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by Steve Krulick, Village of Ellenville Trustee

Dearth and Taxes, Part 2

"Local income taxes, also known as earned income taxes, wage taxes, net profits taxes, or a combination of these terms, provide the chief source of nonproperty tax revenue for municipalities and school districts [in Pennsylvania]." – Legislator's Municipal Deskbook

Suggestion: Increase tax fairness and efficiency by converting most property-based municipal taxes to an income-based formula.

In Part 1, I began reviewing possible ways to make municipal tax burdens more fair. These included: all schools being funded from a general state pool rather than local district property taxes; a 'split-rate' property tax that charged less for buildings and improvements, but more for vacant land; and more frequent, and standardized, revaluations.

Another approach would be to tie more local payments to usage. This is currently the case with most water and sewer fees; use more water, pay more in fees than someone using less. This is relatively easy, as one can meter the exact usage. Similarly, fees connected with building permits and inspections only come from those directly affected. Some locales still meter parking, or charge per each bag of trash.

But how do you meter fire or police protection, public lighting, or parks? Or streets? Or classrooms? What if you don't drive, or have no kids in school? Should you pay the same as someone who directly benefits from those services? Well, unlike direct personal use of water, society has determined that we are all better off as a community with serviceable roads and an educated populace. So we have agreed to share those expenses universally, regardless of direct personal benefit or not (although provisions are often made for veterans or volunteer fire and first-aid responders, to compensate for past service, or for seniors and others on fixed income).

Another problem with reliance on property taxes is that a falling housing market may reduce the overall taxable base of a municipality, yet individual property valuations may not reflect the lag time since assessments were last made during boom times.

According to the *NY Times*: "Even without a recession, a growing national movement to reduce local property taxes could leave local governments short of the amount they need to provide services at a time when home values are falling, some economists said. A new package of bills in New Jersey, if approved, would give a tax credit of up to 20 percent to homeowners and cap annual local tax increases at 4 percent – despite the predicted deficit."

"'People are reacting to the large increases in assessments that took place over the past few years and looking to cut property taxes,' wrote Iris J. Lav, deputy director of the Center on Budget and Policy Priorities, a liberal research and advocacy organization. 'If assessments stagnate or decline, however, the cuts could seriously overreach.'"

So, I come back to my original suggestion – to eliminate or minimize local taxation based on property, in favor of a more equitable system, based more directly on one's ability to pay. The fairest and easiest way to do this is with a municipal income tax.

Surprisingly, New York State's constitution already allows for this! However, only New York City and Yonkers seem to take advantage of that; look at your NYS tax return (lines 30-34 on this year's IT-150) and you will see where residents of those two locations can put in the amount owed, and just add it to what they pay the state (in Yonkers, residents pay 15% of their net state tax). In effect, the state collects all the taxes and cuts one big, fat check to each city! What could be simpler?

Whether an individual, family, or business, you have to figure out federal and state income taxes anyway, so why not just piggy-back a percentage (to be determined by each municipality) onto the amount you've already figured? It doesn't matter whether you own your property, or lease, or rent; if you live, work, or own a business in the municipality, you benefit from the services provided, but now will be asked to contribute towards them strictly on your ability to pay for them *that year*. (Indeed, renters *now* pay property taxes indirectly, through their rent, but do they know how much they are *really* paying in tax equivalents? Why not make it more direct, transparent, and fair?)

Oh, there may have to be consideration for vacant properties held by non-resident absentees, or other anomalies, but these would be relatively few. Also, overlapping municipalities will have to work things out fairly. Fortunately, most of these kinks have been addressed in other states, where municipal income taxes are already the norm. For example, over 2000 municipalities in Pennsylvania use them; local income taxes were first adopted by Philadelphia in 1939, making it the first municipality in the United States with a local income tax.

From the Pennsylvania Legislator's Municipal Deskbook: "The earned income tax produced 65 percent of all receipts from non-real-estate taxes collected by Pennsylvania local governments in 2000. The tax is levied on wages, salaries, commissions, net profits, or other compensation of people subject to the jurisdiction of the taxing body."

In Pennsylvania, with some exceptions, there's a 1%-of-income limit, and there's no taxation on the first $12,000 of personal income. In Ohio (Toledo was first, in 1946), the rate is determined locally; the maximum rate without voter approval is 1%. Rates presently vary from 0.25% to a high of 2.85%; over half the rates are at 1% and various exemptions are built-in. In Michigan, cities may impose a tax at the rate of 1% on residents, and 0.5% on nonresidents.

Some states allow for wage withholding and/or joint-reporting on state forms, as NYS does; other states let each municipality collect on their own forms, or allow for combined municipal collection agencies, to avoid duplication. Some municipalities distinguish between earned and intangible incomes. But these are details that can be worked out later.

So, although a statewide approach would probably be most effective and uniform, as other states have come to realize, it might be up to individual municipalities to take the initiative that gets the ball rolling toward fairer local taxation. Any reason why Ellenville, Wawarsing, or Ulster County can't lead the parade?

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