

LOCAL TAX REFORM

Tax Reform

(continued from page 1)

Representative Dietterick agrees with the basic principle of relying more on income than real estate taxes. "It's fair to shift some more onto high income people," he said.

Kozick also said a tax on income was fairer, and that he might favor all local tax revenues coming from that source, with the elimination of real estate taxes. "I believe that some day we are going to pay on our income - that is more fair," he said last week.

While the rumor that the new taxes would be collected by the state and then disbursed back to the taxing bodies worries some officials, Superintendent Wycallis isn't concerned.

Wycallis explained how the district actually makes a profit on money borrowed to tide it over while waiting for reimbursements. He said that the county offers special low interest loans to school districts and municipalities. The interest rate is generally lower than that which the district can earn on invested funds, so the district makes money on the amount that is not used immediately. Wycallis said the Dallas district made about \$40,000 last year in this fashion.

While Wycallis thinks his district will do well under the present reform proposal, he thinks reassessment of property would offer big benefits, too.

"The biggest problem we have is our average assessed value is about \$4,000," Wycallis said. "Reassessment would probably benefit all school districts."

Kozick agrees that out-of-date assessments are unfair. He cited a case in which an acre of land on one side of a local road was assessed at \$120, while an acre directly across the road was valued at \$1,040. "I think we need fairer assessments," he said.

Charlotte Williams, business manager of the Dallas School District, is concerned about the lack of detailed implementation plans for the reform proposal.

"I think there are a lot of things that have to be worked out," she said Thursday. While Williams and other officials have been attending meetings about tax reform for several months, she said many of the details are up in the air.

Williams explained that based on recent history, the switch to an income-based tax would keep local

Ballot language only hints at changes

Here is the wording for the tax reform proposal that will appear on the May 16 primary ballot

The Joint Resolution No. 1. Shall Article VIII, Section 2 (B) of the Pennsylvania Constitution be amended to allow for legislation which would require or permit local government units to reduce residential real estate tax rates to the extent of additional revenues obtained from personal income taxes, while keeping all other changes in real estate tax rates uniform?

Organizations line up on tax measure

The proposal to change the rules governing local taxation in Pennsylvania has drawn more than its share of support and opposition. Organizations that have taken a stand on the legislation include these:

FOR:

- Pennsylvania School Boards Association
- Pennsylvania State Education Association
- Pennsylvania State Association of Boroughs
- American Federation of State, County and Municipal Employees
- Pennsylvania Ag Democrats
- Pennsylvania Small Business Advisory Council
- American Association of Retired Persons
- League of Women Voters
- Pennsylvania Council of Churches
- Pennsylvania AFL-CIO
- Pennsylvania Public Interest Coalition

AGAINST:

- Pennsylvania Manufacturers' Association
- The Commonwealth Foundation
- Pennsylvania Chapter of the National Federation for Independent Business
- National Tax Limitation Committee
- Consumer Party

tax revenues up with inflation better than the real estate tax.

She said the state Department of Consumer Affairs had provided statistics that showed the real estate tax base growing only 2 per cent annually, while the income base grew at 7.3 per cent.

Wycallis thinks the change may produce extra revenues for the Dallas district.

"In our situation, because of the incomes here," Wycallis said, "it could present us with a windfall of money." The act contains provisions to handle that, requiring that a taxing body reduce residential real estate taxes an amount equal to the revenue increase generated by the income tax.

But Kozick thinks the tax will not treat everyone equally.

"How can senior citizens, who are exempt from paying many taxes, handle a tax on savings interest?" he asked.

Other administrative items concern many of the official polled. Representative Dietterick said the state will have to hire 500-600 workers to process and manage the proposed taxes, and that will eat into the revenues generated.

Kozick doesn't like the idea of centralized collection of tax money, especially since so much of the extra revenue said to come from the proposal is earmarked for Philadelphia.

Will you win or lose?

Proposed tax changes will affect everyone

By RONALD BARTIZEK Post Staff

Most voters have had too little time to learn about the impact of the tax reform proposal that will appear on the May 16 primary ballot. And much of the information that has been available from either proponents or opponents has been slanted to suit their position.

The information in this article has been gathered from several sources, including the explanation of the act provided by the Local Government Commission of the General Assembly.

Bear in mind that the overall bill is highly complex and contains numerous provisions for changes, waivers and allowances when certain conditions are met. For instance, local taxing bodies may exempt low-income senior citizens from local income taxes.

Also, there are many "carrot and stick" provisions of the act that encourage counties, municipalities and school districts to adopt the proposal.

The major thrust of the proposal, called Act 145 of 1988, The Local Tax Reform Act, is to shift the burden of local taxation from an overwhelming reliance on real estate property taxes to income taxes. It also would permit a lower property tax rate for residences than for business property. Some critics say this two-tier property tax will not hold up in a court challenge, resulting in an even greater reliance on the income tax.

The act would allow local municipal governments and school districts to increase income tax rates and to tax so-called unearned income: interest, dividends, capital gains, etc. In return, they would

be required to lower revenues received from residential property taxes by an amount equal to that collected from the income tax increase.

The plan does not require that income taxes be imposed, only that if they are, residential property tax reductions must be made also. And while the act appears to dictate at least a 25 per cent reduction in property taxes, there are provisions to allow for less under several circumstances.

Opponents of the plan complain that there is only a four-year period during which increases in property taxes are not allowed, and after that there are no limits on increases. Supporters counter that there are now no limits on tax increases at the local level, so the argument that after four years taxes will skyrocket is specious.

The act also would allow counties to enact a sales tax of .5 per cent, with 25 per cent of the revenues from that tax to be distributed to the municipalities in the county.

Some critics of the plan contend that if contiguous counties do not have the same sales tax rate, i.e. if one county imposes a tax and another doesn't, consumers will tend to shop in the county without a tax. In the long run, they say, counties with the sales tax would suffer declines in business and employment.

The act abolishes several "nuisance" taxes - per capita, occupation and occupational privilege. But it imposes a \$20 "municipal services tax".

As a condition of the act, each local governing body must appoint a tax study commission to exam-

ine local tax issues and recommend the course of action. Public hearings must be held as part of this process, and local officials may not serve as members of their own study commission.

The commission must reconvene and review the tax system after four years.

So, who wins and who loses in all this? According to the literature available, the following would be winners if Act 145 passes, and their taxing bodies accept its recommendations:

- **HOMEOWNERS**, who may see their property taxes reduced.
- **LOW-INCOME SENIOR CITIZENS**, if their local taxing bodies grant exemptions from the income tax.

- **WAGE EARNERS WITH NO INVESTMENTS**, if the new local income tax rate is lower than the present wage tax rate.

- **COUNTIES**, which may take advantage of incentives to reassess property and make other improvements in property tax assessment, making administration of the property tax fairer.

- **RETIREES**, who own a home and have only Social Security and pension income.

And the probable losers?

- **SENIOR CITIZENS**, who don't own a home and have savings and investment income.

- **RENTERS**, who may have to go to court to receive the benefits of property tax reduction.

- **ANYONE**, who sells property and has capital gains, which will be taxed as income.

- **ANYONE**, who has substantial savings and investment income.

- **HIGH-INCOME FAMILIES**, with relatively little property.

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