

# Capitol Report from Rep. Paul Semmel

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Spring 1989

Dear Friends:

In the coming months, I will provide you with the results and the information many of you requested in my recently mailed questionnaire. As always, I am pleased with the number of responses I received because it not only helps me represent you better in Harrisburg, but it also indicates to me that the residents of the 187th district are interested and concerned about state government.

One of the issues that many of you were concerned about is Local Tax Reform. And because you have to make a decision on May 16 to either accept or reject the reform package, I thought it appropriate that I address your concerns before you have to vote.

As many of you are aware, a lot of controversy has surrounded this issue; as a matter of fact, members of the same party who have been traditionally unified have disagreed over tax reform. It is little wonder why there are still so many questions being tossed around.

To answer many of these questions and concerns, either about tax reform, or other state issues, I have scheduled two town meetings. Representative A. Carville Foster, who was a member of the Pennsylvania Local Tax Reform Commission, will be present at both meetings to address your concerns. I encourage you to attend.

The information is listed below.

At this time, please allow me to thank you, the residents of the 187th district, for returning me to Harrisburg to represent you. I am indeed honored and humbled by your support and confidence. Thank you.

Sincerely,

Paul W. Semmel  
State Representative, 187th

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## TOWN MEETINGS

### HEAR YE, HEAR YE!

#### TAX REFORM REFERENDUM INFORMATIONAL MEETING

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**Thursday**

**May 11, 1989**

**6:30 Lehigh County Community College, Schnecksville**  
Hex Conference Area, Science Technology Building  
Lecture Room, ST 205-206

For additional information, call Representative Semmel at 799-0187  
Representative Semmel will be available at 6 p.m. to discuss general concerns about state government-related issues

**8:30 Virginville Grange Hall, Virginville**

Representative Semmel will be available to discuss general concerns about state government-related issues after meeting  
For additional information, call Representative Semmel's office at 683-9199 or 562-3411

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## SUBCOMMITTEE CHAIRMANSHIP

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I am pleased to have been named by the House Republican Leader Matthew J. Ryan as Republican Chairman of the House Youth and Aging Subcommittee on Aging.

My top priorities as chairman will be to insure that quality of life for the aging population through the introduction of legislation, to monitor the fiscal solvency of programs such as PACE, and to address topics such as long-term care and elderly abuse.

My responsibilities as a member of the committee, in general, will be to support and initiate legislation that will also benefit and protect our children. As a member of the Citizens Against Sexual Abuse of Children, a group that meets here at home, I have had a long standing interest in the protection of our children.

In addition to my duties with the Youth and Aging Committee and the Citizens group, I am also serving on the House Agriculture and Rural Affairs committee this legislative session.

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## ETHICS BILL PASSES HOUSE

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One of the first actions of the House in the opening days of the 1989-90 legislative session was to pass a new ethics bill. Among other things, the bill tightens the definition of conflict of interest, restricts the acceptance of speechmaking fees, expands reporting requirements for acceptance of gifts, lodging, transportation and free hospitality, and extends the life of the state Ethics Commission for five years.

As you may recall, the General Assembly also passed an ethics bill at the end of the 1987-88 legislative session. I opposed that bill, which had far too many loopholes and was too weak. The governor vetoed it, a proper action, in my opinion. This new bill, which is now in the Senate, is far stronger.

It clearly prohibits any public officials or public employees from using the authority of their offices or confidential information they may have received in

those positions for their own personal gain or that of parents, siblings or grown children, in addition to spouses and children under age 18 which are included in present law.

In addition, public officials and employees could not use their positions to benefit a business in which the official, employee or a family member is associated.

A strict ethics law is needed if the citizens of Pennsylvania are to have trust in and respect for their state government. I will continue my efforts to see that the final piece of legislation is not watered down.

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## Questions and Answers About the Legislation

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### **Q. Why are we changing the local tax structure in Pennsylvania?**

A. For the last 20 years, citizens, public interest organizations, and local governments have complained about the existing system of local taxation. It is a system which relies heavily on the property tax and many small "nuisance" taxes, and it is widely regarded as inflexible, unfair, and outdated. Individuals and their local governments alike have continued to request a tax system that will enable Pennsylvania communities to maintain essential local services while being fair to the taxpayers.

### **Q. What does this new tax system propose to do that the current one does not?**

A. The basis of the proposed new tax system is a tax shifting - away from a reliance on property taxes to that of income taxes. While property taxes would be reduced, the revenue that they formerly generated would be replaced by that of local income taxes, which would tax not only wages but savings income as well. Nuisance taxes and the personal property tax would be eliminated. County sales taxes could be implemented. It should be noted that while property taxes may be decreased if an income tax is enacted, the legislation does provide incentives for counties to conduct reassessments of real estate.

### **Q. Will residential real property taxes be decreased?**

A. School districts and municipalities will have the ability to substantially reduce residential property taxes (including those on family farms) starting the first year under the new system. It is a goal of the legislation to have a residential property tax reduction of at least 25% in each municipality and school district; but the exact size of the reduction will depend on the resources and needs of each taxing jurisdiction. The new tax law also contains provisions that are intended to make sure that decreases in property taxes on residential rental properties will be passed on to the renters.

(Home rule municipalities which already heavily rely on a wage tax may use the new revenue options to decrease their reliance on the wage tax instead of decreasing the property tax.)

Counties, through the revenue that may be raised from an optional sales tax, will have the ability to reduce the property taxes on all classes of property.

### **Q. What will happen to people who rent?**

A. A renter's total income will now be taxed. The act contains a provision that is intended to require landlords to pass on to renters any property tax decreases that the landlord may receive. However, if such savings are not passed on, it is up to the renter to enforce the provision by going through the court system for redress.

### **Q. Will business real property taxes be reduced?**

A. County taxes on business property may be lowered if the county imposes a sales tax. Municipal taxes on business property could be lowered through new revenue from the sales tax and through receipts from a municipal service tax.

### **Q. What happened to the nuisance taxes?**

A. Virtually all the major nuisance taxes - the occupation assessment tax, the per capita tax, and the residence tax - will be abolished. The personal property tax will be phased out over three years.

### **Q. What is the municipal service tax, and what happened to the mercantile and business privilege taxes?**

A. The municipal service tax is the occupational privilege tax renamed to better describe its purpose. It has been increased from \$10 to \$20. The municipal service tax may be levied only by municipalities, and there are no grandfathering provisions for school districts that now levy or share the revenue from the occupational privilege tax.

Those municipalities and school districts that now have mercantile or business privilege taxes may keep them, but the rates have been frozen.

Those tax jurisdictions that do not now have these taxes may not impose them in the future.

**Q. What income will be taxed that is not now being taxed?**

A. Individual taxpayers, except in Philadelphia, will pay their local income tax on the same base as they now pay their state income tax: wages, net profits, dividends, interest, capital gains, etc. The personal income tax does not include retirement benefits such as Social Security, welfare benefits, unemployment compensation, or other income that is not taxed by the state.

School districts may levy a personal income tax up to 1.5 per cent.

Municipalities may levy a personal income tax up to 0.75 per cent (that is, 75 cents for each \$100 in income).

**Q. Must each county levy a sales tax? Will the rates be the same from county to county?**

A. It is up to each county to decide whether or not to levy a sales tax.

Philadelphia and Allegheny Counties may levy a 1 or a 1/2 per cent sales tax. All other counties may levy a 1/2 per cent sales tax. In every county, 1/4 of the revenues from the sales tax will be shared with the municipalities in that county which levy a personal income tax.

**Q. Until now Pennsylvania hasn't had county sales taxes. Are such taxes unusual?**

A. No, not at all. Thirty-two other states, including Ohio, New York, and Maryland, have optional local sales taxes. In fact, most of these states provide for municipal sales taxes. However, it should be noted that the state of Delaware levies no sales tax.

**Q. Will counties tax different things than the state does?**

A. No. The tax will be only on those items on which the state already collects a sales tax. The state will collect the county sales tax along with the state sales tax, and then return the revenues to the counties.

Aside from collecting the sales tax at a different rate, the average retailer will experience little change in the way sales taxes are currently collected.

**Q. What must municipalities do to share in the sales tax revenue?**

A. Each county levying a sales tax is mandated to share 1/4 of the proceeds with the municipalities in the county that meet certain standards.

First, the municipality must officially endorse the county's levying of the sales tax and must ask for its share of the revenue. Second, to make sure that the municipality continues to raise revenues on its own, the municipality is required to keep up its own local tax effort. It must establish at least a 0.25 per cent personal income tax, and it must have a property tax.

**Q. Given this additional potential taxing power, how is the taxpayer protected from big new tax bites? Is tax reform just a tax increase in disguise?**

A. The bill contains "anti-windfall" provisions which limit the amount of tax revenues that can be generated during the first four years under the new system.

In general, school district revenues can increase no faster than they have in the past; in fact, the rate of increase cannot exceed eight per cent in the first year except under specific circumstances such as expanding enrollment.

The increase in revenue for counties and municipalities in the first year is also limited. It can be no more than (1) the amount they received in federal revenue sharing in 1985, (2) their average increase in revenue over the last five years, or (3) an increase tied to the rise in the cost of living, whichever is greatest. In years two through four, the rate of increase can be no higher than either (1) their historical growth or (2) the increase in the Consumer Price Index, whichever is greater. The only exceptions to these rules involve state-mandated payments to pension funds, payments on long term debt, and certain other special conditions involving severe fiscal distress or emergencies declared by the Governor.

Revenues collected in excess of the limits are to be placed in a trust account and returned to the taxpayers.

**Q. What will happen to taxes paid by senior citizens?**

A. With tax reform, interest earnings and other unearned and savings income will be taxed, but not pension or Social Security income. Also, there are provisions that help protect senior citizens of modest means from both the personal income tax and any increases in their property taxes.

Capital gains from the sale of senior citizens' homes or other assets will be subject to local taxation for the first time.

Senior citizens who own their own homes may receive substantial reductions in their property taxes. Even those who rent will benefit through the shift away from such heavy reliance on property taxes by their school district and municipality. Renters are to receive any property tax savings that their landlord receives, but enforcement is up to the renter through the court system.

**Q. Will citizens get a say in what the mix of taxes should be for a given area, or is that completely left up to the local officials?**

A. The tax reform bill makes sure that the citizens of a community will have the opportunity to make their opinions heard before tax decisions are made. A Local Tax Study Commission in each tax jurisdiction will examine the issues of taxation and how they relate to the development of the community; the Commission will then make recommendations to the local government. Public hearings are also required in order to collect the opinions of all citizens. After the tax system has been in place four years, the whole process of review and study starts all over again - to give each community a time to assess the first years under the new system and to determine whether citizens want to change the local tax mix. You should be reminded that any recommendations made by Local Tax Study Commissions are totally nonbinding.

**Q. What about home rule municipalities?**

A. Home rule municipalities will keep the same control over tax rates as they now have except that the rates on the business privilege and mercantile taxes may not go higher than what they are now. Like all other local taxing jurisdictions, home rule municipalities are subject to the bill's anti-windfall provisions. Home rule municipalities, like Whitehall however, are exempt from property tax reduction requirements if an income tax is implemented.



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# WORKSHEET FOR ESTIMATING CHANGE IN LOCAL TAXES

REPRESENTATIVE PAUL W. SEMMEL  
187th LEGISLATIVE DISTRICT

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## Current Tax Burden

### 1. Current Property Taxes

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This includes school district, county and municipal property taxes.

### 2. Current Nuisance Taxes

\_\_\_\_\_

This includes the occupation tax and the county personal property tax.

### 3. Total Taxes Paid

(Line 1 and Line 2)

\_\_\_\_\_

## New Tax Burden – Maximum Impact Scenario\*

### 4. Taxable Income

\_\_\_\_\_

Taxable income does not include pensions or Social Security.

### 5. Personal Income Tax

(0.0225 x Income)

\_\_\_\_\_

If local tax reform is adopted, the maximum personal income tax rate would be 2.25%

### 6. New Property Tax

(0.75 x Current Property Taxes as shown in Line 1)

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The new property tax calculation is equivalent to a 25% reduction in real property taxes.

### 7. New Nuisance Taxes

(Income x 0.0024) plus (\$20 per worker)

\_\_\_\_\_

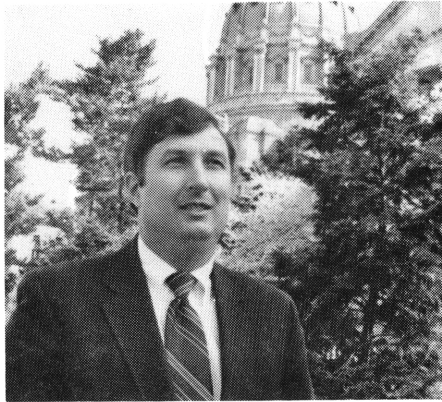
If local tax reform is adopted, the county may have a sales tax of 0.5%. This calculation estimates the cost of the new sales tax on an annual basis. The new municipal service tax is at the rate of \$20 per worker.

### 8. New Total Tax Estimate

(Add Lines 5, 6, 7)

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\* The new tax computations are estimated at maximum levels. For instance, the new personal income tax in line 5 is listed at the 2.25% maximum, the new nuisance taxes at the maximum 0.5% sales tax and with a \$20 municipal services tax. Actual tax changes may be less than the amounts shown.



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## Dear Friends:

Thank you for responding to a recent questionnaire I mailed to you. As promised, I am providing you with the results that you completed. I especially appreciated the detailed responses many of you provided.

I am always pleased with the number of responses I receive because it not only helps me represent you better in Harrisburg, but it indicates that you, the residents of the 187th district, are interested and concerned about the quality of your life and that of your family.

The questionnaire you completed was lengthy and required a lot of introspect because of the sensitivity of the issues.

I appreciate the time you took to answer the questions and I want you to know that I share many of your concerns. I am still in the process of responding to some of your "There Ought to be A Law" ideas.

Again, thank you for keeping me in touch with your views. In addition to responding to your personal letters, I keep in touch with you by writing weekly columns that appear in the **Hamburg Item**, **The Kutztown Patriot** and **The Lehighon Times News** and now **The East Penn Press/Parkland**.

Have an enjoyable and safe remainder of the summer.

Sincerely,

Paul W. Semmel

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# RESULTS OF SURVEY BY REPRESENTATIVE PAUL SEMMEL

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## **DRUGS:**

- ✓ stricter penalties for dealers and users; more enforcement
- ✓ more education in schools and at home
- ✓ funding for drug dependence programs

## **EDUCATION:**

- ✓ teach ethics
- ✓ get back to basics, i.e. math, science, writing, literacy and foreign languages
- ✓ post secondary education should prepare students for the "real world" through internships, personal finance and business courses, etc.
- ✓ college not for everyone; need more Vo-Tech education

## **ENVIRONMENT:**

- ✓ need more recycling efforts
- ✓ regulate development of farmland
- ✓ need more education on environmental problems and protection
- ✓ industry needs to be more conscientious of pollution
- ✓ charge admission to state parks; fund state parks through taxes

## **FAMILY:**

- ✓ most people felt the government should stay out of family affairs
- ✓ quality day care a MUST; provide tax breaks for companies with employee child/elder day care facilities
- ✓ help for the elderly is needed

## **HOMES AND THE HOMELESS:**

- ✓ need more affordable housing, low-income housing
- ✓ make homeless work for what they are given

## **INFORMATION:**

### **Views on Media:**

- ✓ media biased, sometimes too sensational
- ✓ too much focus on the negative

## **GOVERNMENT:**

- ✓ people too dependent on government
- ✓ too many government programs; need to be more selective, esp. with special interest groups