



### **Pennsylvania: Nation's Leading User of Local Income Tax**

Act 32 of 2008 will go into effect this coming January, changing the method of collecting local earned income taxes (wage taxes) levied by municipalities and school districts under Act 511. The method of collection will now move to a one collector per county system, with the exception of Allegheny County, which will have four districts, and Philadelphia, which already has a different collection method and does not operate under Act 511. The employer will be responsible for withholding the tax and remitting it to the tax collection district where the business is located.

This policy change has prompted a look at the use of local income taxes around the country. These wage/income taxes are levied on residents, non-residents, or both with differences in rates frequently determined by residency status and the base of what is taxed.

Somewhat surprisingly, it turns out Pennsylvania accounts for a large percentage of all local governments in the nation using a local earned income tax. A recent study by the *Tax Foundation* shows that 4,943 local jurisdictions (counties, municipalities, and school districts) in 17 states are levying a tax on income—nearly 3,000 of those are in the Commonwealth. The latest Census of Local Governments count shows there are over 53,000 counties, municipalities, and school districts in the U.S. That means about 9 percent of localities have such a tax. Some are large or very large including New York, Philadelphia, San Francisco, and Denver.

By the *Foundation's* count, nearly all of Pennsylvania's municipalities (2,492 of 2,562) and school districts (469 of 500) have a wage tax. Combined that represents about 60 percent of all the jurisdictions nationally that have a local income tax. Throw in Ohio (where 774 municipalities and school districts impose a tax) and three-quarters of all localities with an income tax fall in these two neighboring states. Local government finance statistics from the Census for 2008 shows that nationally property taxes raised \$396 billion while individual income taxes raised \$26 billion: a ratio of 15 to 1. In Pennsylvania the ratio is 4 to 1 (\$15.4 billion from property taxes, \$3.9 billion from local individual income taxes).

In the Keystone state, most local governments employing a wage tax levy the tax at the one percent maximum set by Act 511. The rate in those municipalities is split evenly between the municipality and the school district. Home rule municipalities are permitted to set the rate locally and many do impose rates above one percent. Other municipalities in Act 47 status are also allowed, indeed sometimes required, to set the local earned income tax above one percent. Then too, there are provisions for higher wage taxes through referenda for open space or for tax shifting that lessen the school property tax burden—although the tax shifting option has not been successful in reducing property taxes.

Philadelphia operates under the Sterling Act rather than Act 511. The City was the first local government in the nation to impose a local income tax. Currently the rate on residents stands at 3.928 percent and on non-residents at 3.4985 percent. A few of Pennsylvania's larger cities also have high rates including Reading at 3.60 percent and Scranton at 3.40 percent. Both cities are in Act 47 status. The rate in Pittsburgh—also in Act 47 as well as a home rule municipality—is steady and holding at 3 percent, though the sharing of the rate between the City and the school district was altered in recent years.

In Allegheny County fifteen municipalities have wage tax rates higher than the one percent maximum. Eleven are home rule and three are in Act 47. The highest combined rate outside of the City of Pittsburgh and the Pittsburgh Public Schools is in Penn Hills, where the municipal share is 1.25 percent; with the statutory 0.500 percent share to the school district, the combined rate is 1.75 percent. On top of very high property tax rates in many of the communities in Allegheny County, the local income tax is placing a heavy burden on taxpayers.

And keep in mind that along with taxes on property and earned income, Pennsylvania's local governments have the ability to tax many other subjects (parking, realty transfers, amusements, gross receipts, Local Services, etc.). When compared to the relatively low and flat rate state personal income tax the reach and complexity of Pennsylvania's local tax system is quite stark.

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