

POLICY BRIEF

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Proposals To Raise City Taxes Not Amusing

The latest trial balloons to be floated as remedies for the City of Pittsburgh's nagging financial problems include a doubling of the amusement tax to 10 percent and a new 10 percent tax on alcoholic beverages served at hotels, taverns, clubs, and sporting events. Trial balloon is the appropriate terminology since these ideas are largely made of air and little substance.

Let's look first at the amusement tax proposal. It is essential to remember that the 50 percent cut in the City's amusement tax from 10 to no more than 5 percent was a requirement specified in the Act which authorized the County to create the Regional Asset District and the accompanying local option sales tax-- which was immediately dubbed the RAD tax. Any move by the City to increase the amusement tax will run afoul of the RAD law. It will take a very friendly court or a change in the RAD legislation to open the door to a higher amusement tax. Asking the legislature to approve a rise in the amusement tax after all the claims that RAD revenues would bail out the City while helping the sports teams and other entertainment providers through a lower amusement tax-- made possible by RAD revenues--will be a thankless task at best. Has anyone consulted the teams or the cultural district amenities about their views on doubling the amusement tax?

There is another important wrinkle in this story. About half of the RAD dollars going directly to the City government were to be used to replace the loss in amusement tax revenue resulting from the rollback to 5 percent. The other half was intended to allow for other tax relief. But was it used for that purpose? Not quite. A chunk of those other funds were directed to a newly created development fund, which helped finance projects like Lazarus. Apparently, those projects are not adding substantially to City tax revenues. Otherwise, Pittsburgh would not be facing the dire financial straits that have precipitated the latest proposals for tax increases.

For the City to seriously consider raising the amusement tax now is tantamount to an admission that the grandiose promises made about RAD restoring the City's fiscal fortunes have not been kept.

As for the proposed tax on alcoholic beverages, such a levy would also require legislative approval from Harrisburg. This could take a while and would face some fairly strong opposition from restaurant and tavern owners. It may well be a political non-starter.

Philadelphia has a 10 percent retail liquor tax that must be paid by "any hotel, restaurant, club or other person holding a license or permit issued" by the state. That tax goes for the operation of the City's public schools. State liquor stores and beer distributors, which have a liquor tax built into the shelf price of their products, are not subject to the tax.

If a similar alcohol tax were to be levied in Pittsburgh, would it raise the expected \$10 million in revenue? In advance of levying the tax, it is not possible to say with certainty. It will depend on how sensitive consumers of taxable beverages are to price and what their purchasing options are. It will also depend on the degree of hostility consumers have to the tax. For bars and taverns near City boundaries there would most likely be a loss of business to bars located close to the City but out of reach of the tax.

Evidence from the national experience suggests that a tax hike may have less than hoped for results. For example, in 1991, after an 8 percent increase in the federal excise tax on alcohol, tax collections fell \$89 million short of government projections. In addition, the higher excise tax resulted in the elimination of 98,000 jobs directly and indirectly related to the alcohol industry. It is reasonable to believe that a local alcohol tax would have a similar, if somewhat less dramatic impact, on the affected sectors of Pittsburgh's economy.

The desire of City officials to avoid a fiscal crisis is understandable. However, these proposals for raising tax revenues are unlikely to receive legislative approval; certainly not in time to do much to relieve the City's fiscal problems in 2002. The City would do well to focus sharply and quickly on cost-cutting and downsizing options.

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The Society for the Education of Physicians and Patients is holding its 2001 Health Care Summit on Saturday, November 17 at the Sheraton Station Square from 8 A.M. to 4:30 P.M. Those interested in attending should contact SEPP at (412) 364-1994. Their website is www.sepp.net.

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