

## Issue Summary

### A Commuter Tax in Pittsburgh

#### *The Issue:*

Should Pittsburgh be able to levy an income tax on anyone who works within the City's borders, regardless of where they live? Would this be fairer and more reflective of the realities of a metropolitan economy in the 21<sup>st</sup> century and bring Pittsburgh into line with other cities around the country? Would it come at no cost to the residents of the City of Pittsburgh?

#### *What We Know:*

Under state law, specifically Act 511 of 1965 ("the local tax enabling act"), municipalities in Pennsylvania (Philadelphia is excluded in this situation) are permitted to levy a tax of 1 percent upon the wages and net profits of their residents. They are also permitted to levy the same tax on non-residents who are employed within their borders. The only stipulation is that municipalities have to credit the rate paid by the non-resident in their home community. Since, as of the year 2000, all but 6 percent of the municipalities in the state levied an earned income tax, there is little opportunity for a municipality to tax the income of its non-resident workers.

There are several instances under which the earned income tax rate can be increased. Home rule communities, of which Pittsburgh is one, can increase the rate paid by their residents above the 1 percent limit, but it cannot increase the rate for non-residents. A municipality in Act 47 distressed status, again a class to which Pittsburgh belongs, can increase the earned income tax rate on both residents and non-residents, but it must do so by the same percentage point boost and still must credit the amount paid by the non-resident worker to their home community.

As an example, when the Act 47 Recovery Plan was put together for Pittsburgh, the coordinator recommended an increase in the earned income tax of 0.37 percent for City residents, 0.27 percent for non-City residents. A City resident would pay 1.37 to the City, and a non-resident worker who resided in a community that levied a 1 percent tax rate would be subject for 0.27 percent to the City. That is, of course, unless the non-resident lived in a Home Rule community where the rate met or exceeded the 1.27 percent liability or in an Act 47 community that had increased its earned income tax rate under the guidelines of the act.

Despite fears that a commuter tax might come to pass and there would be "taxation without representation", the law that created the payroll tax for the City pre-empted the imposition of a commuter tax under the power of Act 47. This prohibition will remain in place until the termination of the oversight board, which is slated to be 2011 unless the board's life-span is extended.

*Recommendations:*

Talk of a commuter tax for Pittsburgh might be dead. Under the provisions of the state reform package, the City is capturing a portion of the earned income tax rate levied by the school district (2 percent) without an overall increase in the rate. For instance, in 2006 a City resident pays 3 percent in earned income tax to the school district (2 percent) and the City (1 percent). In 2007, that City resident will still pay 3 percent total, but a tenth will shift to the City so that the mix will be 2.9 to the school district, 1.1 to the City. This shift will continue until 2010 when a City resident will pay 1.25 to the City, 2.75 to the school district.

Again, the situation all comes back to spending. If the City is able to aggressively cut its budget so that the trajectory is a downward one instead of year-over-year growth, then the more onerous taxes start to decline or possibly disappear. For sure, the high rate of the wage tax is a definite disincentive for wage-earners to live in the City. Since net profits are subject to the tax, small sole proprietorship businesses are also hit by this high rate.

The situation with the oversight board and Act 47 has to be evaluated. If the oversight board goes out of existence in 2011 the prohibition against the commuter tax apparently goes with it. If Pittsburgh is still in distressed status at the time, then the coordinator and the City are then able to petition for an increase in the earned income tax that would hit City residents and some commuters (at least those whose home community rate is lower than the previous 1.27 percent envisioned). If the increase is successful, there must be a tradeoff that makes the revenue gain neutral owing to the fact that Pittsburgh levies many more taxes than its Act 47 peers.

*Allegheny Institute References:*

*Pittsburgh's Stalled Wage Tax Receipts. Policy Brief: Volume 6, No.52.*  
<http://www.alleghenyinstitute.org/briefs/vol6no52.pdf>

*Pittsburgh Commuter Tax: Bad Idea. Policy Brief: Volume 4, No.36.*  
<http://www.alleghenyinstitute.org/briefs/vol4no36.pdf>

*The Dark Side of Distressed Status for Pittsburgh. Policy Brief: Volume 3, No.56.*  
<http://www.alleghenyinstitute.org/briefs/vol3no56.pdf>

*Distressed...or Just Irresponsible? Policy Brief: Volume 3, No.54.*  
<http://www.alleghenyinstitute.org/briefs/vol3no54.pdf>

*Will Pittsburgh Be Awarded Distressed Status? Policy Brief: Volume 3, No.50.*  
<http://www.alleghenyinstitute.org/briefs/vol3no50.pdf>

*Act 47: Life Preserver for the City? Policy Brief: Volume 3, No.46.*  
<http://www.alleghenyinstitute.org/briefs/vol3no46.pdf>