

OPTIONAL COUNTY SALES TAX TALKING POINTS

Why the sales tax, and why now?

The county option sales tax proposal uses the same base as the Pennsylvania sales tax which, by providing exemptions for necessities such as food, clothing, and prescriptions, is a progressive tax – and much more fair than the property tax. We recognize the current economic climate, but note that when a bread-earner is laid off, the family's property tax bill does not go down – but they do pay less in sales tax.

Is the objective of the tax to raise new revenue for local governments?

No, the primary objectives are to reduce reliance on property taxes at the county and municipal level, and to provide a tax base that is more fair – based more on an individual's ability to pay – than the real property tax.

Will all the counties levy the tax?

The tax is a county option, and each board of commissioners (or home rule equivalent) will make its own decision whether to adopt the tax. Each board knows its local economy and the needs and tax burden of its businesses and residents, and will take this into account as they study whether the tax is appropriate for their circumstances. The proposal also gives each county the option to appoint an independent tax study commission to study the issue and make recommendations to the board.

Beginning one year after authorization of the tax, if a county has not acted the municipalities within the county can petition the county to put the tax in place, by a vote of governing bodies representing at least 60% of the population of the county.

Is there a problem with creating different sales tax rates from county to county?

No. Pennsylvania already has two counties – Philadelphia and Allegheny – that have a higher sales tax, with little material effect on the local economies. In fact, in the majority of states the local option sales tax is the primary alternative to property taxes.

Are Philadelphia and Allegheny County included?

No, they already have 1% levies. Philadelphia Mayor Nutter has proposed an additional 1% for the City, and this proposal does not conflict with, or have a direct bearing on, the Mayor's request. We will work with the City to assure that both issues receive due consideration.

Will consumers travel to avoid the sales tax?

The sales tax is the most-often used county option tax in other states, after the property tax. The experience of other states is that consumers will travel when there is a real sale -- "50% Off Today Only" -- but do not travel to save one or two percent. This is borne out by the experience in Philadelphia and Allegheny County, which each already have an additional 1% sales locally levied.

Additionally, the county option sales tax is on the state base, so the payment of tax for large ticket items such as cars is dependent on the home address of the purchaser; if for example the purchaser is from a county that levies the tax, they pay the tax regardless of the place of purchase. This is the collection system preferred by business groups.

Is there any guarantee of property tax reduction?

In the first year of implementation a minimum of 60% of the county share must be used for elimination of nuisance taxes and property tax relief through the homestead/farmstead exemption and general millage reduction, and any portion not used for property tax relief can be used for general fund purposes. Of the municipal share, a minimum of 60% must be used for property tax relief or relieving the burden associated with tax-exempt properties. The remainder can be used for general fund purposes.

How much property tax reduction is likely?

It is a county optional sales tax so the reductions are dependent first on whether a county levies the tax. Additionally, municipalities have a couple options on how the offsets are taken, which might include applying some of the revenue against revenue lost to tax exempt properties (remember that exempting a property from taxation shifts its burden to the remainder of the property tax payers). That said, there are rough estimates of the amount of reduction potential at the county level in a chart on the CCAP web site, www.pacounties.org, under the Tax Fairness link at the right of the home page. While it is not possible to do estimates for municipalities, the chart shows the amount of funding potentially available for distribution to municipalities and to the Municipal Collaborative Efforts Fund. Be sure to note that these are estimates (see qualifications in the footnotes).

Is there any protection after the first-year offset?

The first-year offset is an anti-windfall provision comparable to the requirement that we adjust millage rates downward in the year a reassessment is implemented. The experience for the last hundred years under that system is that county and local government bring the rates down as required and then for subsequent years budget on the new base. There has been no abuse of that system, and so the county option sales tax proposal takes the same approach – requiring a first-year reduction and then relying on the normal budget process in subsequent years.

Framed a different way, local governments do not raise taxes and then figure out how to spend them. Taxes go up only when local governments are forced to raise the budget and the existing tax levy is not sufficient to meet the budget demands.

Does the proposal represent a windfall or a tax increase?

While we support implementation tradeoffs and repeals, there will inevitably be criticisms that this is a tax increase. Such arguments are misplaced. The county option sales tax allows county and municipal government to trade off a regressive tax – the property tax – for a more progressive tax – the sales tax. Local governments do not raise taxes just for the sake of raising taxes. If that were the case, every municipality and county would be at the taxation limits now in law. Rather, local governments first determine spending needs, based on their obligations to carry out the requirements of state and federal statute, court decisions, and the wishes of their constituents. If the projected revenues are insufficient to fund the budget as proposed, they first trim the budget. It is only after they have done their best to craft a spending plan that they turn to the tax base. The tax rate is secondary to the requirements of the budget. This process would not be changed by a county option sales tax. The difference with having a sales tax option is that they would now have a meaningful alternative, one that is proven more equitable than the property tax.

Shouldn't this be implemented by referendum?

A referendum is not necessary. Most of the escalating costs in local government are not of local governments' making. Most of what counties and municipalities do is the direct result of state or federal legislation, court action, increases in caseloads, or citizen demands. Most of the time these mandates are not adequately funded, so counties and municipalities must go to the local tax base. County and municipal officials must be able to respond to the sometimes-competing objectives of meeting service demands and maintaining or lowering tax rates. Because a referendum can only be phrased in terms of supporting or opposing a tax, the question does not truly consider the full issue under consideration. Sometimes, unpopular decisions are necessary and while local officials do not claim to be smarter than the public, they are in a position to examine the facts and they will represent the wishes of the people after giving the issue careful study.

Why a shared regional tax?

Increasingly there are governmental services that are available to residents and nonresidents alike. Moreover, there are increasing disparities among the tax bases from municipality to municipality, which prevent some municipalities from providing quality services. A regional tax base recognizes the Commonwealth's mobile population and equalizes the capacity of municipalities to provide services. It also enables regional response to land use and sprawl pressures, by removing the incentives for growth in rural areas and by offsetting redevelopment tax abatements in urban areas. Importantly, the proposal also provides direct and stable funding dedicated to collaborative services.

Is this a shift of taxes from business to individuals? Or the other way around?

It has been suggested that a county sales tax option shifts taxes to individuals, by reducing reliance on taxes businesses pay (property) and increasing taxes individuals pay (sales). The legislature responded to this concern by developing the homestead exclusion in Act 50, which allows taxing jurisdictions to arrive at a tax mix which maintains the relative business/individual tax burdens. However, because the homestead exclusion prohibits the use of property tax increases to fund the exclusion, counties and municipalities are unable, due to their lack of alternative tax bases, to offer the exclusion. The proposal requires the first dollar of property tax reductions to be granted through the homestead exclusion.

But what about the property assessment system?

Separate from an optional sales tax, counties support reform of the property tax assessment system, including mandatory reassessment in certain circumstances, standardization of assessment practices, improvement in the equity of the appeals system, and development of funding sources for reassessment.

Does Governor Rendell support the proposal?

We have been told that the Administration supports the proposal. Note however that although the Governor suggested in his budget address that the legislature authorize the tax, and has since said he will support the local governments' proposal, he has also indicated that local governments will have to take the lead in securing legislative passage.