December 19, 2018

Honorable Bernie O’Neill
Chairman, Finance Committee
House of Representatives
47 East Wing
PO Box 202029
Harrisburg, PA 17120-2029

Honorable Scott E. Hutchinson
Chairman, Finance Committee
Senate of Pennsylvania
Room 170 Main Capitol
Senate Box 203021
Harrisburg, PA 17120-3021

Honorable Jake Wheatley, Jr.
Chairman, Finance Committee
House of Representatives
36 East Wing
PO Box 202019
Harrisburg, PA 17120-2019

Honorable John P. Blake
Chairman, Finance Committee
Senate of Pennsylvania
Room 17 East Wing
Senate Box 203022
Harrisburg, PA 17120-3022

Dear Chairmen:

Pennsylvania’s system of local earned income tax collection at many varied tax rates is almost unique among the states. According to the Tax Foundation, Pennsylvania has more local income tax jurisdictions than any other state. Most states do not allow any local jurisdictions to impose an income tax. Of the 17 states that allow local income taxes, there are a total of 4,943 jurisdictions imposing such a tax. Pennsylvania had 2,961 local EIT jurisdictions, or almost 60% of the US total, as of 2011. See Appendix D of the report for details.

In contrast, Pennsylvania has limited local sales tax to the major cities, with only 2 local sales taxes in Allegheny and Philadelphia counties. Many states are much more dependent on the sales tax for local government funding. The Tax Foundation also reports that as of 2014 there were almost 10,000 sales tax jurisdictions across the US, and 23 states had more than 100 sales tax jurisdictions within their borders.

As a result, Pennsylvania local governments tend to be much more dependent on EIT revenue than are similar localities in other states. Therefore it is vitally important to consider how the EIT system can be imposed in the most efficient and effective manner in order to minimize the tax administration burden on employers throughout the Commonwealth, while maximizing the revenue available from this source.
Recognizing the importance of this issue, the Pennsylvania General Assembly has enacted several reform measures and directed studies of the system over the last several years. Adopted on March 14, 2018, House Resolution No. 291 directed the Department of Revenue to prepare a study of the feasibility and potential cost savings associated with the replacement of local earned income tax collection methods by local taxing committees with a statewide collection method within the Department of Revenue.

In response, the Department has prepared the attached study in consultation with the Department of Community and Economic Development and the Independent Fiscal Office, and with input from counties, municipalities, and school districts across Pennsylvania. The Department also utilized Boyer & Ritter, LLC, as a third-party consultant for the study. The Department thanks all of those who contributed data, comments and opinions to this report.

Sincerely,

C. Daniel Hassell
Secretary of Revenue

cc: Honorable Joseph B. Scarnati, III
    Honorable Mike Turzai
    Honorable Dennis M. Davin
    Matthew Knittel