

Review of Real Estate, Earned Income, Real Estate Transfer, and Business Gross Receipts and the Rates of Change in Home Rule Charter Municipalities since 1999

Introduction:

The law allowing a Home Rule Charter form of government removes the limitations on the rate of taxes used to fund government services. A Home Rule government cannot create taxes on new things to tax but is limited to only those things that are taxable under the prior form of government. If Lancaster City adopts a Home Rule Charter, the same kinds of taxes that are available under the Third Class City code will remain available.

As of September 2024, there are 82 municipalities that have adopted Home Rule Charters in Pennsylvania with the oldest being Philadelphia City (1952) and the newest being Towamencin Township (2023).

The Pennsylvania Economy League examined the local tax rate history of these 82 Home Rule municipalities from 1999 through 2024, a period of 25 years. The rates of real estate (property), earned income, and real estate transfer were reviewed for the frequency of changes and the range of amounts. This review was done to determine the actual taxation practices of local governments under home rule.

Tax Review:

Real Estate Property Taxes. While all of the Home Rule municipalities levy a property tax, the different rates cannot be directly compared across county lines because property assessment practices vary from county to county. What can be reviewed is the rates of change for this tax over the 25 year period. On average, Home Rule municipalities did not increase property taxes 63% of the time. Increases occurred on average 23% of the time during that period while decreases happened 14%. Decreases occurred both as real reductions in the tax rate but also may have occurred when the county completed a reassessment that required the municipality to adjust its tax rate.

Earned Income Taxes. When EIT is reviewed for changes since 1999, keeping the rate the same year over year is more often the case than frequent increases or decreases. Most municipalities set the EIT rate once following a Charter adoption and generally do not increase the rate. Please note that the School District portion of total EIT is generally an additional 0.5% and is not subject to increases under a Home Rule Charter municipal government.

Of the 82 Home Rule municipalities, measured from the year they became home rule, on average the EIT rate was unchanged year over year 89.7% of the time. Increases in EIT rates occurred an average of 6.4% of the time. There were decreases in the EIT rate on average 3.9%. EIT rates did not continuously increase during the review period; generally, the EIT rate was increased one time under Home Rule above the former statutory limits and largely remained at that level for long periods of time. This occurs primarily due to the natural growth of the EIT base which is a result of wage and salary growth that generally tracks with inflation. Because of this natural growth, municipalities do not have to raise the EIT rate to generate more revenue unlike property tax which usually requires an increase in the tax rate to increase revenue.

Unlike property tax rates, the EIT rate can be compared across county lines. Of the 75 municipalities that had EIT rates above 0% (seven Home Rule municipalities do not levy an EIT) the highest rate was seen in

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Philadelphia City at 3.75%. Philadelphia has steadily lowered its EIT rate 15 times since 1999 when the EIT rate was 4.1635. Others with 2024 EIT rates above 2.0% are Chester (2.75%), Wilkes-Barre (2.5%), Scranton (2.4%), Reading (2.1%), and Greensburg and Warren (both 2.0%). Five home rule municipalities have EIT rates of 2.0%; 44 have rates between 0.6% and 1.75%; nineteen have rates at 0.5% while seven do not levy a EIT tax.

| Table 1 | |
|-------------------------------------|--------|
| EIT Rates Above 2.0% in 2024 | |
| City | % Rate |
| Philadelphia | 3.75 |
| Chester | 2.75 |
| Wilkes-Barre | 2.50 |
| Scranton | 2.40 |
| Greensburg | 2.30 |
| Warren | 2.30 |
| Reading | 2.10 |
| <i>Source: DCED Data</i> | |

Real Estate Transfer Tax. The Real Estate Transfer tax (RET) is levied upon the sale and transfer of ownership of property. When RET is reviewed for changes since 1998 in each of the 82 Home Rule municipalities, not changing year over year is more often the case than frequent increases or decreases. As was seen with EIT rates, once municipalities set the RET rate following a Charter adoption the rate is not usually increased. Please note that the School District portion of total RET is generally an additional 0.5% and is not subject to increases under a Home Rule Charter municipal government.

As with EIT rates, the RET rate can be compared across county lines. Of the 81 municipalities that had RET rate above 0% (one home rule municipality did not levy a RET in 2024) the highest rate was seen in Philadelphia and Reading cities at 3.28% and 3.5% respectively. Table 2 lists those home rule municipalities with 2024 RET rates above 1.0%.

For all 82 Home Rule municipalities, as measured from the year they became home rule, on average the RET rate was unchanged year over year 95.6% of the time. Those RET rates that did increase occurred on average just 3.0% of the time. There were decreases in the RET rate of 1.4% during the review period. RET increases did not continuously increase during the review period; generally, in those cases where the RET rate was increased under Home Rule above the former statutory limits it largely remained at that level for long periods of time.

Table 3 shows the distribution of RET rates in home rule municipalities. Forty municipalities have retained the statutory limit of 0.5% for their share or 48.8% of all home rule municipalities. Rates higher than the half percent rate but less than a two percent RET rate occur in 32 municipalities or 39.0%.

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| Table 2 | |
|-------------------------------------|------|
| RET Rates Above 1.0% in 2024 | |
| Reading | 3.50 |
| Philadelphia | 3.28 |
| Hermitage | 3.00 |
| Pittsburgh | 3.00 |
| Pittston | 2.50 |
| Scranton | 2.20 |
| Farrell | 2.00 |
| Greensburg | 2.00 |
| Wilkes-Barre | 2.00 |
| Coatesville | 1.50 |
| Greenville | 1.50 |
| McKeesport | 1.50 |
| Penn Hills | 1.50 |
| Sharon | 1.50 |
| State College | 1.50 |
| Upper Providence | 1.50 |
| Ferguson | 1.25 |
| <i>Source: DCED Data</i> | |

| Table 3 | | |
|---|----|-------|
| Range and percent of RET Rates in 2024 Municipal Share | | |
| 3.0% and above | 4 | 4.9% |
| 2% and less than 3% | 5 | 6.1% |
| Above 0.5% and less than 2% | 32 | 39.0% |
| Rate at 0.5% | 40 | 48.8% |
| Zero Rate | 1 | 1.2% |
| Total HR | 82 | |
| <i>Source: DCED Data</i> | | |

Business Gross Receipts Tax

The other significant tax levied by some cities is the Business Gross Receipts tax. The imposition of any new business gross receipts tax is prohibited after November 30, 1988 under the terms of the Local Tax Reform Act. **As Lancaster did not impose the tax prior to 1988, it cannot now levy this tax, even under a home rule charter.**

This is a tax measured by the gross receipts of the person doing business. To be valid, tax liability must be measured by the actual gross receipts. The tax is imposed on the taxpayer, or the person engaged in business without regard to the number of establishments maintained. 32 cities currently levy this tax while 16 do not levy the tax and 8 have not reported data for 2024.