Could local sales taxes be coming to Pa.’s counties?

**Summary:** A bill introduced in the General Assembly would permit all counties except Philadelphia and Allegheny to enact a 1 percent local option sales and use tax (local option tax) to fund services or reduce existing taxes.

The state’s Taxation Manual notes “although common in other states, local option sales taxes had never been authorized for Pennsylvania local governments until the enactment of the Pennsylvania Intergovernmental Cooperation Authority Act in 1991.”

Act 6 of 1991 created an oversight board for Philadelphia and permitted the imposition of a 1 percent local option tax. Two years later, Act 77 created the Regional Asset District in Allegheny County and permitted the imposition of a 1 percent local option tax. Act 44 of 2009 reformed municipal pensions and permitted an additional 1 percent in Philadelphia; that tax was made permanent by Act 52 of 2013.

As of 2024, local option taxes are permitted in 38 states, according to the Tax Foundation.

The proposed legislation would allow the other 65 counties in Pennsylvania to impose a local option tax at a rate of 1 percent on transactions within the county. The tax could be authorized by an action of the county’s elected officials or by referendum if the officials choose to allow the voters to decide the issue.

If approved, the 1 percent local option tax would be levied in the same manner as the state’s 6 percent sales and use tax. It would be remitted to the state, kept in a specific fund and counties would be paid from the fund.

Revenue from the local option tax would go to the county and the municipalities within the county based on the assessed value of tax-exempt property. This would include charitable property, higher education, places of public worship and government-owned property. This would hold for the county as well, which would be treated as a municipality for purposes of distribution. The money could end up being distributed
proportionally if collected revenue is too much or too little, and this would be on millage rates levied by the taxing bodies.

A county would have to use its revenue “to maintain core services or lower municipal property tax rates.” A municipality with pensions in severe or moderate distress (assets divided by liabilities resulting in a funding level of 69 percent or less) would first have to use revenue to pay the minimum municipal pension obligation and then remaining dollars could be used “to maintain core services or lower municipal property tax rates.” Municipalities with pension funding at 70 percent or above would not have to use any revenue for the municipal obligation. The legislation notes core services include police, fire, public works, public health and welfare, housing and code enforcement.

After five fiscal years have passed, the tax could be repealed. This would be dependent on a petition of municipalities representing more than 50 percent of the population of the county seeking the repeal.

Much of the discussion at an April 29 hearing on the bill conducted by the House Local Government Committee focused on why school districts were not included in the legislation, what the tax base would be, what core services are and how the value of tax-exempt properties would be determined. The issue of old base-year assessments and how that would impact the valuation of tax-exempt property was noted several times. Organizations that represent the various types of local government in Pennsylvania all seemed to be supportive of the idea of broadening the available sources of revenue.

When comparing the proposal with Act 77 of 1993’s local option tax for Allegheny County, several differences arise.

First is the method of tax approval. There was no Allegheny County referendum to approve the local option tax; rather, the board of county commissioners (prior to the approval of home rule and new executive-manager-council form of government) voted to impose the tax.

Second is the method by which revenue from the tax is distributed. Half of the revenue goes to Allegheny County’s Regional Asset District to support designated regional assets (parks, libraries, stadiums, etc.), one quarter goes to Allegheny County and one quarter goes to the municipalities in the county. According to the district’s 2022 annual report, total local option tax collections were $247.1 million.

Third is requirements to eliminate or reduce specific taxes beyond property tax rates. Allegheny County and the City of Pittsburgh had to eliminate personal property taxes. The city also had to reduce its amusement tax rate and make a payment to Pittsburgh Public Schools to offset elimination of the school district’s personal property tax. Both had to create property tax relief programs for long-time owner-occupants with age and income requirements. Municipalities had to reduce local taxes and contribute a portion of revenue to multi-municipal councils of government.
The proposed legislation has a long way to go as evidenced by questions raised at the hearing. Even if the legislation should pass, would counties opt to impose the tax? In recent years counties have been given the option to add a $5 fee on existing automobile registration fees to fund repairs to county-owned infrastructure and a $15 fee onto existing deed recording fees to pay for blighted property demolition. To date, of the state’s 67 counties, only 24 have enacted the registration fee and 25 have adopted the demolition fee (14 have both).

The Allegheny Institute strongly recommends the legislation be amended to require voter referendum as the sole method to approve the local option tax. This would put the voters in charge of the imposition of the additional taxation. The local option tax would be broader than the optional automobile and deed registration fees and would likely raise much more revenue.

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