



Pennsylvania Policy Center

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Prepared Testimony of

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to the

PA House Local Government Committee

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Chairman Freeman and Members of the Committee,

Thank you for your invitation to testify to the Pennsylvania House Local Government Committee on HB 678.

Let me start out by saying that I support this legislation. I want to make that very clear at the start because I'm also going to say some critical things about sales taxes in general. But often in politics the perfect is the enemy of the good so despite my concerns about sales taxes, given the problem this bill is meant to address, HB 678 is one reasonable solution to it.

The problem, of course, is that tax-exempt properties reduce the tax base for many municipalities and counties. And they don't do it in a way that is fair. Some municipalities and counties have few tax-exempt properties. Some have many large and highly valued ones. And that often forces counties and municipalities that have a large share of tax-exempt properties to raise property taxes to levels that are far higher than state averages.

I've been quite familiar with this situation for a long time. I grew up in Sullivan County, New York, right across the Pennsylvania border. That county in the Catskills was at the center of the famed "Borscht Belt," a region in which there were hundreds of large and small resort hotels. As you can imagine, those hotels were the center of a vibrant economy and paid a large share of the property taxes to the area's county and municipal governments. But when the resort area declined in the 1970s and '80s, many hotels were sold, often to non-profits such as religious institutions and social service agencies, taking them off the tax rolls. The county and towns responded by raising property taxes to incredibly high levels. By the time my sister and I sold the home we grew up in in Liberty, New York, the taxes on the property were equal to the taxes on my house in Philadelphia, even though the house in the Catskills was valued at about one-tenth the value of the Philadelphia house.

So, HB 678 addresses a real problem—and allowing counties to institute a small sales tax and apportion the funds to county and municipal governments based on the value of tax-exempt properties in their border is one way to address the problem.

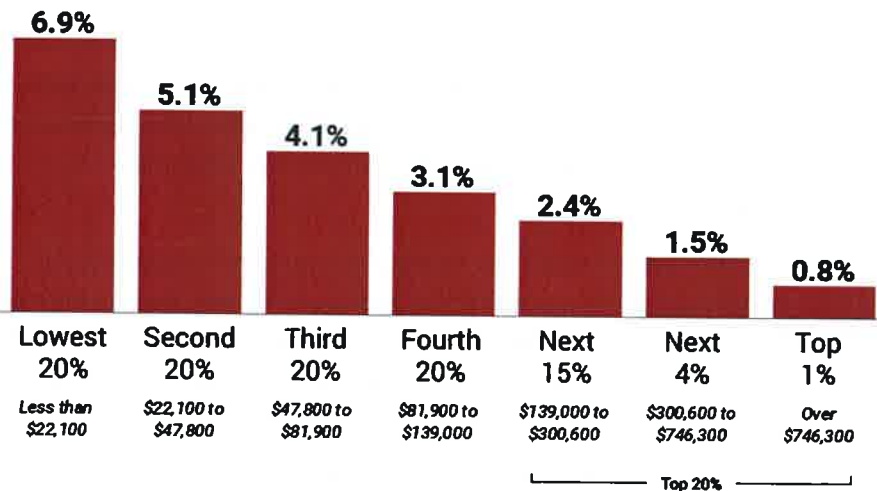
Having said that, I should also note that there might be better ways of addressing the problem. For example, since the unfairness of the situation involves the whole state, the state might institute a general program to use state funds to reimburse county and municipal governments that deal with a large number of properties that are exempt from taxation.

And there might be better ways of raising the funds than instituting a sales tax. In general, my organization believes that state and local governments rely too much on the existing sales tax as it is the most regressive tax of all those levied in our state. That is, it takes a much higher share of the income of those with low and moderate incomes than those with high incomes as seen in the accompanying figure 1. This is true for three reasons. First, those with higher incomes save far more of their income than those with low and moderate incomes and, of course, do not pay taxes on any income that is not spent. Second, Pennsylvania's sales tax excludes many services from taxation and as a family's income rises, they tend to purchase more services relative to goods. And third, among the services that are not taxed are most business services and luxury services such as swimming pool maintenance and cleaning, health club memberships, spa and massage services, and most entertainment and amusements, not to mention the sale of helicopters.

Figure 1

Sales & Excise Taxes

Share of family income



ITEP | WhoPays?

Source: Carl Davis, et. al., Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 7th Edition, Institute on Tax and Economic Policy, January 2024, <https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf>.

So, relying on the sales tax to compensate for high property taxes may be a case of replacing one tax that is especially burdensome to low- and moderate-income Pennsylvanians with another that is just as burdensome.

If we wanted to use a sales tax to deal with the problem of the impact of tax-exempt properties on high property taxes, it might make sense to, for example, reform the sales tax in ways [I've suggested in the past](#)

to make it fairer and use the revenue that is raised from such a reform to fund a state-wide program to compensate local governments that are dealing with a large number of valuable, tax-exempt properties.

- Today, however, we have another proposal before us. And while it is not ideal, to my mind, it does give counties a new tool to deal with this problem, which they could decide to use, or not, at their discretion. It's not the perfect solution by any means. But given the immediate situation in which we find ourselves, it is one the Pennsylvania Policy Center can support.

