Pennsylvania Economy League, Eastern Division
1211 Chestnut Street, Suite 600
Philadelphia, PA 19107
Telephone (215) 864-9562

pel

Impact of Local Tax Reform on Model Households in Southeastern Pennsylvania Communities

Pennsylvania Economy League, Inc.

Eastern Division

Impact of Local Tax Reform on Model Households in Southeastern Pennsylvania Communities

Pennsylvania Economy League
1211 Chestnut St., Ste. 600
Philadelphia, PA 19107

Report No. 555

April 1989

Contents

List of Tables

Preface

The Eastern Division of the Pennsylvania Economy League has contributed background information to deliberations on local tax reform in the Southeastern Pennsylvania region, since the State Legislators' Conference initiation of the effort to reduce the Philadelphia wage tax in 1987. We provided statistical and financial impact analysis to the Wage Tax Committee of the Conferees continuously, on request, up until the passage of the local tax reform law--Act 145--by the legislature in November 1988.

At the present, we are assessing the impact of Act 145, as passed. In this exercise we wish merely to show impartially, based on our best estimates, how savings and increases can be expected to be distributed in the Southeastern Pennsylvania region. We seek to present a fair view of the outcome of local tax reform for individuals, who will be asked to vote in the primary, on the constitutional amendment enabling the implementation of Act 145. However voters may choose to vote, our role is to provide them with an impartial view of potential net savings or net increase, based on income, assets, and the existing tax profile of the community in which they reside.

The staff principals for this report were Research Director Edgar Rosenthal and myself, with assistance from intern Jack Persico. The staff was assisted in developing models by an advisory committee of PEL divisional board and county committees members. The members helped staff to arrive at a consensus relationships between earned and unearned income; between sources of unearned income; and between earned income and housing value. We also are indebted to the State Division of PEL for the essential computations of the estimated yield of new taxes in relation to residential real estate in communities in our region.

Dianne E. Reed, Ph.D.
Director

Executive Summary

Impact of local tax reform on model households throughout Southeastern Pennsylvania

General observations on net tax consequences:

- o While most suburban retired senior citizens should benefit, the tax bill of most Philadelphia retired senior citizens should increase somewhat, unless the optional exemption is enacted by City Council

- o Most commuters and working Philadelphians should realize some tax savings

- o If landlords pass along real estate reductions, renters and home owners should fare about the same

Relationships of income and assets that influence net tax consequences

- o The higher the potential for reduction of real estate taxes in a suburban community, the greater the potential tax savings

- o The higher the value of a suburban home in relation to earned income, the greater the potential tax savings

- o The more unearned income one has in relation to earned income, the more tax increase one can expect, unless one currently pays an intangible personal property tax; then, the more taxable intangibles one owns (stocks bonds, mortgages), the greater the potential net savings

- o In Philadelphia, the type of unearned income matters: the more currently taxable dividend, rent, and royalty income one has, and the less bank income and capital gains (which are currently not taxable), the greater the potential tax savings o <u>Who is likely to pay the most under local tax reform?</u> Suburbanites with high unearned income in relation to earned income; low housing value in relation to earned income; and residence in a community with low potential reduction in the real estate tax

Table 1

MATRIX FOR COMPUTATIONS OF IMPACT OF LOCAL TAX REFORM ON HOUSEHOLDS: Total Taxes and Net Taxes

			High R.E. Tax Reduction Potential (92%)		Moderate R.E. Tax Reduction Potential (56%)		Low R.E. Tax Reduction Potential (26%)	
	PHILADELPHIA		SPRINGFIELD Montgomery County PIT 2%		BIRMINGHAM Chester County PIT 1.75%		NORTH COVENTRY Chester County PIT 1.75%	
Total Income 1	Revenue Neutral Rates 2	Maximum Rates 3	Work in Phila 4	Work Elsewhere 5	Work in Phila 6	Work Elsewhere 7	Work in Phila 8	Work Elsewhere 9
HOMEOWNER (worker):								
1 $20,500: Total Taxes	2237	2378	994	604	1206	766	1425	985
Net change	-50	-39	-770	-298	-412	10	-243	79
2 $52,500: Total Taxes	4985	5041	2390	1415	2774	1674	3177	2077
Net change	-149	-93	-1435	-254	-783	273	-457	349
3 $110,000: Total Taxes before	9919	9919	7379	3066	6892	2580	7013	3200
Total Taxes after	9587	9812	4806	2856	5491	3291	6222	4022
Net change	-333	-108	-2573	-210	-1401	711	-791	822
HOMEOWNER (retired):								
4a $13,600: Total Taxes	1281	1317	194		373		561	
Net change	44	80	-584*		-280*		-138*	
4b with exemption: Net change	8	8	-616*		-308*		-166*	
RENTER (worker):								
5a $12,100: Net change	-36	-36	-574	-288	-361	-106	-207	-11
5b without compliance: Net change	-36	-36	-24	262	-24	232	-44	151
6a $20,500: Net change	-50	-39	-851	-378	-535	-113	-295	27
6b without compliance: Net change	-50	-39	-32	441	-33	390	-53	270
7a $52,500: Net change	-149	-93	-1556	-374	-991	65	-544	263
7b without compliance: Net change	-149	-93	-82	1100	-88	969	-108	699
"SPECIAL EVENTS," high income model: $110,000 Total Income								
8 STANDARD (line 3 above)					-1401	711		
9 House sale ($100,000 Capital Gain)					349	2461		
10 Car purchase ($25,000)					-1276	836		
11 Unemployment ($50,000 Earned Income)					-1220	-164		
12 House value = $150,000					-1085	1028		
13 House value = $400,000					-2666	-554		
14 Total unearned income = $100,000					174	2286		
15 Total unearned income = $0					-1576	536		
16 Taxable intangibles = $100,000					-1741	371		
17 Taxable intangibles = $0					-1341	771		

* Individual is not employed

Explanatory Notes For Matrix on Table 1

-- The real estate tax reduction potentials (92%, 56%, and 26%) reflect the combined potentials at the school district and municipal levels.

-- Negative figures in the matrix denote the net annual tax decrease and positive figures denote the net annual tax increase resulting from the imposition of Tax Reform.

-- Line 4b lists the figures for senior citiens who qualify for the low-income exemption: to be eligible, the senior citizen must have a total income of less than $15,000. If eligible, the individual is not subject to the unearned income tax.

-- Lines 5b, 6b, and 7b show the effect of landlords' non-compliance with the requirement of passing on the real estate tax savings to renters.

-- Lines 9 through 17 show the impact of various significant alterations of the above family characteristics (for a Birmingham family type C only).

The tax rates corresponding to the matrix on Table 1 are as follows:

	PHILADELPHIA Revenue Neutral: Wage	Unearned	Maximum: Wage	Unearned	SPRINGFIELD Montgomery County	BIRMINGHAM Chester County	NORTH COVENTRY Chester County
Personal Income Tax (PIT):	4.5%	2.6%	4.5%	4.5%	2.0%	1.75%	1.75%
School District	N/A	N/A	N/A	N/A	1.5%	1.50%	1.50%
Municipal	4.5%	2.6%	4.5%	4.5%	.5%	.25%	.25%
Real Estate Tax:							
Municipal	3.75%		3.75%		4.1%	7.5%	1.0%
School District	4.12%		4.12%		15.1%	13.2%	13.9%
County	N/A		N/A		2.6%	2.2%	1.9%
Sales Tax	.5%		.5%		.5%	.5%	.5%

I. Background: Summary of provisions of local tax reform

There are many excellent sources of background information on the provisions of local tax reform. For the purposes of interpreting impacts on households, we should like to point out some of the key points. Recognizing the Act's special provisions for Philadelphia, we treat the city as a separate category.

A. Outside Philadelphia

1. Municipalities and school districts

Personal income tax. Local tax reform authorizes municipal (city, borough and township) and school district income taxes on the state income tax base, which includes both earned and unearned income. Unearned income includes income from such sources as interest, dividends, capital gains, rents, and royalties. Pension and social security payments would not be taxed. The maximum rate is 0.75 percent for municipalities and 1.5 percent for school districts. Local tax reform repeals the current municipal and school district earned income (wage) tax, which has a maximum rate of 1 percent for municipalities and school districts combined.

Per capita and occupational taxes. In addition to the wage tax, local tax reform repeals per capita and occupational taxes.

Real estate tax. Local tax reform requires school districts and municipalities to use the revenues from the personal income tax to reduce the residential property tax, after replacing any repealed taxes. With some exceptions, jurisdictions which enact a personal income tax must reduce residential real estate taxes by at least 25 percent. (The few communities that are exceptions would not receive enough PIT revenue to permit the minimum 25 percent reduction in real estate tax.) Under local tax reform, there would be two real estate millage rates, one for residential property and one for non-residential properties. The non-residential rate cannot be independently increased.

Municipal services tax. A tax of $20 is allowed for cities, boroughs, and townships, which doubles the current rate of the repealed occupational privilege tax ($10).

2. Counties

Sales tax. Counties would be permitted to impose a 0.5 percent sales tax to piggy back on the state sales tax. Twenty-five percent of the revenue from the county tax is to be distributed to constituent municipalities which have a personal income tax of at least 0.25 percent and a real estate tax.

Personal property tax. The county tax on intangible personal property (some classes of stocks, bonds and the like) is repealed.

B. Philadelphia

Local tax reform would make three main changes:

1. The resident wage tax rate is reduced from 4.96 percent to 4.5 percent.
2. The nonresident wage tax rate would be reduced from 4.3125 percent to 3.95 percent.
3. A sales tax may be imposed at the rate of 0.5 percent or 1.0 percent; 0.5 percent is revenue neutral.

Local tax reform also changes the taxation of unearned income by lowering the rate from 4.96 percent, extending the base to bank interest and capital gains, and eliminating the personal property tax.

There would be no change in Philadelphia's real estate tax.

II. Model Households

This section presents computations of the impact of local tax reform on model households in three suburban municipalities and in Philadelphia. The model households are hypothetical; the communities are not. Both are used illustratively. The model households' particular mix of financial characteristics is not necessarily typical or representative of households in Southeastern Pennsylvania, but is a mix considered to be plausible by the study's advisory committee. Each reader's financial characteristics and net tax outcome will be different. The three suburban communities illustrate the range of potential reduction in the real estate tax. Each net tax outcome includes potential changes in both municipal and school district rates. The school district rate changes produce the more dramatic effect because of the higher millage rates and revenues involved.

The computations are summarized in Table 1, and the characteristics of the households are outlined in Table 2.

A. Outside Philadelphia

In suburban municipalities and school districts, local tax reform would permit the substitution of a personal income tax for some portion of the residential real estate tax. School districts and municipalities must use the revenues from the personal income tax to reduce the residential property tax, after replacing any nuisance taxes eliminated under local tax reform. Jurisdictions differ greatly in value of taxable personal income in relation to the value of residential real estate. Therefore, there are great variations among the 60 school districts and 238 municipalities as to the potential real estate tax reduction from given rates of the personal income tax. Among school districts, with a maximum PIT of 1.5 percent, the reduction ranges from a low of 0 percent to a high of over 100 percent. For our computations, we have chosen three communities: Springfield, Montgomery County, representing communities with a potential for a high reduction in the real estate tax (over 90 percent); Birmingham, Chester County, with a moderate real estate reduction potential (56 percent); and North Coventry, Chester County, with a low potential real estate reduction (26 percent). The modal, or most frequent, percentage reduction potential, for school districts and communities combined, lies in the high 40s.

PEL's findings are summarized below.

Households with homeowners working outside Philadelphia. According to PEL's models, homeowners at all earned income levels who work outside Philadelphia would pay reduced taxes under local tax reform if living in a community with a high potential reduction in real estate tax, as shown for Springfield Township in Table 1. Households with homeowners at higher earned income levels ($50,000, $100,000) who work outside Philadelphia would see increased taxes in communities with moderate or low potential reduction in the real estate tax, as shown by Birmingham and North Coventry in Table 1. The homeowner with an earned income of $25,000 experiences a net tax savings or remain revenue neutral in all communities in the PEL matrix.

Households with homeowners who commute to Philadelphia. In each of the models, the commuter would pay less net tax under local tax reform. The reason is that the homeowner's real estate tax would be reduced, as would the tax on earned income. This decrease would more than compensate for the new sales tax and unearned income taxes. It is notable, however, that even after implementation of local tax reform, the commuter, paying the 3.95 percent wage tax to Philadelphia, would still pay substantially higher total taxes than his noncommuting neighbor. The noncommuter would pay less total tax because the tax on earnings in the suburbs is limited to the range of 1.75 percent to 2.0 percent.

Households with working renters. Much depends on whether the landlord complies with the intent of the act that lower real estate taxes be passed on to the residential tenant. Triple damages are stipulated for landlords who fail to comply with the Act 145's requirement to pass on real estate tax savings to tenants. If landlords comply with the compulsory savings pass-through to tenants, the results for renters are similar to the results for working homeowners. If not, the renter would pay more (or benefit less) under local tax reform than the homeowner. In our models the renters appear to fair marginally better than some homeowners at the same income level, because of assumptions about average relationships of rental payments to total income, which apply to the region but may not be accurate for individual communities. Benefits to homeowners and renters, therefore should not strictly be compared on a dollar-per-dollar basis, only benefits among renters for different communities.

Households with retired homeowners. In each of the suburban models, the retired homeowner would have a lower tax bill under local tax reform. The reason is that the cut in residential real estate taxes would far outweigh the new unearned income and sales taxes.

Variables that would change tax impact in the suburbs. The models are only illustrations applying to the particular household characteristics tested. If the characteristics--including housing value, types of income and spending

patterns--were changed, the impact of local tax reform would change. These variables are shown as "special events" in Table 1, for the $110,000 income homeowner in Birmingham.

Taxable purchases. The computations of the amount of sales tax payable are based on data from the United States consumer expenditure survey. The model assumes purchase of an "average" amount of taxable big ticket items. In a year when purchases are above average--for example, when an automobile is purchased--taxes will be higher; in other years, taxes may be lower than in the models. In the case of the Birmingham commuter household with an income of $110,000, the net tax benefit is reduced from $1,401 to $1,276.

Sale of house. The new personal income tax would apply to the capital gain from the sale of a house (as does the current Pennsylvania personal income tax). Exempt under the law is the first $100,000 capital gain from a house sale of a person 55 years of age or older. Assuming that the model Birmingham commuter with an income of $110,000 is less than 55 years of age, the net tax savings of $1,401 is eliminated and a net tax payment of $349 occurs instead. The homeowner's income for the year of the sale of the house increases by $100,000 to $210,000 and an additional income tax payment of $1,750 is due.

Unemployment. Local tax reform would ease the tax burden for the homeowner who was unemployed for part of the year, since the real estate tax burden would be reduced. If pay were cut in half, the Birmingham homeowner working outside Philadelphia would see reduced taxes under tax reform. The commuter with reduced earned income would pay lower taxes under tax reform, but his saving would be less than the taxpayer who was fully employed all year.

Home value. Table 1 illustrates that local tax reform is most beneficial for those with unusually high ratios of home value to earned income, and least beneficial to those with low housing value in relation to earned income. In the model, the $110,000 Birmingham noncommuting homeowner is assumed to own a house valued at $200,000. Here is the change in net tax liability that occurs with different assumed housing values:

House value $150,000:	Net tax increase of $317
House value $400,000:	Net tax decrease of $1265

Variations in unearned income. In the PEL model, the household with high unearned income in relation to earned income, will pay more tax. In our base model in

Table 2, the household with an income of $110,000 has an earned income of $100,000 and unearned income of $10,000. In table 1, these financial characteristics net out to a tax savings of $1,401 for the commuter and a net tax increase of $711 for the noncommuter (line 8). If the unearned income were increased to $100,000, the Birmingham taxpayer would pay an additional $1,575. This would mean that the commuter living in Birmingham would pay higher taxes pay higher taxes ($174) under tax reform, as shown in line 15. Under the same assumptions, the noncommuter would increase by $2,286, as also shown in line 15, under column 7.

We also tested the impact of assuming that the household with $100,000 of earned income has no unearned income. In the Birmingham example in Table 1, the net tax savings is increased by $175 to $1,576, as shown in line 16.

Variations in taxable intangibles. The current 4 mill tax on certain intangibles would be eliminated under tax reform (this tax is no longer imposed in Bucks County). Persons with a great deal of taxable intangibles might fare better under local tax reform than under the current tax pattern. Our $110,000 income model assumes $15,000 of taxable intangibles. If this figure is raised to $100,000, as shown in line 17 of Table 1, the commuter would save $1,741 under local tax reform (compared to $1,401 in our base model, line 8). As shown in line 16, with $100,000 in taxable intangibles, the noncommuter would pay less tax, at a net of $371, than he/she does in the basic model (in which he/she pays $711, as shown in line 8). Those without taxable intangibles experience less net tax savings, as shown in line 18 of Table 1. The reason for the potential decrease is that under local tax reform, only the income from intangibles is taxed, rather than the total value; a 2.25 percent tax on the income nets out to less tax than the 4 mills on the total value, assuming a 6-10 percent income from the assets.

B. Philadelphia

In the models, we have assumed a revenue neutral rate of 0.5 percent for the sales tax and 2.6 percent for the unearned income tax. We have also provided an alternative computation on the assumption that the rate of the unearned income tax would be 4.5 percent, the maximum rate, and the same as the maximum rate for the resident wage tax.

For households with working Philadelphians, the models show that taxes would be reduced under local tax reform, as the reduction in the wage tax more than compensates for

increases in the sales tax and the unearned income tax. The finding applies to all three income levels of homeowners tested, as well as three model renters. The reduction would be greater under the revenue neutral rate than the maximum rates for the unearned income tax.

For retired Philadelphians, the models are based on a gross income of $13,600, of which $12,000 is pension and social security income and $1,600 is unearned income. Under local tax reform, the examples show tax bills increasing by $44 (7 percent) to $80 (12 percent), depending on the rates of the new unearned income tax, assuming the city does not exempt low income senior citizens from the income tax.

Local tax reform permits local government to exempt senior citizens with total income of $15,000 or less, or low income persons with taxable income varying with number of exemptions (for example, currently $7,800 for a two-person family.) If Philadelphia adopted an exemption, the taxes of the model senior citizen would increase by a negligible $8 annually, which is the result of the estimated impact of the sales tax.

Variables that would change tax impact for Philadelphians. The models are only illustrations applying to the particular household characteristics tested. For Philadelphians, the main variables influencing the impact of local tax reform on households are the sources of unearned income and spending patterns.

Taxable purchases. The computations of the amount of sales tax payable were based on data from the United States consumer expenditure survey. The model assumes purchase of an "average" amount of taxable big ticket items. In a year when purchases are above average--for example, when an automobile is purchased--taxes will be higher; in other years, taxes may be lower than in the models.

Type of unearned income. Philadelphia now has a 4.96 percent school unearned income tax, which applies to all unearned income other than bank interest and capital gains. The tax would drop to 2.6 percent or 4.5 percent in our models, but would apply to all unearned income, including bank interest and capital gains. The impact of local tax reform on the taxation of Philadelphia unearned interest is summarized in Table 3. Table 4 presents computations of tax liability before and after local tax reform for alternative patterns of unearned income.

Persons who now have large amounts of income subject to the current school 4.96 percent unearned income tax would benefit under local tax reform; those who have large amounts of untaxed bank interest or capital gains would tend to pay more.

Moreover, the city now imposes a 4 mill ($4 per $1,000) tax on the value of taxable intangibles such as stocks and bonds. This tax would be eliminated, to the benefit of persons with substantial holdings of such taxable securities.

Sale of house. The new tax would apply to the capital gain from the sale of a house (as does the current Pennsylvania personal income tax). Exempt under the law is the first $100,000 capital gain from a house sale of a person 55 or older.

Under the models, a taxable capital gain on the sale of a house might mean that working Philadelphians might have a higher tax bill under local tax reform.

III. Effect on Various Levels of Government

Basically, local tax reform's intent is to be revenue neutral in the first year, in that there would be no change in the total taxes collected before and after implementation. What local tax reform would do is shift local taxes from one source to another. Also, there would be some additional state revenues going into the region under local tax reform.

A. Outside Philadelphia

Table 5 has estimates of the impact of local tax reform on school districts, municipalities and counties as applied to tax revenue figures for FY86, the latest available in state publications.

By imposing a 1.5 percent income tax, school districts, in the aggregate, could reduce residential real estate taxes by 62 percent. Included in the estimate is the payment in lieu of taxes on behalf of commuters to Philadelphia. The payment would equal 0.25 percent of the commuter's earned income. The funds for Philadelphia's payment would come from the state real estate transfer tax.

For all municipalities in the four-county area, the maximum PIT is 0.75 percent (with the exception of home rule municipalities, which are not so limited). However, all of the PIT revenues have to be used to replace abolished taxes and to reduce the residential real estate tax. In the aggregate, municipalities would raise more revenues than permitted if they used the full 0.75 percent authorization. With a 0.25 percent PIT, municipalities in the aggregate could decrease their residential real estate taxes by nearly 40 percent.

Counties could impose a 0.5 percent sales tax, but would lose the personal property tax. Counties would also receive a state payment equal to one-half the county subsidy to SEPTA. The net effect of these changes would have been sufficient revenues to reduce real estate taxes by an average of 16 percent.

B. Philadelphia

The arithmetic for Philadelphia differs from the remainder of the state, since local tax reform mandates a reduction in Philadelphia's wage tax. The estimated loss would be $88 million. To make up the loss, Philadelphia would receive additional state aid and could impose a sales tax. The estimates are shown in Table 6, as applicable to FY90.

Additional state aid includes payments equal to half of the city's contribution to SEPTA, a municipal overburden payment, and a share of the state real estate transfer tax collected in Philadelphia. These would total roundly $38 million.

A 0.5 percent sales tax is estimated to yield about $37 million. The remaining shortfall would be made up by changes in the unearned income tax and personal property tax. The current school district unearned income tax (rate of 4.96 percent) and the city personal property tax (4 mills) would be eliminated, to be replaced by a new unearned income tax of up to 4.5 percent. PEL estimates that a rate of 2.6 percent would yield sufficient revenue to make the total package "revenue neutral."

MATRIX FOR COMPUTATIONS OF IMPACT OF LOCAL TAX REFORM ON HOUSEHOLDS: Total Taxes and Net Taxes

	PHILADELPHIA		High R.E. Tax Reduction Potential (92%) SPRINGFIELD Montgomery County PIT 2%		Moderate R.E. Tax Reduction Potential (56%) BIRMINGHAM Chester County PIT 1.75%		Low R.E. Tax Reduction Potential (26%) NORTH COVENTRY Chester County PIT 1.75%	
Total Income 1	Revenue Neutral Rates 2	Maximum Rates 3	Work in Phila 4	Work Elsewhere 5	Work in Phila 6	Work Elsewhere 7	Work in Phila 8	Work Elsewhere 9
HOMEOWNER (worker):								
1 $20,500: Total Taxes	2237	2378	994	604	1206	766	1425	985
Net change	-50	-39	-770	-298	-412	10	-243	79
2 $52,500: Total Taxes	4985	5041	2390	1415	2774	1674	3177	2077
Net change	-149	-93	-1435	-254	-783	273	-457	349
3 $110,000: Total Taxes before	9919	9919	7379	3066	6892	2580	7013	3200
Total Taxes after	9587	9812	4806	2856	5491	3291	6222	4022
Net change	-333	-108	-2573	-210	-1401	711	-791	822
HOMEOWNER (retired):								
4a $13,600: Total Taxes	1281	1317	194		373		561	
Net change	44	80	-584*		-280*		-138*	
4b with exemption: Net change	8	8	-616*		-308*		-166*	
RENTER (worker):								
5a $12,100: Net change	-36	-36	-574	-288	-361	-106	-207	-11
5b without compliance: Net change	-36	-36	-24	262	-24	232	-44	151
6a $20,500: Net change	-50	-39	-851	-378	-535	-113	-295	27
6b without compliance: Net change	-50	-39	-32	441	-33	390	-53	270
7a $52,500: Net change	-149	-93	-1556	-374	-991	65	-544	263
7b without compliance: Net change	-149	-93	-82	1100	-88	969	-108	699
"SPECIAL EVENTS," high income model: $110,000 Total Income								
8 STANDARD (line 3 above)					-1401	711		
9 House sale ($100,000 Capital Gain)					349	2461		
10 Car purchase ($25,000)					-1276	836		
11 Unemployment ($50,000 Earned Income)					-1220	-164		
12 House value = $150,000					-1085	1028		
13 House value = $400,000					-2666	-554		
14 Total unearned income = $100,000					174	2286		
15 Total unearned income = $0					-1576	536		
16 Taxable intangibles = $100,000					-1741	371		
17 Taxable intangibles = $0					-1341	771		

* Individual is not employed

Explanatory Notes For Matrix on Table 1

-- The real estate tax reduction potentials (92%, 56%, and 26%) reflect the combined potentials at the school district and municipal levels.

-- Negative figures in the matrix denote the net annual tax decrease and positive figures denote the net annual tax increase resulting from the imposition of Tax Reform.

-- Line 4b lists the figures for senior citiens who qualify for the low-income exemption: to be eligible, the senior citizen must have a total income of less than $15,000. If eligible, the individual is not subject to the unearned income tax.

-- Lines 5b, 6b, and 7b show the effect of landlords' non-compliance with the requirement of passing on the real estate tax savings to renters.

-- Lines 9 through 17 show the impact of various significant alterations of the above family characteristics (for a Birmingham family type C only).

The tax rates corresponding to the matrix on Table 1 are as follows:

	PHILADELPHIA Revenue Neutral:		PHILADELPHIA Maximum:		SPRINGFIELD Montgomery County	BIRMINGHAM Chester County	NORTH COVENTRY Chester County
	Wage	Unearned	Wage	Unearned			
Personal Income Tax (PIT):	4.5%	2.6%	4.5%	4.5%	2.0%	1.75%	1.75%
School District	N/A	N/A	N/A	N/A	1.5%	1.50%	1.50%
Municipal	4.5%	2.6%	4.5%	4.5%	.5%	.25%	.25%
Real Estate Tax:							
Municipal	3.75%		3.75%		4.1%	7.5%	1.0%
School District	4.12%		4.12%		15.1%	13.2%	13.9%
County	N/A		N/A		2.6%	2.2%	1.9%
Sales Tax	.5%		.5%		.5%	.5%	.5%

CHARACTERISTICS OF HOUSEHOLD MODELS

	HOMEOWNER				RENTER		
	Working Families			Retired	Working Families		Poverty
	A	B	C	D	E	F	G
Total income	20,500	52,500	110,000	13,600	20,500	52,500	12,100
Earned income	20,000	50,000	100,000	0	20,000	50,000	12,100
Pension, Social Security	0	0	0	12,000	0	0	0
Other income (total):	500	2,500	10,000	1,600	500	2,500	0
Interest	500	2,000	4,000	1,300	500	2,000	0
Dividends	0	500	3,000	200	0	500	0
Capital gains	0	0	3,000	100	0	0	0
Taxable intangibles*	0	4,000	15,000	1,000	0	4,000	0
Purchases subject to sales tax	6,150	13,150	22,250	4,350	6,150	13,150	4,000
House market value	60,000	110,000	200,000	51,500			
Gross rent					5,000	9,000	3,360
Rent RE tax equivalent (20% of gross rent)					1,000	1,800	672

* Subject to personal property tax.

Table 3

DETAILS REGARDING CHANGES IN TAXATION OF UNEARNED INCOME IN PHILADELPHIA UNDER TAX REFORM

Category	Current Taxation	Under Tax Reform
Bank interest	not taxed	Up to 4.5% (2.6% is revenue neutral)
Other interest	4.96%	Up to 4.5% (2.6% is revenue neutral)
Dividends	4.96%	Up to 4.5% (2.6% is revenue neutral)
Capital gains	not taxed	Up to 4.5% (2.6% is revenue neutral)
Other unearned	4.96%	Up to 4.5% (2.6% is revenue neutral)
Value of certain intangibles	.4%	Not taxed

Table 4:

IMPACT OF VARIOUS UNEARNED INCOME TAX PATTERNS ON PHILADELPHIA TAXPAYER WITH TOTAL INCOME OF $110,000

A. Table 1 Unearned Income Computations (based on Table 2 data):

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 4,000	$ 0	180
Other Interest	$ 0	$ 0	0
Dividends	$ 3,000	$ 149	135
Capital Gains	$ 3,000	$ 0	135
Other Unearned	$ 0	$ 0	0
Total Taxes		$ 149	450

B. Alternative 1: all unearned income is from BANK INTEREST

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 10,000	$ 0	450
Other Interest	$ 0	$ 0	0
Dividends	$ 0	$ 0	0
Capital Gains	$ 0	$ 0	0
Other Unearned	$ 0	$ 0	0
Total Taxes		$ 0	450

C. Alternative 2: all unearned income is from OTHER INTEREST

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 0	$ 0	0
Other Interest	$ 10,000	$ 496	450
Dividends	$ 0	$ 0	0
Capital Gains	$ 0	$ 0	0
Other Unearned	$ 0	$ 0	0
Total Taxes		$ 496	450

D. Alternative 3: all unearned income is from DIVIDENDS

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 0	$ 0	0
Other Interest	$ 0	$ 0	0
Dividends	$ 10,000	$ 496	450
Capital Gains	$ 0	$ 0	0
Other Unearned	$ 0	$ 0	0
Total Taxes		$ 496	450

E. Alternative 4: all unearned income is from CAPITAL GAINS

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 0	$ 0	0
Other Interest	$ 0	$ 0	0
Dividends	$ 0	$ 0	0
Capital Gains	$ 10,000	$ 0	450
Other Unearned	$ 0	$ 0	0
Total Taxes		$ 0	450

F. Alternative 5: all unearned income is from OTHER UNEARNED

		Taxes: Before	Taxes: After
Other Income (total):	$ 10,000		
Bank Interest	$ 0	$ 0	0
Other Interest	$ 0	$ 0	0
Dividends	$ 0	$ 0	0
Capital Gains	$ 0	$ 0	0
Other Unearned	$ 10,000	$ 496	450
Total Taxes		$ 496	450

OVERVIEW OF FISCAL IMPACT OF LOCAL TAX REFORM: SUBURBAN AREAS
(dollars in millions)

A. BASES OF TAX REVENUE

	Bucks	Chester	Delaware	Montgomery	Total
Income Tax Base (CY86):					
Earnings:					
All residents	$ 5,557	3,760	5,523	8,669	23,509
Less: commuters to Phila.	$ 798	399	1,570	1,887	4,654
Net taxable earnings	$ 4,759	3,361	3,953	6,782	18,855
Other Taxable Income	$ 1,013	950	1,340	2,888	6,191
Total Income (all residents)	$ 6,570	4,710	6,863	11,557	29,700
Less: commuters to Phila.	$ 798	399	1,570	1,887	4,654
Net Total Taxable Income	$ 5,772	4,311	5,293	9,670	25,046
Estimated Sales Tax Base (FY87)	$ 2,935	1,799	2,472	4,515	11,721
Sales Tax Revenue at .5% (FY87 estimated "point of sale")	$ 14.7	9.0	12.4	22.6	58.6
Assessments by type, CY86					
Residential/Agricultural	$ 933	941	535	1,463	3,871
Commercial	$ 199	143	152	419	913
All other	$ 133	100	46	193	472
Total	$ 1,265	1,183	732	2,075	5,255

B. IMPACT ON SCHOOL DISTRICTS

	Bucks	Chester	Delaware	Montgomery	Total
Residential RE Tax Revenue (FY86):					
Residential/agricultural RE	$ 141.3	95.4	124.0	178.8	539.5
Apt. Bldgs. (Est. as 20% of Com. RE)	$ 6.0	2.9	7.0	10.2	26.2
Total residential RE	$ 147.3	98.3	131.1	189.0	565.7
Act 511 Taxes (FY86) abolished:					
Occupation	$ 7.04	0.63	0.00	0.73	8.41
Occupational Privilege	$ 0.71	0.11	0.22	0.46	1.50
Per Capita	$ 0.61	0.44	0.14	0.80	1.99
Earned Income	$ 3.29	11.03	0.00	8.89	23.21
Total	$ 11.65	12.21	0.36	10.88	35.10
Act 511 Taxes (FY86) retained:	$ 8.8	6.0	5.9	8.9	29.68

	Bucks	Chester	Delaware	Montgomery	Average
Income tax rate needed to provide 25% reduction in residential RE	0.83%	0.84%	0.58%	0.59%	0.68%

SCENARIO 1: 1.5% Personal Income Tax

	Bucks	Chester	Delaware	Montgomery	Total
Effect of Tax Reform:					
Income Tax at 1.5%	$ 86.6	64.7	79.4	145.0	375.7
+ In Lieu of Taxes (Phila. commuters)	$ 2.0	1.0	3.9	4.7	11.6
- Abolished Act 511 Taxes	$ 11.7	12.2	0.4	10.9	35.1
Net increase after reform:	$ 76.9	53.5	83.0	138.9	352.2
as % of Res. RE tax revenue	52.2%	54.4%	63.3%	73.5%	62.3%

SCENARIO 2: .25% Personal Income Tax

	Bucks	Chester	Delaware	Montgomery	Total
Effect of Tax Reform:					
Income Tax at .25% (includes in lieu Phila.)	$ 16.4	11.8	17.2	28.9	74.3
- Abolished Act 511 Taxes	$ 11.7	12.2	0.4	10.9	35.1
Net increase after reform:	$ 4.8	-0.4	16.8	18.0	39.2
as % of Res. RE tax revenue	3.2%	-0.4%	12.8%	9.5%	6.9%

C. IMPACT ON MUNICIPALITIES

		Bucks	Chester	Delaware	Montgomery	Total
Residential RE Tax Revenue (CY86):						
Residential/agricultural RE	$	24.8	11.0	40.9	46.5	123.2
Apt. Bldgs. (Est. as 20% of Com. RE)	$	1.1	0.3	2.3	2.7	6.4
Total residential RE	$	25.8	11.3	43.2	49.2	129.6
Act 511 Taxes (CY86) abolished:						
Occupation	$	0.05	0.02	0.02	0.02	0.11
Occupational Privilege	$	0.70	0.49	1.31	2.54	5.04
Per Capita	$	0.65	0.51	0.51	1.05	2.73
Earned Income	$	4.20	13.28	7.29	14.77	39.53
Total	$	5.60	14.30	9.13	18.38	47.41
Act 511 Taxes (CY86) retained:	$	10.7	16.8	10.2	21.3	59.0
Municipal Service Tax Revenue (Est. as 2X Occupational Privilege Tax)	$	1.4	1.0	2.6	5.0	10.0
Sales Tax Revenue (1/4 of county collections)	$	3.7	2.2	3.1	5.6	14.7

	Bucks	Chester	Delaware	Montgomery	Average
Income tax rate needed to provide 25% reduction in residential RE	0.11%	0.29%	0.21%	0.17%	0.19%

SCENARIO 1: .75% Personal Income Tax

		Bucks	Chester	Delaware	Montgomery	Total
Effect of Tax Reform:						
Income tax revenue at .75%	$	43.3	32.3	39.7	72.5	187.8
+ In Lieu of Taxes (Phila. commuters)	$	2.0	1.0	3.9	4.7	11.6
+ Sales Tax Revenue	$	3.7	2.2	3.1	5.6	14.7
+ Municipal Service Tax	$	1.4	1.0	2.6	5.0	10.0
- abolished Act 511 Taxes	$	5.60	14.30	9.13	18.38	47.4
Net increase after reform:	$	44.8	22.3	40.2	69.5	176.7
as % of Res. RE tax revenue		173.2%	197.2%	93.0%	141.3%	136.4%

SCENARIO 2: .25% Personal Income Tax

		Bucks	Chester	Delaware	Montgomery	Total
Effect of Tax Reform:						
Income tax at .25% (includes in lieu Phila.)	$	16.4	11.8	17.2	28.9	74.3
+ Sales Tax Revenue	$	3.7	2.2	3.1	5.6	14.7
+ Municipal Service Tax	$	1.4	1.0	2.6	5.0	10.0
- abolished Act 511 Taxes	$	5.6	14.3	9.1	18.4	47.4
Net increase after reform:	$	15.9	0.7	13.7	21.2	51.5
as % of Res. RE tax revenue		61.5%	6.4%	31.7%	43.0%	39.7%

D. IMPACT ON COUNTIES

		Bucks	Chester	Delaware	Montgomery	Total
Real Estate Tax Revenue (CY86)	$	49.2	25.1	50.7	47	172.0
County Contribution to SEPTA	$	1.4	1.0	5.5	2.9	10.8
Effect of Tax Reform:						
State SEPTA Reimbursement (50%)	$	0.7	0.5	2.8	1.5	5.4
+ Sales Tax revenue (3/4)	$	11.0	6.7	9.3	16.9	44.0
- Personal Property Tax Revenue (CY86)	$	3.0	4.1	3.3	11.8	22.2
Net Increase after reform	$	8.7	3.1	8.7	6.6	27.2
as % of RE tax revenue		17.7%	12.5%	17.2%	14.0%	15.8%

Table 6

OVERVIEW OF FISCAL IMPACT OF TAX REFORM--PHILADELPHIA

Estimates Assume Local Tax Reform in FY90 and
Revenue Neutral Sales and Unearned Income Tax Rates

	Millions $
A. Loss From Mandated Reductions	
Resident wage tax to 4.5%	-57
Nonresident wage tax to 3.95%	-29
Net profits tax to 4.5%	-2
Subtotal, losses	-88
B. Additional state aid	
Half of real estate transfer tax	12
Municipal overburden grant	3
Amount equal to half city SEPTA contrib.	23
Subtotal, state aid	38
Net to this point	-50
C. Sales tax at .5%*	37
D. Changes in taxation of unearned income	
Eliminate city personal property tax	-13
Eliminate school unearned income tax	-17
New unearned income tax at 2.6%**	40
Subtotal	11
Net revenues	-2

Note: Tabulation does not include additional potential wage tax collections from city residents working in suburbs (estimated to be in the $8 million range).

---

* The maximum rate is 1.0 percent.
** The maximum rate is 4.5 percent.