



**TESTIMONY BY
THE PENNSYLVANIA STATE ASSOCIATION OF
TOWNSHIP SUPERVISORS**

**BEFORE THE
HOUSE FINANCE COMMITTEE**

ON

HB 2142 (PN 3486)

HB 2256 (PN 3642)

HB 2257 (PN 3642)

PRESENTED BY

**ELAM M. HERR,
ASSISTANT EXECUTIVE DIRECTOR**

OCTOBER 5, 2016

BENSALEM, PA

Chairman O'Neill and members of the House Finance Committee:

Good morning. My name is Elam M. Herr, and I am the assistant executive director for the Pennsylvania State Association of Township Supervisors. Thank you for the opportunity to appear before you today on behalf of the 1,454 townships in Pennsylvania represented by the Association.

Our townships comprise 95 percent of the Commonwealth's land area and are home to 5.5 million Pennsylvanians — 44 percent of the state's population. These townships are diverse, ranging from rural communities with fewer than 200 residents to more populated communities with more than 60,000 residents. The issue at hand today is one of tax fairness that affects our members that surround the City of Philadelphia.

Repealing the Sterling Act is a long-standing policy of the Association. The Sterling Act is an antiquated law, enacted to help the City of Philadelphia during the Great Depression, and no longer functions as such. The Sterling Act was enacted in 1932 and grants the City of Philadelphia broad taxing authority, including the collection of a local earned income tax on both residents and non-residents that work in the city. However, Philadelphia is the only municipality in Pennsylvania that is not required to return earned income tax revenue to an individual's home municipality. Even the Pennsylvania Department of Community and Economic Development states that the Sterling Act is "the most extensive grant of non-real estate taxing power to any political subdivision in Pennsylvania" in its Taxation Manual.

As such, surrounding municipalities are currently losing significant earned income tax revenue from their residents that work in Philadelphia. Instead, fairness should be restored to the system by requiring Philadelphia to return the home municipality's portion of the tax revenue. Returning non-resident earned income tax to the home municipality would be similar to and make Philadelphia uniform with every other municipality in the state.

Currently, Philadelphia residents' earned income tax rate is 3.9004% and the non-residents' rate is 3.4741%. All other municipalities, excluding home rule municipalities, are authorized to levy a maximum 1% earned income tax. However, this 1% must be divided amongst overlapping taxing districts if the school district and municipality levy and collect the tax. We suggest that a procedure for calculating the Philadelphia tax credit would be a more fair process for impacted municipalities; wherein the amount of the non-resident's home municipality's tax rate is returned to the tax collection committee of the county where the non-resident lives. The result would be that a non-resident's tax obligation would still be 3.4741%, but 1% would be returned to the home municipality and Philadelphia would retain 2.4741%. Under this procedure the non-resident would still be liable to Philadelphia for a substantial portion of the tax, while for the first time helping to fund their home municipality's obligations similar to what other earned income tax payers who live in the same municipality have been doing for years.

As previously stated, PSATS has a long standing policy to repeal the Sterling Act. In 1977, the Association's effort to contain the effects of the non-resident wage tax was successful with the legislature passing legislation, which provided that the nonresidential rate could be increased but it could not exceed 75% of the residential rate. Although this cap provides some

reprieve to the tax payer, the elimination of the Sterling Act would afford the greatest relief to municipalities.

We, again, seek to eliminate the undue economic hardship that the Sterling Act creates in the City's surrounding municipalities. House Bills 2142, 2256, and 2257 would alleviate the disparity of taxing authority amongst Philadelphia and its surrounding municipalities. The Association supports the proposed legislation because it would "level the playing field" for all municipalities in the Southeast region that levy an earned income tax by requiring Philadelphia to abide by the same taxing standards for collecting and distributing local income taxes as set forth in the Local Tax Enabling Act, which applies to every other municipality in Pennsylvania.

House Bill 2142 would require a portion of a non-resident's earned income tax revenue be returned to the individual's home municipality, which is the law that is applied in almost all municipalities in the State. House Bill 2256 would eliminate Philadelphia's preemptive power on earned income tax and allow Philadelphia to have the same taxing ability as other cities and municipalities under the Local Tax Enabling Act. House Bill 2257 would permit Philadelphia non-residents working in the City to receive a tax credit against the Philadelphia non-resident wage tax at a rate equivalent to the local tax rate that is now being collected by their home municipality.

In closing, PSATS and its members appreciate the efforts to address the Sterling Act and allowing us the opportunity to voice our support of House Bills 2142, 2256, and 2257. It is safe to say that we are no longer in the Great Depression era, which renders The Sterling Act obsolete. As fellow members of local government, we understand that every revenue source is precious which is why the Association is simply looking to establish a fair policy by uniformly implementing taxing authority in all municipalities. PSATS is willing to work with the sponsors and the committee to address not only the issues we raised today but other concerns that will arise with the legislation.

I appreciate the opportunity to appear before you today. I would be happy to answer any questions that you may have.