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Which Taxes Can Counties Use?

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Local governments and school districts in Pennsylvania cannot make up the local taxes they want to use, but rather can only choose from a menu of taxes authorized for them by the Commonwealth. This menu is authorized through the state codes that created the different types of local jurisdictions, and through other state laws (such as the Act 511 Local Tax Enabling Act) that enable or change local tax options. For most local taxes, these state laws also designate a maximum tax rate that different jurisdictions can use. Recent local tax reform initiatives essentially modified the menu of taxes from which local school districts could choose. County governments in Pennsylvania have significantly fewer local tax options than do municipalities and school districts (*see Table 1*). Counties are only authorized to levy a small number of local taxes, and of these limited options, are restricted from using the Per Capita and Occupation Taxes at the same time. As a result, Pennsylvania county governments rely upon the real property tax for almost all of their local tax revenue (*see Chart 1*). Pennsylvania municipalities and school districts, in contrast, are able to rely upon a much wider mixture of local taxes (*see Charts 2 and 3*). Being able to spread the tax burden across a variety of different local taxes is an important element of tax fairness. The local taxes available to Pennsylvania county governments include:

Real Property Tax:

The real property tax is a tax on the value of the real property (land, buildings, and other improvements) owned by a taxpayer. It is sometimes called the real estate tax. The amount of real property tax a taxpayer owes depends upon the value of the property and the tax rate.

Occupation Tax:

The occupation tax is very similar to the real property tax, being levied on the “value” of residents’ occupations, as determined by the county tax assessment office. Assessed values are not based upon income, so all members of the same occupation will pay the same amount of occupation tax even if their incomes differ significantly. If a county uses the per capita tax, it cannot use the occupation tax. Because it is viewed by many as an inequitable tax, only two counties in Pennsylvania still levy the occupation tax.

Per Capita Tax:

The per capita tax is a flat rate tax, levied on adults who live in the jurisdiction. It is sometimes known as the head, poll, or residence tax. All adults pay the same amount, regardless of their income level. In 2007, only 25 counties levied the per capita tax.

Hotel Room Rental Tax:

The hotel room rental tax is the equivalent of a sales tax on people who rent hotel rooms in the county. The funds collected by this tax are restricted in their use, however, and can only be used for tourism promotion or to help subsidize the expenses of a convention or exhibition hall.

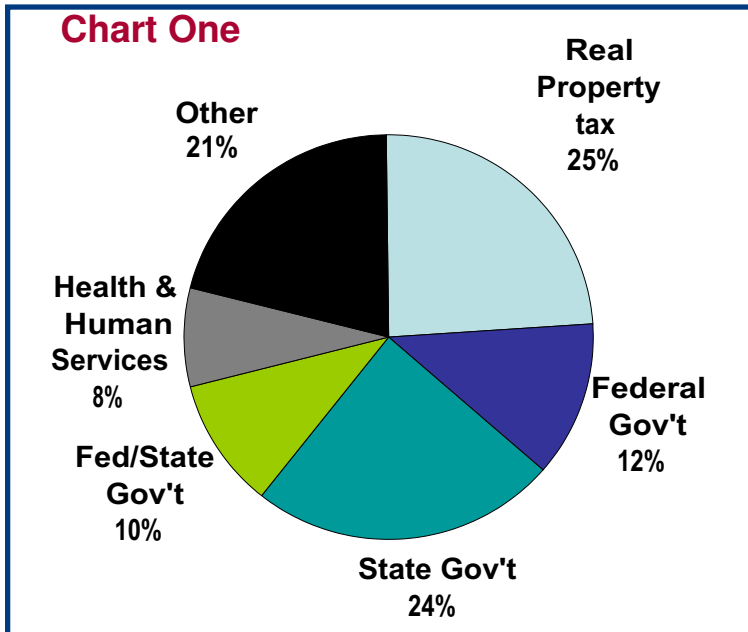
Personal Property Tax

No counties currently levy the personal property tax, but it is authorized under state law. In Pennsylvania, the personal property tax can be levied on the face value of stocks, bonds, and privately held mortgages only. The constitutionality of the personal property tax was challenged in court in 1994 and upheld, but no counties have chosen to implement it since then. It is costly to administer, difficult to collect, and because it is a tax on the capital value, not on the earning, it can be inequitable.

As is clear from the charts of revenue sources, local taxes are only one of many revenue sources for Pennsylvania local governments and school districts. Local non-tax revenue includes departmental earnings, interest income, and intergovernmental transfers from the state and federal governments. Intergovernmental transfers are particularly important for Pennsylvania county governments, accounting for almost half (46 percent) of their revenues in 2004, but these transfers have decreased in recent years.

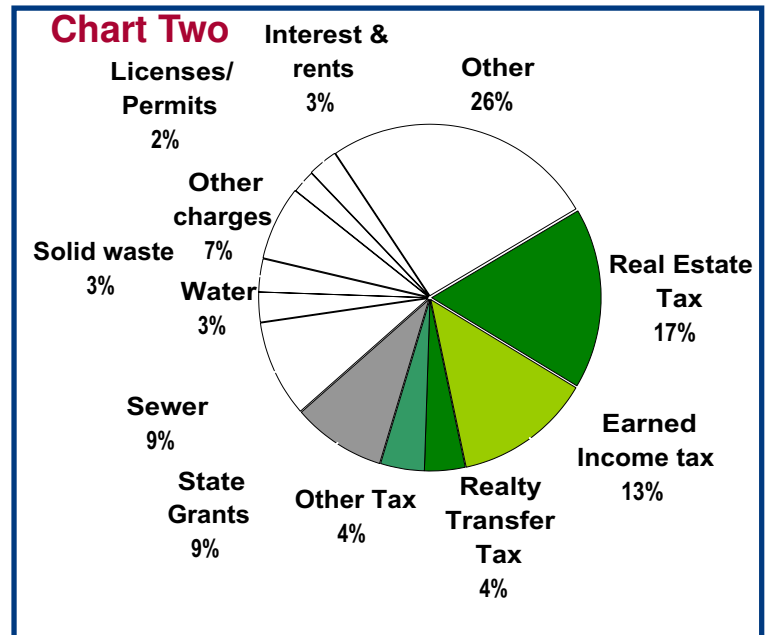
These transfers to counties are relatively large, in part, because counties formally administer many state and federal programs, such as drug and alcohol treatment, and children and youth services. Indeed, most of the services counties provide are mandated by the state or federal governments, and they have little discretion about whether or how to deliver those services. These intergovernmental transfers help pay for mandated services, but how completely these funds cover the programs' costs is often a source of debate between the General Assembly and local officials. Counties' heavy dependence upon intergovernmental transfers helps keep local taxes lower than they would be otherwise, but also means county governments are especially vulnerable to changes in the state and federal budgets.

Sources of County Revenues in Pennsylvania



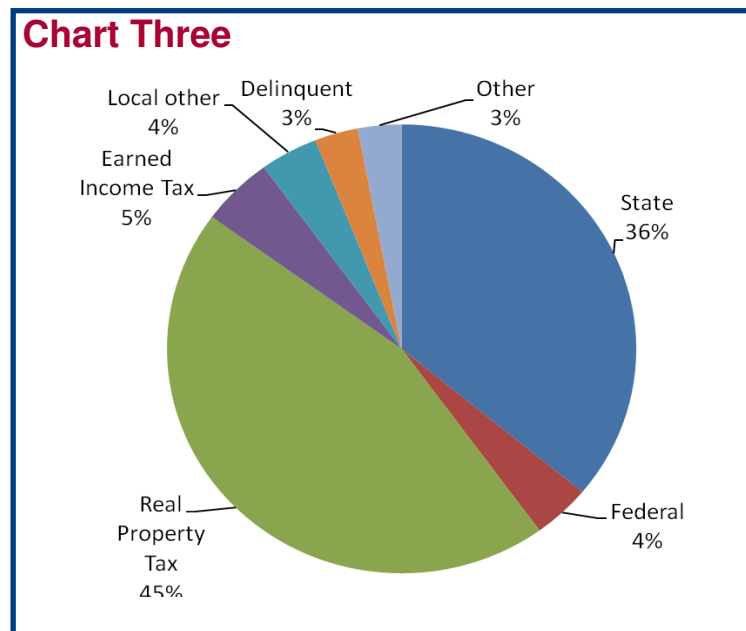
Source: Pennsylvania Department of Community and Economic Development

Sources of Municipal Revenues in Pennsylvania



Source: Pennsylvania Department of Community and Economic Development

Sources of School District Revenues in Pennsylvania, 2005



Source: Pennsylvania Department of Education

Table 1. Local Taxes Permitted in Pennsylvania, by Jurisdiction				
Tax	Counties	Cities*	Boroughs & Townships	School Districts
Real Property	X	X	X	X
Earned Income		X	X	X
Per Capita	‘+	X	X	X
Occupation	‘+	X	X	X
Realty Transfer			X	X
Mechanical Devices		X	X	X
Amusement		X	X	X
Business Gross Receipts		X	X	X
Municipal Services		X	X	
Residence		X		
Business License		X		
Deed Transfer		X		
Hotel Room Rental	X			
* Cities other than Philadelphia, Pittsburgh, and Scranton + Counties can levy either the Per Capita tax OR Occupation tax, NOT both simultaneously				

For More Information

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