

## **ECAC June 2024 – Tax Discussion**

### **Historical Context of Tax Alternatives**

Based on the ECAC Agenda packet from February 2023 and Andy Rau's letters from 2023, the Township has been exploring alternative methods of taxation since 2009. Various methods have been implemented over the years, but none have proven to be sustainable. Some of the tax options considered include:

- **Real Property Tax**
- **Earned Income Tax (EIT)**
- **Realty Transfer Tax**
- **Occupation Tax**
- **Amusement Tax**
- **Mechanical Devices Tax**
- **Local Services Tax**
- **Per Capita Tax**

After extensive research by the Township staff, Board of Supervisors (BoS), ECAC, and others, it appears that only two sources of revenue are large enough to pay for the proposed projects suggested by the BoS:

- **Real Estate Tax**
- **Earned Income Tax (EIT)**

This document aims to provide the Board with a clear understanding of the advantages and disadvantages of the tax options available for funding the proposed projects, with a particular focus on equity considerations. ECAC believes this information is critical for making informed decisions on how to proceed.

### **Summary of ECAC Discussion**

1. **Substantial Project Costs:** The proposed projects being evaluated by the Board of Supervisors will have substantial costs. ECAC believes that these projects, if approved, would require tax increases.
2. **Revenue Sources:** We believe that there are only two sources of revenue large enough to pay for projects with these costs:
  - An increase in the existing Real Estate Tax
  - An Earned Income Tax (EIT)
  - Or a combination of both (a + b)

3. **Borrowing for Funding:** In order to pay for the proposed projects, the Township would most likely need to borrow (bond issuance or similar), and pay for that borrowing, over time, with either:
- An increase in Real Estate Tax
  - Implementing an Earned Income Tax
  - A combination of both (a + b)

## Analysis of Tax Options

### **Real Estate Tax**

#### **Advantages:**

- **Stable Revenue Stream:** Property taxes provide a stable and predictable source of revenue, which can be essential for long-term planning and debt servicing.
- **Wide Tax Base:** The tax is spread across all property owners, potentially lowering the per-capita tax burden.
- **Easier Administration:** The mechanisms for property tax collection are already in place and well-understood by both the government and taxpayers.

#### **Disadvantages:**

- **Equity Concerns:** Property taxes are not based on the taxpayer's ability to pay, potentially placing a heavier burden on those with fixed or lower incomes.
- **Market Impact:** High property taxes can impact property values and may discourage investment in the area.
- **Potential for Disputes:** Property assessments can be contentious, leading to disputes and appeals that can be time-consuming and costly.

### **Earned Income Tax (EIT)**

#### **Advantages:**

- **Income-Based:** This tax is based on earned income, making it more equitable as those with higher incomes pay more.
- **Growth with Economy:** As the economy grows and wages increase, so does the revenue from EIT, providing a naturally growing revenue source.

- **Encourages Property Investment:** Unlike property taxes, EIT does not directly impact property values or investment decisions related to real estate.

#### **Disadvantages:**

- **Economic Sensitivity:** EIT revenue can be more volatile, fluctuating with employment rates and economic conditions.
- **Administrative Complexity:** Implementing and managing an EIT system can be more complex and costly, requiring coordination with employers and accurate tracking of residents' earnings.
- **Potential Work Disincentive:** High income taxes may discourage additional work or attract negative attention from high earners.

### **Combination of Real Estate Tax and EIT**

#### **Advantages:**

- **Balanced Approach:** Combining both taxes spreads the burden across different types of taxpayers, potentially leading to a more equitable system.
- **Revenue Stability:** Diversifying the revenue sources can provide more stability, balancing the strengths and weaknesses of each tax type.
- **Flexibility:** Allows for adjusting the rates of each tax to optimize revenue without overburdening any single group.

#### **Disadvantages:**

- **Increased Complexity:** Managing two different tax systems increases administrative complexity and costs.
- **Potential for Confusion:** Residents and businesses may find the combined tax structure confusing, leading to potential compliance issues.
- **Compounded Resistance:** Taxpayers might resist multiple tax increases, potentially facing more opposition than a single tax approach.

This document aims to provide the Board with a clear understanding of the advantages and disadvantages of the tax options available for funding the proposed projects. ECAC believes this information is critical for making informed decisions on how to proceed.

Please see below previous documents mentioned in this letter.

## ECAC Project starting January 2023

# DRAFT

### Easttown Township Long-Term Strategic Funding Options January 9, 2023 Revenue Options

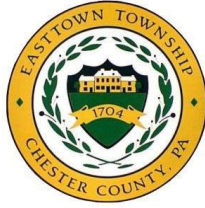
- General Obligation Bonds – Used to fund capital projects, such as the Township building. Also, has an expense associated with the revenue. Principal and Interest (P&I) is the expense side. Not a solution. Does not address General Fund.
- Short-term loan – 6 months to one year. Also has P & I as an expense. Not a solution.
- Tax Anticipation Note (TAN) – also known as Tax Revenue Anticipation Note (TRAN) – short term loan used for cash flow purposes within one calendar year. Not a solution.
- **Earned Income Tax (EIT).** Up to 1.5%. T-E School District will most likely piggyback on EIT and take half of what is collected, as allowed by law. EIT is on earned income only (wages, commissions, salaries), not investment income, dividends, interest. EIT is paid only once and subject to those who live here and those who work in the Township but do not pay where they reside. Persons living in Easttown but working in Philadelphia would still pay to Philadelphia but not subject to an EIT in the Township, according to the Sterling Act of Pennsylvania. The EIT is a quarterly payment made from the employers to the Township. Residents make quarterly payments also. October 2009 was a public hearing on EIT.
- Local Services Tax (LST) \$52/year for all persons working in the Township, including self-employed, and home occupations. Can have exemptions for those who have a lower income, such as less than \$12,000 a year. The LST is a quarterly payment made from the employer to the Township.

- Occupation Tax based on persons occupation ages 18 and over. Amount varies depending on the occupation. Could start at \$100 and increases based on the title of a person's occupation. It is a tax for residents and for employees working in the Township.
- Per Capital Tax. Maximum rate of \$5 per person living in the Township. Exempt for persons with sources of income less than \$12,000.
- Open Space Fund Tax based on increasing the Realty Transfer Tax by .25%. Funds could be used or dedicated to acquire and retain open space. Does not address General Fund.
- Impact Fee tax
  - A. Storm Water Management Impact fee. Tredyffrin Township will start this tax in 2024. Does not address General Fund.
  - B. Traffic impact fee from new or redevelopment. Act 209 allows this. Towamencin Township is an example of a municipality with a traffic impact fee. The fee is passed onto the contractors based on the impact of their vehicles or equipment used Township roads. A formula is assessed based on wear and tear of the existing roads. Does not address General Fund.
- Sale of Sewer System.
- Review of current Fee Schedule – fees are up to date based on the work of the ECAC.
  - A. ECAC completed project summer 2022.
  - B. Additional increases in fees or new fees generate a marginal difference in the overall revenue stream.
- Fire Tax – dedicated to the 2 fire companies – Berwyn Fire Company and Paoli Fire Company.
- Hydrant Tax/Fee – Increase current fee.
- Amusement or Admissions Tax based on ACT 511 of Pennsylvania. 10% based on green fees at the County Club and admissions at music events.
- Amusement Device (Mechanical Device) Tax based on ACT 511 of Pennsylvania. \$25 to \$150/device at bars, gas stations.
- Additional Payment in lieu of Taxes (PILOT) program for those not meeting the Commonwealth's HUP test. Such as Devereux Foundation as an example.

- Grants – pursue more grants in the areas of storm water, parks and recreation, open space, police, public works. Grants usually have a match associated with the grant submission, which is an expense line item.

Source: PA Governor's Center for Local Government Services, Taxation Manual, 10<sup>th</sup> edition, February 2019.

*Easttown*



*Township*

## **EASTTOWN CITIZEN'S ADVISORY COMMITTEE**

**Regular Meeting Agenda**

**Monday, February 13, 2023, 6:15 p.m.**

- 1. Call Meeting to Order**
- 2. January 09, 2023 Minutes**
- 3. Schematic Design Discussion**
- 4. ECAC Projects 2023 – Further Discussion of Alternative Revenue Sources**
- 5. Public Comment**
- 6. Announcement**
  - A. Next regularly scheduled meeting is March 13, 2023, 6:15 p.m.**
- 7. Adjournment**

## **ECAC Meeting Minutes January 9, 2023 DRAFT**

Present ECAC Attendees: Tom McGurk, Sarah Henry, Hal Ward (via Zoom), Pete Motel, Michael Novak, Alessandra Nicolas

Absent ECAC Members: Bob Winters

Township Staff: David Fiorenza

Present Board of Supervisors Liaison: Erik Unger

Called Meeting To Order- Tom McGurk

### **Regular Business**

Consideration of November 14, 2022 Minutes- Approved, with minor corrections

Welcome New Member - Michael Novak

#### **Schematic Design Discussion-**

Costing of project has begun and reasoning was discussed. The numbers that were offered were \$20 million, with \$15.4 for the project itself. The original idea of contingency was a 10% variable to account for inflation. The actual variation provided was 25%.

The BOS felt that it would merit going back and analyzing different tranches of costs because the cost would be too high at that level. The supervisors also suggested revisiting prior contingency plans, and rethinking using existing office space given current market conditions.

Among the suggestions made were separating police administration and police operations, and asking for various iterations at different price points.

It was requested that HSA have a workshop to prioritize absolute needs vs wants, with police needs as primary driver. This will be presented at next week's BOS meeting, where approval will be sought for a date TBD for the workshop.

#### **ECAC Projects 2023 -Alternative Revenue Sources**

David Fiorenza identified several specific areas that could contribute to the general fund (EIT, Local Services Tax, occupation tax, per-capita tax, amusement tax, payment-in-lieu-of program) and also would make sense administratively. The goal is to be both fair and equitable, to be sensitive to bond rating considerations. David proposed requesting initiating a consulting firm to explore these contingencies. This was last done in 2009. This would not mean definitively implementing such taxes, but would fulfil the need to explore impacts. Also suggested was the need for a detailed communications effort to the public.

It was requested that the township would engage an external consulting organization to make recommendations, and the ECAC would explore options.

#### **Fee In Lieu of Sidewalks - McMahon Report November 2018**

David Fiorenza: McMahon findings report is believed to be reliable for continued use in budgeting.

Public Comment- None

Next regularly scheduled meeting is February 13 2023 at 6:15 PM

Conclusion & Adjournment



## Prospective Finance Consulting for Easttown Township – Tax Issue

### General:

1. What is the general form of an EIT (typical range of percentages, types of income, shared with TESD, etc.)?
2. Who implements it (typical companies in the area or nation)?
3. How is it implemented (initial, ongoing, schedule, lead time, demonstration of revenue, etc.)?
4. What is its pattern of use (nation, region, historical, etc.)?

### Particular:

1. How much money can it raise in Easttown?
2. What percentage of Easttown citizens already pay it?
3. What percentage of Easttown citizens will not pay it (because they have no income)?
4. What local neighbors use it and how much do they raise?

ECAC Agenda item

February 13, 2023

# **Easttown Township**

Public Hearing Concerning an  
Earned Income Tax  
October 2009

# Local Tax Structure

- To adequately finance local government services any tax structure should:
  - Be equitable
    - Not overly reliant on any one source or taxpayer class
  - Be stable
    - Tax revenue should not be subject to swings in collection rates or amounts
  - Be diverse, efficient, and easy to understand
    - Applied to a variety of tax bases
    - Taxpayers should understand the tax and not spend a lot on collection or enforcement

# **Easttown Township**

## **Public Hearing Concerning an Earned Income Tax**

### **Local Taxes Available to Easttown Township**

- Real Property Tax levied on Real Estate Assessed Values
- Earned Income Tax levied against earned income and net profits
- Realty Transfer Tax levied on the sale value of real estate
- Occupation Tax levied on an occupation's "value"
- Amusement Tax levied on admissions to entertainment
- Mechanical Devices Tax levied on coin operated devices
- Local Services Tax levied upon employment within municipality
- Per Capita Tax levied on a per person basis with exceptions

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Real Property Tax

The real property tax is a tax on the value of the real property (land, buildings, and other improvements) owned by a taxpayer.

- It is commonly called the real estate tax.
- The amount of real property tax a taxpayer owes depends upon the assessed value of their property set by the County and the local tax rate set by the municipality.
- Property values for tax purposes are determined by an assessment process and may be very different than the actual market value of the properties.

Easttown's current rate for real property tax is a total of 3.361 Mills.

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### R'ealty Transfer Tax

The realty transfer tax is a tax on the sale price of real estate

- The maximum levy is 1 percent of the sales price.
- If both the municipality and school district levy this tax, both must share the 1 percent.

Easttown receives 0.5% on the **sale** of all taxable properties in the Township.

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Amusement Tax

The amusement tax is a tax on the privilege of engaging in an amusement.

- It is tax levied on the admissions prices to places of amusement, entertainment, and recreation and can include such things as craftShows, bowling alleys, golf courses; ski facilities, or county fairs.
- The amusement tax is considered a tax on patrons, even though it is collected from the operators of the amusement. Any municipality first levying an amusement tax after 12/31/1997 is limited to a maximum rate of 5%.

The largest amusement venues in the Township are the Devon Horse Show and the Devon Lanes bowling alley. There is some question as to the taxability and interest in placing a tax on tickets for the Horse Show, as it is a charitable event.

# **Easttown Township**

## **Public Hearing Concerning an Earned Income Tax**

### **Mechanical Devices Tax**

The mechanical devices tax is a tax on coin-operated machines of amusement, such as jukeboxes, pinball machines, video games, and pool tables. The tax rate is set as a percentage of the price to activate the machine.

Given the limited number of venues for such machines and the cost of collection, it seems unlikely that the Mechanical Devices Tax would generate much revenue.



# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Local Services Tax

The local services tax is levied on employees working in the jurisdiction. It was formally known as the Occupational Privilege tax.

- All persons employed in the jurisdiction levying are subject to this tax, regardless of whether they are legal residents of the jurisdiction.
- If the levy exceeds \$10, the municipality shall exempt taxpayers with annual income of less than \$12,000 from the tax. The maximum levy is \$52.
- Tax is collected by employers at the usual rate of \$1 per week

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Local Services Tax

### Estimated Revenue

According to U.S. Census Bureau Data:

- Approximately 4,600 primary jobs in Easttown Township before estimating the effect of the mandatory exclusion for earnings less than \$12,000 a year.
  - The Township believes this number to be considerably less, based on a review of sanitary sewer customers the estimated number of employees at each location.
- Approximately 3,550 primary jobs in Easttown Township may be subject to a local services tax.

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Local Services Tax Estimated Revenue

Potential Revenue in 2010:

- Approximately 3,550 taxpayers at \$52 each is \$184,600.
- Approximately \$184,600 less 2% average collection cost is \$180,908.
- Approximately \$180,908 less 25% for uncollectible or delayed collection is \$135,681 revenue in calendar year 2010.

Potential Revenue From a Local Services Tax in 2010: \$135,681

*Does not account for increased unemployment rate.*

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Occupation Tax

The occupation tax is typically levied as a flat rate tax and can be shared evenly with school district.

- Every person who works pays the same amount, regardless of their occupation.
- The maximum levy at flat rate is \$10 per person.

With about 4,600 residents employed as of the 2000 census, the most Easttown could hope to receive through an Occupation Tax would be roughly \$46,000 if levied at the flat rate, less the cost of collection (2%) and delayed or uncollectible revenues (25%).

Potential revenue from an Occupation Tax in 2010: \$33,810

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Per Capita Tax

The per capita tax is a flat rate tax, levied on adults who live in the jurisdiction.

- The name is literally "per each head" at a maximum of \$10 per head.
- All adults are subject to the tax, age and income. exemptions are possible

With about a population of roughly 7,600 adults as of the 2000 census, the most Easttown could hope to receive through a Per Capita Tax would be roughly \$76,000, less the cost of collection (2%) and delayed or uncollectible revenues (25%).

Possible Revenue From a Per Capita Tax in 2010: \$55,860

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Earned Income Tax

The earned income tax is levied only on residents' earned income (such as wages, salaries, or other reimbursements for work) and certain net profits.

- Unearned income, such as interest, dividends, pensions, and social security are exempt from the tax.
- Unlike the federal or state income taxes, the earned income tax allows no exemptions or standard deductions.
- Non-residents who work in the jurisdiction but do not pay an earned income tax in their "home" jurisdiction are subject to the local tax. Easttown residents are subject to the tax if their place of employment levies this tax.

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Estimated Revenue From An Earned Income Tax

- Using data from the Delaware Valley Regional Planning Commission, the U.S. Census Bureau and the U.S. Bureau of Labor Statistics, there are approximately 4,660 residents of Easttown Township who are employed.
- Using data from the Southeastern Pennsylvania Transportation Authority, there were 774 daily alightings at the Berwyn and Devon RR stations. This analysis assumes (a) all of them are Easttown residents and (b) all of them are commuting to the City of Philadelphia for work, and are therefore exempt from the Earned Income Tax in Easttown Township (Sterling Act).
- Assuming Median Earning grow at 2.5% per year based on data from the 2000 Census

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Estimated Revenue From An Earned Income Tax

- Estimated Earned Income by residents of Easttown Township:  
**\$368,642,832**
- Estimated Earned Income by residents working in the City of Philadelphia and therefore not subject to a local Earned Income Tax (Sterling Act):  
\$61,187,772



# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Estimated Revenue From An Earned Income Tax

- Estimated Earned Income by residents of Easttown Township working outside the City and subject to a local Earned Income Tax: \$307,455,060
- "Lost" Earned Income by residents working in suburban municipalities with a local Earned Income Tax during calendar year 2008: \$111,911,169
  - Berkheimer: \$86,227,425
  - Centax: \$25,683,744

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Estimated Revenue From An Earned Income Tax

- Estimated Earned Income by residents not already paying a City Wage Tax or a local Earned Income Tax: \$195,543,891
- Total Estimated Earned Income tax (at 1%J generated (but not necessarily collected) in calendar year 2010: \$3,074,550
  - Berkheimer: \$862,274
  - Centax: \$256,837
  - New: \$1,955,439

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Estimated Revenue From An Earned Income Tax

- Total Estimated Earned Income tax (at 1%) *to be received* in calendar year 2010: \$1,341,732
  - Berkheimer: \$431,137
  - Centax: \$128,419
  - New: \$782,176

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Local Taxes Available to Easttown Township

	Tax Revenue Attributable to 2010	Tax Revenue Collected in 2010
<u>Occupational Tax</u>	<u>\$46,000</u>	<u>\$33,810</u> ...
<u>Local Services Tax</u>	<u>\$180,908</u>	<u>\$135,681</u>
<u>Per Capita Tax</u>	<u>\$76,000</u>	<u>\$55,860</u>
<u>Earned Income Tax</u>	<u>\$3,074,551</u>	<u>\$1,341,321</u>
<u>Total</u>	<u>\$3,377,459</u>	<u>\$1,601,331</u>

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Additional Information

- Statewide, of the 2,572 municipalities reporting tax information to the Bureau of Municipal Statistics, 95% currently have a local Earned Income Tax.
- In the Philadelphia region:
  - 78o/o of the municipalities in Bucks County have an EIT
  - 31% of the municipalities in Delaware County have an EIT
  - 90% of the municipalities in Chester County have an EIT
  - 94% of the municipalities in Montgomery County have an EIT

# Easttown Township

## Public Hearing Concerning an Earned Income Tax

### Supporting Sources

- Letter from Berkheimer with EIT Estimates for Easttown Township
- Berkheimer report of EIT withheld from Easttown Township residents working in other municipalities serviced by Berkheimer
- Centax email and report of EIT collected from Easttown Township residents working in other municipalities serviced by Centax
- Supporting calculations (spreadsheet) regarding estimated EIT Collections, prepared by Township Staff with assistance of Pennsylvania Economy League
- Map of Commonwealth of Pennsylvania with Political Subdivisions, highlighting those municipalities without a local EIT
- Commonwealth of Pennsylvania, Bureau of Municipal, Tax Rate Summary for Calendar Year 2009

# **Easttown Township**

Public Hearing Concerning an  
Earned Income Tax  
October 2009