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Pittsburgh's Stalled Wage Tax Receipts

Pittsburgh, like many other municipalities around the Commonwealth, levies a local earned income tax on its residents. The City rate is currently one percent and applies to wages, net profits, and earned income regardless of where the City resident is employed. This year, the City budget anticipates the tax will bring in \$47 million, making it the third largest revenue source behind taxes on real estate and parking.

Next year, as part of the City's bailout package, the rate will increase by one-tenth of a percent through a shift from the 2 percent wage tax City residents pay to the Pittsburgh Public Schools. Thus, a City resident subject to the tax will still pay a total of 3 percent in wage taxes this year and for the foreseeable future. In 2009, the rate shift will be complete and the City rate will stand at 1.25 percent with the schools collecting 1.75 percent.

This combined rate is the highest in Allegheny County and one of the highest in the state. It is, as described in the Act 47 Recovery Plan of 2004, "a strong disincentive to live in Pittsburgh".

Given this year's one percent City rate and \$47 million in expected revenue, we calculate that each tenth of a percent of the tax brings in \$4.7 million dollars. Thus, the City should expect to receive \$51.7 million in 2007, even with no growth in taxable income. So why is the City budgeting only \$49.7 million? Although they have not said, there are a few plausible explanations:

- *A sluggish local economy:* The number of City residents who are employed fell 2 percent from the 2000 level of 149,059 to 146,359 in 2005. And there is little change in 2006. The longer-term weakening trend is even more pronounced, with residents holding jobs down 6 percent from 1996. The decline in number of people working is almost certainly being accompanied by a trend toward a higher percentage of jobs being lower pay and more part-time; i.e., eating and drinking and retail.
- *Statutory Changes:* A 2002 state statute changed the local definition of earned income and aligned it to the state's definition under the state income tax, allowing additional exemptions.
- *Fewer people in the City:* Population in the City continues to fall and stood at 316,000 in 2005, down from 331,000 in 2000, according to the most recent Census data.

Indeed, recent history (see table below) shows wage tax collections to be relatively flat. In 2000, wage tax collections stood at \$48.7 million. Last year receipts were \$48.2 million, a decrease of 1 percent. The intervening years saw weaker collections than the 2000 reading with the low point

in 2003 at \$45.9 million. There was a modest rebound from 2004 to 2005 when receipts increased 4 percent, but as previously mentioned, still did not climb back to the 2000 level.

City Wage Tax Collections, 2000-2005

Year	Actual Wage Tax Receipts (000s)	% Change
2000	48,707	
2001	46,684	-4
2002	47,642	2
2003	45,924	-4
2004	46,439	1
2005	48,238	4

2006 Comprehensive Annual Financial Report, City Controller's Office

Contrast the absence of wage tax receipts growth with the change in the Consumer Price Index for the Northeast, which increased 15 percent from 2000 to 2005. If wage tax receipts had grown at this rate over the five years, the City would have collected over \$55 million in 2005, some \$7 million above the actual for last year.

Here's the story: the number of people living in the City who are employed is basically flat during the national economic recovery and remains well below ten-year ago levels. That's not what the advocates and supporters of new stadiums, a new Convention Center and the Lazarus store predicted. And we can be reasonably sure that a casino will not provide the sustainable boost many are expecting. Nor will the boondoggle waste called the North Shore Connector bring prosperity to the City.

Cutting government spending by the City and school district so that taxes can be lowered and trying to get out from under the shackles imposed by public sector unions would be a great start.

Hope springs eternal that some magical event will occur and make it all better without having to do the hard work and making the difficult decisions. Might happen, but it is not the basis on which to govern.

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