

October 19, 2016

The Honorable Robert Mensch, Chair
Legislative Budget and Finance Committee
Room 400A Finance Building
613 North Street
P.O. Box 8737
Harrisburg, PA 17105

Dear Chairman Mensch:

Thank you for the opportunity to review your report on Act 32-2008, which consolidated 560 local earned income tax collectors into 69 tax collection districts, making it the most significant change to local tax collection law and local government operations in a generation.

It has been the Pennsylvania Department of Community and Economic Development (DCED)'s pleasure to work with the Legislative Budget and Finance Committee. You and your staff's thoroughness and professional diligence have made the positive results of Act 32 easy to understand.

Act 32 amended the Local Tax Enabling Act, Act 511 of 1965, to consolidate the collection of Earned Income Tax (EIT) on a countywide basis. The act was a result of a 2004 report published by the Department of Community and Economic Development--a three-year study that documented the fragmentation, complexity and inefficiency of the earned income collection system.

Under the prior EIT system, 560 taxing authorities collected nearly \$1.9 billion in annual revenue for all local taxing jurisdictions. Pennsylvania currently has more taxing jurisdictions levying a local income tax than all other states combined. Because of inefficiencies in this system, it had been estimated that as much as \$237 million had been lost annually, revenues that should have been available to municipalities and school districts. Indeed, your report indicates that revenues have increased by approximately \$173 million without raising rates.

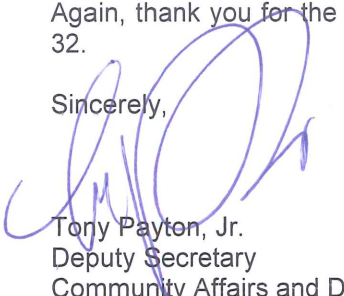
Additionally, the system had created a burden on employers that had led to an increase in the cost of conducting business within the Commonwealth. The administration of the tax was fragmented, confusing, and often unfair to taxpayers.

By reducing the number of collectors from 560 collectors to 69 tax collection districts, Act 32 streamlined the local tax collection system by reducing overhead and transferring tax revenues more efficiently and expediently. The legislation also made collection forms and procedures uniform. Finally, tracking, auditing and oversight requirements have provided accountability and added financial safeguards needed to restore integrity and transparency to the system.

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Again, thank you for the opportunity to review and comment on your report regarding the results of Act 32.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tony Payton, Jr.", is written over the word "Sincerely,".

Tony Payton, Jr.
Deputy Secretary
Community Affairs and Development

cc: Rick Vilello, Executive Director, Governor's Center for Local Government
Sean Sanderson, Local Government Policy Manager, Governor's Center for Local Government
Barry Wickes, Director, Office of Legislative Affairs