

2009 County Government Priorities

Tax Fairness

Counties provide a broad and expanding variety of services to Pennsylvania's citizens. They preserve democracy by administering the election process, improve our health and welfare by helping families and individuals in need with human services, respond in times of emergency, keep our streets safer with local courts and corrections programs, and preserve and showcase Pennsylvania's natural, cultural and historic resources through careful and effective planning and economic development. Counties are forced to fund this broad spectrum of responsibilities primarily with the real property tax, a taxation system that neither equitably nor adequately reflects a homeowner's economic condition, and places an unfair burden on many property owners.

Pennsylvania's counties believe that local taxes should be equitable and fair; no one should have to pay more than their fair share. The Association's *Blueprint for Tax Fairness*, which includes input from the Governor, state lawmakers, public officials and taxpayers, argues that tax fairness can be achieved only by expanding the sources of revenue available to support local government. Effective tax fairness measures will allow local governments to reduce their reliance on the real estate tax in proportion to revenue generated by other sources of income. Alternatives proposed by the Association include earned income, personal income or sales taxes.

Although the legislature has dealt repeatedly with property taxes over the last decade, the focus has been on schools only, and county tax issues have not been included in the reform programs adopted to date. Complete property tax reform will not be achieved until counties are also included in these discussions. While it is true that school districts levy the proportionately largest share of the property tax bills Pennsylvanians pay, over the last 15 years the

growth in county budgets has outpaced that of any other level of government in the commonwealth, including the schools. As counties are more frequently forced to turn to local property owners to make up for state and federal funding shortfalls, especially as a result of several rounds of state budget cuts announced in late 2008, Pennsylvanians will view the legislature's work as incomplete if county property taxes are not addressed. In fact, polling conducted by Madonna Research in the fall of 2005 indicated that 80 percent of Pennsylvanians believe it is also important for legislators to address county and municipal property taxes, and not just school taxes.

The key arguments of the *Blueprint for Tax Fairness*:

- Tax fairness is about how local government revenue is generated, not how much money is collected.
- Tax fairness is about how the tax burden is distributed among individuals and groups of taxpayers.
- The real estate tax does not equitably or reliably reflect a homeowner's economic condition; in other words, it does not consider a taxpayer's ability to pay.
- Both personal income taxes and sales taxes are more sensitive to an individual's economic condition.
- Effective measures that are "tax fair" allow county governments to reduce the real estate tax in proportion to revenue generated by other sources of income, such as a personal income or sales taxes.
- Tax fairness changes should not generate windfall revenue for the taxing entity.
- Any tax fairness measure should have options from which counties can choose, based on what is best for their individual community.

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Even with the achievement of tax fairness through implementation of alternative bases, counties, municipalities, and schools will continue to rely on the real property tax for part of their local revenues. Consequently, tax fairness also means that counties — and the commonwealth — must remain vigilant in assessment law and administration. The Association will continue to oppose, or will attempt to correct, both legislative and judicial expansion of exemptions to property assessment, believing that fairness demands taxation of all appropriate properties and that exemptions inevitably skew the property tax burden toward residential properties and others with less ability to pay.

Tax fairness also means vigilance in maintaining the fairness of the assessment system. CCAP also supports legislative efforts to consolidate and clarify current assessment statutes. Recognizing current legal challenges to the constitutionality of the current assessment methodology, CCAP has adopted a set of equitable and realistic principles for reform of the assessment system and is prepared to work with the General Assembly on a solution if the court rules that changes to the assessment system are necessary.

Inequities in the property tax have been further exacerbated by a 2002 court decision finding a lack of statutory ability to assess oil and gas for property tax purposes. Current activity in the Marcellus shale formation heightens the need for the General Assembly to act to reverse this ruling. There is potential for drill-

ing in almost two-thirds of Pennsylvania's counties, but due to the court's ruling, oil and gas interests are treated different than other natural resources such as coal and limestone, which are taxed as real property.

Similarly, the commonwealth itself has no direct tax on oil and gas production as is commonly done in other states. Should such a state extraction tax be established, CCAP feels strongly that a portion of revenues must accrue to local governments. Local costs for the impact of drilling operations should not be borne by local taxpayers, and any new resource should be shared appropriately with local governments in counties that host drilling operations.

As the last line of accountability in Pennsylvania, counties are responsible for providing many important and often mandated services, whether or not the state and federal governments meet their funding obligations for those programs. To the extent counties are required to fund these services from local revenues, they seek the support of the Administration and a commitment from lawmakers and local government leaders to achieve tax fairness legislation that will allow a more equitable blend of taxes to provide the services required.

For more information on tax fairness, log on to www.pataxfairness.info, or contact Brinda Carroll Penyak at (717) 232-7554 x 3137 or bpenyak@pacounties.org.