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Revenues from Pittsburgh's New Tax Structure

The legislature created a new tax structure for Pittsburgh that went into effect in 2005. Recently released 2005 data from the City Controller's office gives a reading on the how the new tax structure is working to provide revenue.

In 2005, the job-killing gross receipts taxes (business privilege and mercantile) were significantly altered. The business privilege tax rate was reduced from 6 mills to 2 mills. The mercantile tax was eliminated, though the City did receive some late payments in 2005. These tax losses were "replaced" by the payroll preparation tax, a tax that falls on all for-profit employers in the City.

At the same time, the \$10 annual occupation privilege tax was renamed the Emergency Services Tax and raised to \$52 per year. It is levied on virtually everyone holding a job in Pittsburgh no matter his or her income. Pittsburgh set the exemption level at \$12,000 but collected the tax from all workers in the City, allowing a \$42 refund in the following year for those who file and can show they made less \$12,000.

The tax changes resulted in a net increase of \$17.8 million in tax revenue for the City in 2005 compared to 2004 collections. That's no surprise. Our calculations of over a year ago estimated the changes would increase revenues about \$18 million, a net rise of \$5 million in business taxes and \$13 million in Emergency Services Taxes. Those projections were fairly close to the actuals for 2005. Note that the mercantile tax collections in 2005 were money owed from 2004.

City Taxes Affected By 2004 Reform Package (in \$000s)

Tax	2004 Actual	2005 Actual	Change
Business Privilege	39,902	13,816	-26,086
Mercantile	7,500	488	-7,012
Payroll	0	37,826	+37,826
OPT/EMS	3,176	16,306	+13,130
Total	50,578	68,436	+17,858

What about the other taxes—real estate, wage, parking, and others—that were not changed in 2005 by the tax reform package? Real estate taxes were up less than \$1 million over 2004 totals. And thanks in part to the County's base year assessment plan, the City's 2006 budget projects property taxes will fall \$3 million below the 2005 collections to stand at \$121 million. The City's remaining taxes on wages, parking, deed transfers, and amusements—as shown in the table—all saw collections rise in 2005 over 2004 actuals.

City Taxes Not Immediately Affected By 2004 Reform Package (in \$000s)

Tax	2004 Actual	2005 Actual	Change
Property	123,643	124,516	+873
Wage	45,815	47,388	+1,573
Parking	44,511	50,323	+5,812
Amusement	7,714	9,771	+2,057
Transfer	10,614	18,983	+8,369
Total	232,297	250,981	+18,684

Interestingly, in 2005 the parking tax revenue surpassed revenue from the wage tax and became the second largest source of tax revenue for the City. In fact, it is very telling that the wage tax has not yet returned to its previous high of \$48.7 million set in 2000. Or said another way, earned income in Pittsburgh has experienced no net growth in five years. The deed transfer tax rate was raised from 1.5 percent to 2 percent in 2005, but this was not a mandated change of the state reform. The higher tax rate, along with sales of some very large buildings downtown, gave the transfer tax revenue a boost in 2005.

All told, the eight main taxes levied by the City brought in \$36 million more in 2005 than in 2004. And this does not include the additional \$4 million dollars that the City no longer has to send to the school board from its share of Regional Asset District dollars.

City Revenues, Overall Changes (in 000s)

Revenue	2004 Actual	2005 Actual	Change
Taxes, Penalties, and Interest	300,931	337,570	+36,639
Other (Fines, Fees, Grants, etc.)	54,279	77,151	+22,872
Total	355,210	414,721	+59,511

Next year, as part of the legislature's mandated tax structure changes, three major adjustments take place to the City's revenue mix. First, the parking tax rate will drop from 50 to 45 percent. Though mandated, the 10 percent drop is little relief for folks paying to park in the City and for the businesses in the City who rely on people being able to park at a reasonable rate. Moreover, it is unlikely many garages will lower their prices appreciably as a result of this small rollback in the tax rate. In any case, the City will lose about \$5 million in revenue.

Second, the business privilege tax will decrease from 2 mills to 1 mill, costing about \$7 million in revenues in 2007. It will remain at 1 mill until it is eliminated in 2010. Lastly, the wage tax will increase from 1 percent to 1.1 percent as a result of shifting school district taxes to the City without an overall increase in Pittsburgh residents' wage tax burden. This should bring the City an additional \$5 million and cost the school district \$5 million. The 2007 tax rate changes will result in a near \$7 million net reduction in revenues.

The 2006 budget projects "taxes, penalties, and interest" at \$341 million, a scant \$4 million above the 2005 revenue. Looking ahead to 2007—with the assessments not changing, drops in the parking and business privilege tax rates and uncertain payroll tax collections—total revenues will almost certainly be lower in 2007 than in 2006. That does not bode well for next year's spending.

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