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Pittsburgh Commuter Tax: Bad Idea

Some City Council members have stepped up their calls to impose the 1.27 percent commuter tax suggested by Act 47 coordinators to pressure legislators to enact new business and non-resident taxes for the City to collect. However, pushing for the commuter tax is a wrongheaded strategy that is unlikely to bring about the desired results. It won't pressure the legislature into acting faster. If anything, getting a commuter tax approved by a judge would probably scuttle any chance of getting the kind of true tax reform the City needs.

Why? Several reasons. First of all, a commuter earned income tax (EIT) rate of 1.27 percent will not have much impact on large numbers of commuters and over time would become less and less effective as communities shift from property to income tax. This is due to state law requiring that earned income taxes paid in other jurisdictions be deducted from any income tax imposed by the City.

There are approximately 325,000 people working in Pittsburgh. Just under 90 percent live in Allegheny County (280,300 of the total). County residents are split between 121,559 (43%) who live in the City and 158,741 (57%) who live in the County outside of the City. About 14 percent of commuters come from outside the County. Since the bulk of workers in the City come from Allegheny County, they will be our focus.

Data from the Department of Community and Economic Development shows that in 2003, twelve Allegheny County communities (not including Pittsburgh or Mt. Oliver) levied a total EIT (municipal and school) rate greater than the 1.27 percent proposed by the City's Act 47 plan. Most of these communities did so under the provisions of home rule. For example, two of those towns--Penn Hills and Mt Lebanon--send a combined 14,000 commuters into Pittsburgh, according to Census commuting data. Others, such as Duquesne and Homestead, levied higher EIT rates under their own Act 47 provisions. In all, 28,609 commuters from these twelve communities would pay no commuter tax under the Pittsburgh Act 47 plan if it were instituted today since a non-resident worker only pays the difference between his home community EIT and the work community EIT.

In addition to the group that already levies a rate higher than Pittsburgh, there are nine home rule communities that have the ability to raise their EIT rate and lower property taxes to nullify any benefit to Pittsburgh's coffers. These communities include some that have a good deal of workers going to the City, including Bethel Park, McCandless, and Hampton. The total number of commuters coming from all of these communities is 19,231.

In total, almost 50,000 commuters from non-Pittsburgh locations in Allegheny County could be exempt from a commuter tax--nearly a third. Many better off communities are included in the

home rule group, thus limiting the impact of the take of revenue from a commuter tax. It would not be long after a commuter tax were implemented that City politicians would begin to complain about the inability of the tax to fall on commuters from wealthier communities due to EIT provisions much like they complain about the current exemptions in the property tax and business privilege tax.

Another wrinkle comes from the school tax reform plan passed in July. The legislation requires school districts that want to receive gaming dollars to increase their EIT by 0.1 percent. Thus, a commuter from non-home rule, non-Act 47 community that levies a 1 percent total EIT rate would have been liable for 0.27 percent to the City if the Act 47 rate was in place today. If that community's school district adopts the increased EIT, that commuter would then be responsible for 0.17 under Act 47. For a worker making $40,000 and paying 1 percent to their home community, the previous take for the City would be $108: after a change brought on by gambling, that take slides to $68. Moreover, school districts under Act 50 could raise the EIT even further in order to lower property taxes and reduce the impact of the commuter tax on their residents.

In short, the commuter tax is a poor strategy for going after revenue from non-residents. At the same time, the commuter tax would be a hard pill for City residents to swallow. The Act 47 plan requires that they face a 0.37 percentage increase in their EIT, bringing their total City and school income tax to 3.37 percent. And to make matters worse, under the Act 47 plan, City property owners would face a substantial hike in real estate taxes.

Attempts to push forward with a commuter tax is not only shortsighted, it will not pressure the legislature into action. The commuter tax will be viewed as the Governor's tax since it was he who insisted on going ahead with the Act 47 distressed municipalities plan when financial oversight board legislation was ready to go.

Council should turn its attention to cost-saving measures such as privatization, contracting with the County and selling assets that will truly help the City long term. As we have written on many occasions, the problem in Pittsburgh is not inadequate revenue: the problem is the inability to control spending. More revenue is a short term palliative. The City will never thrive until it reins in spending to closer match the levels of faster growing cities around the country. It has a long way to go.

Jake Haulk, Ph.D. President **Eric Montarti, Policy Analyst**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org