

Local Income Tax Collection Reform

Benefits for Local Government

Problem: The complex, fragmented and inefficient local income tax collection structure creates a large burden on employers and taxpayers and causes the loss approximately \$237 million in local taxes annually.

Solution: Local Income Tax Collection Reform Legislation' consolidates collection and requires uniform withholding, remittance, distribution and reporting. Act 32 also establishes uniform statewide rules and regulations and provides for accountability, oversight and enforcement of the system.

Uniform Withholding: The purpose of uniform withholding, remittance, distribution and reporting is to capture the loss of local income tax revenues and to ease the burden of local tax withholding on employers in Pennsylvania.

- Act 32 will streamline the flow of tax monies; simplify withholding and distribution; and allow local governments and collectors to track every local tax dollar from the time the tax is withheld until it is received by the appropriate taxing jurisdiction.
- Uniform withholding will capture virtually all taxes imposed on employees in Pennsylvania reducing the need for collectors to find and bill taxpayers quarterly or at the end of the year. Uniform withholding will achieve the goal of a zero-local-income tax balance for employees at the end of the year and improve cash-flow for local governments during the year.

Consolidated Collection: By reducing the number of collectors from 560 to 69, the local tax collection system will become streamlined and efficient.

- Tax collection will be overseen by tax collection committees made up of a representative from each taxing jurisdiction in a countywide tax collection district.
- Countywide collection will reduce overhead, create more efficiency and increase direct local control over local tax monies because larger tax collection districts increase the probability that the same collector will collect a taxpayer's work and home income taxes.²
- Larger tax collection districts mean that less tax monies need to be transferred among collectors, which reduces the probability that revenue will be lost.

Accountability and Oversight: Tracking, auditing and oversight of taxes will provide accountability and the financial safeguards needed to restore integrity and transparency to the system.

- Collectors must keep records of every dollar received and distributed, and submit monthly reports accounting for each dollar or face fines. The annual audit includes a reconciliation of monthly reports and the receipt and disbursement of all taxes monies as well as findings of noncompliance. Bond amounts will be tied to annual audit.
- Tax collection committees are required to appoint appeals boards to hear appeals of collector determinations.

Enforcement: Collectors will continue to use existing enforcement tools, and be provided with new tools to prosecute non-filers.

- The Department of Revenue is required to enter into an agreement with each tax collection district for the exchange of tax information.

¹ Act 32 of 2008

² On average, only 15% of residents work and live in same municipality, while 69% of residents work & live in same county.