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Who Pays For County Government?

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When thinking about local taxation, it's important to keep in mind how that tax burden is distributed among taxpayers. Pennsylvania county governments have very few local tax options compared to municipalities and school districts, and in practicality have no effective alternative to the real property tax *(see Research Brief Four: "Which Taxes Can Counties Use?" for more information)*. As a result, the real property tax accounts for almost one hundred percent of local tax revenues for Pennsylvania counties.

Yet local taxes play only a modest role in funding Pennsylvania county government, since counties receive significant funds from the state and federal government. The real property tax accounted for only 25 percent of Pennsylvania county revenues in 2004, compared to 46 percent from state and federal grants and transfers *(see Chart 1)*. Much of the state and federal intergovernmental funds help counties pay for mandated programs, such as human services, and also helps keep taxes lower than they would be otherwise.

Who Pays the Real Property Tax?

About two-thirds of real property tax dollars statewide (66 percent) come from residential property owners, such as homeowners, apartments and other rental properties, and second homes. Commercial properties, such as stores, gas stations, and office buildings, contribute around 16 percent of all local real property tax dollars, while industrial properties pay about four percent of total real property tax dollars. Owners of farm and open land pay 13 percent of real property tax dollars. *(see Chart 2).* These percentages vary significantly between individual counties, reflecting the use of land, the population characteristics, and level of economic activity, so these numbers likely are somewhat different in your own county.

Implications For Tax Reform

It's important to recognize the relative importance of commercial and industrial properties in real property tax collections, since they collectively account for 21 percent of real property tax dollars. Most recent tax reform acts, such as Act 50 of 1998, Act 72 of 2004, and Special Session Act 1 of 2006 have attempted to pay at least partially for real property tax reductions by increasing local income taxes. If tax reform simply reduces the real property tax rate, it means 21 percent of the tax savings will go directly to these non-residential properties. In addition, the size of the tax break for each taxpayer will depend directly upon the value of their property; properties that are worth more will receive larger dollar tax breaks than properties that are worth less. The large 'big box' retail store, for example, will receive a significantly larger tax break than will a typical homeowner or small business, because the assessed value of the store is much more than the value of a typical home or small business. Expensive homes similarly will get larger dollar tax breaks than will low income housing.

If such tax breaks from reducing the millage rate would be paid for through higher local income taxes, critics could rightly charge that local residents would be paying for the tax breaks going to businesses. Concern about the fairness of such tax breaks is one major reason that these tax reform acts rely upon the homestead and farmstead exclusions to target tax reductions directly to homeowners and farmers.

Although commercial and industrial collections currently account for a fifth of local property tax dollars, recent policy decisions have impacted the balance between residential and commercial/industrial property taxes. Changes in law and court decisions show a trend toward shifting the tax burden away from the commercial and industrial base through things like economic development tax incentives, as well as preservation incentives for agricultural and forest lands, and special exemptions or limitations on taxation for wind farms. Court decisions have also eliminated the ability to tax property such as oil and gas reserves.

How Does Pennsylvania's Tax Burden Compare To Other States?

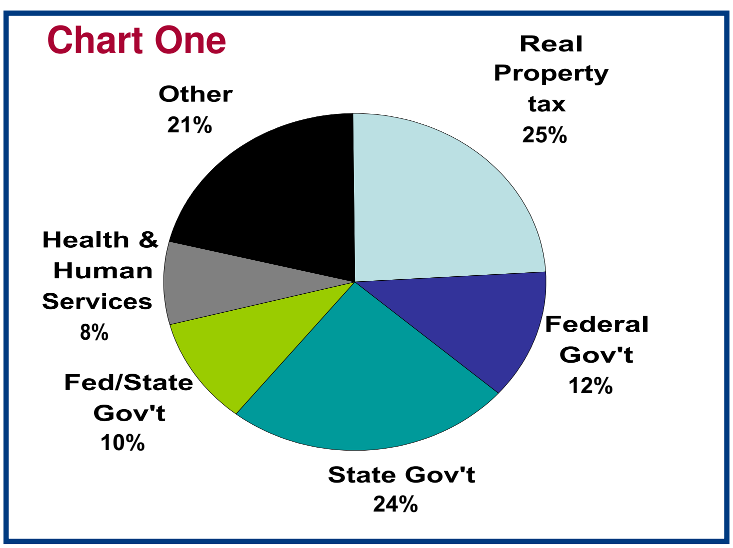
The real property tax burden in Pennsylvania compares very favorably to the burden in other states; Pennsylvania's real property tax burden ranked 44th nationally in 2007, according to the Tax Foundation, much lower than a majority of states. This is because, in large part, most Pennsylvania school districts and municipalities also use a local earned income tax, reducing their dependence upon the real property tax.

When the overall local and state tax burden is considered, however, Pennsylvania's ranking rises significantly. The tax burden faced by Pennsylvania taxpayers ranked as the 24th largest in the United States in 2007 when considering all local and state taxes *(Tax Foundation calculations from Bureau of Economic Analysis data*). The state and local tax burden in Pennsylvania equaled about 10.8 percent of income, which placed the Commonwealth in the middle of all states. These comparisons suggest that local taxes in Pennsylvania are similar to the tax burden in other states.

References:

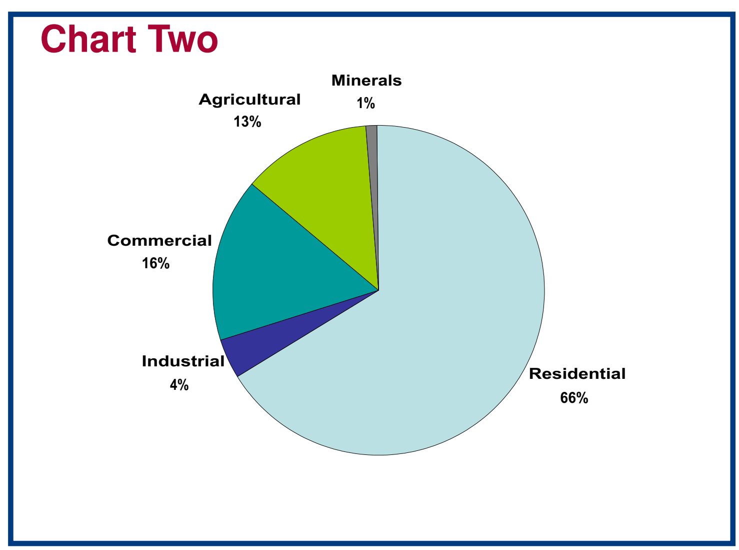
Dubay, Curtis S., and Chris Atkins. "2007 State Business Tax Climate Index." Tax Foundation, Background Paper No. 52. October 2006.

Sources of Pennsylvania County Revenues, 2004



Source: Pennsylvania Governor's Center for Local Government Services

Average Source of Real Property Tax Dollars in Pennsylvania Counties, 2006



Source: Pennsylvania State Tax Equalization Board

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