingent fee audit” and “private collection agency”; (2) prohibits the collection of delinquent taxes through contingent fee audits; (3) clarifies that any individual not meeting domicile requirements for paying state income taxes does not meet domicile requirements for paying local income taxes; (4) clarifies the definitions of “earned income”, “taxpayer” and “nonresident”; (5) clarifies withholding tax rates for employees who are on a temporary assignment; and (6) permits the local tax collector or officer to abate any penalty imposed under Act 511.

Finally, language is added specifically providing DCED with oversight of all tax collection committees, tax collectors and tax collection offices.

The act shall take effect in 60 days.

**FISCAL IMPACT:** Enactment of this legislation will have no adverse fiscal impact on Commonwealth funds. Act 32 of 2008 consolidated the local tax collection process which placed the duties and responsibilities on DCED to promulgate uniform regulations, forms and procedures throughout the Commonwealth and it is assumed that any changes in duties or responsibilities made in this legislation can be absorbed within current funding levels.

In the event a school district or municipality chooses to eliminate the occupation tax in favor of an EIT, the changes made in this legislation ensure that the most up-to-date revenue collections are used to calculate the revenue neutral rate of the EIT.

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**DATE:** October 25, 2016

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*