

# Earned Income Tax

## What is the current situation?

1. The Milford Borough mill rate has been set at 46.1 mills for a decade or more for all expenses. It was just increased in 2021 to 48.1 mills due to the ambulance referendum adding two mills. Of that 48.1 mills a specific amount of millage is dedicated to certain budgets; for example, 4.4 mills to street improvements, 1.6 mills to debt service, etc.
2. The largest amount in our budget, 35 mills, is for our General Fund which covers the police department, garbage collection, zoning, sewage and building officials, tax collection, solicitor, treasurer, engineer, our Borough Secretary and administrative support, responding to queries from the public and more.
3. The Borough's General Fund millage is capped by PA Statute to a limit of 30mills, but with annual court approval we can get an additional 5 mills, if necessary, for a total of 35 mills. The Borough has gone to court each year for this additional 5 mills for at least ten years.
4. Approximately 13% of Borough properties are exempt from paying any property tax to the Borough. This includes all County properties, four churches, and various other non-profits. These tax monies lost to the Borough equals \$141,675 for all exempt properties and \$61,917 for the Pike County properties alone.
5. Pike County has not conducted a reassessment since 1994. Taxable assessed value for Borough properties and all of Pike County is based on 25% of 1994 Fair Market Value.
6. Borough expenses increase every year. Total expenses are up on average 20% from 2016. This includes things that are completely out of our control such as Tipping Fees for trash collection which were a total of \$30,164 in 2016 and increased to \$38,524 in 2020 for a 27% increase. Electric rates for municipal lighting will increase 28% this year.
7. The Borough is pretty much built out. We cannot add properties to our tax base.
8. What saved us in 2020 and looks like it will also help us in 2021 is the real estate transfer tax, where the Borough collects a fee every time a piece of property in the Borough is sold.

## Historical Price Increases

|            | First Class Postage | 1 lb. Ground Beef | Borough General Fund Mill Rate |
|------------|---------------------|-------------------|--------------------------------|
| 2020       | 55 cents            | \$3.95            | 35 Mills                       |
| 2019       | 44 cents            | \$2.38            | 35 Mills                       |
| Increase   | 11 cents            | \$1.57            | \$0.00                         |
| % Increase | 25%                 | 66%               | 0.00%                          |

### **What have we done?**

1. Our Finance & Insurance Committee has been meeting over the past year in an effort to reduce expenses and identify new sources of revenue. We have been able to reduce our Workmen's Comp insurance by approx. \$14k but have not been able to further reduce other expenses.
2. Several years ago, the Mayor and all Borough Councilmembers voted to forego the compensation they are to receive under the state code. Three or four years ago, the Borough suspended the annual modest donations the Council had traditionally made to the Pike County Historical Society, Pike County Human Society, Pike County Library and what was then known as Safe Haven. We also stopped allocating funds for maintenance or repair of Borough facilities.
3. We applied for and received grants due to Covid-19 of \$114k for ambulance service and \$22k for police and other services. This was a one-time occurrence.
4. We added a Local Services Tax (LST) which is estimated to raise approximately \$15k or  $\frac{3}{4}$  of a mill.
5. We capped the fee for our tax collector at 4% of property taxes collected (previously the cap was 5% even though our tax collector graciously agreed to be paid a lesser amount).
6. We increased permit and other fees, since many had not been increased in a number of years but we are limited to what we can increase our fees and permit costs to.
7. Our Police Chief has been diligently attempting to raise revenue by offering Police Department coverage to nearby POA/HOA's similar to what we offer to Grey Towers where we earn approx. \$10k per year.
8. We approached Pike County to ask for financial assistance but unfortunately, for various reasons, they were unable to assist:
  - Reassessment of property values, since the last time property was assessed was nearly 30 years ago.
  - Increase the formula for calculating assessment from 25% of 1994 Fair Market Value to 100% of 1994 Fair Market Value to arrive at taxable assessed value.
  - Make an annual payment to the Borough in lieu of the \$61k in taxes we cannot collect from them each year due to their exempt status.
  - Add our four employees who receive medical benefits to their less-costly group policy and the Borough would reimburse the County

### **So, what can we do?**

1. Reduce expenses
  - a. Cut or eliminate police coverage = Approx. \$350k per year which represents 18mills or more than half of our regular property tax revenue collected (note that Matamoros pays \$476K annually to receive police coverage from Eastern Pike Regional Police Department). We only have two (2) fulltime police officers currently. Our Chief is a part time employee.

- b. Eliminate trash collection = Approx. \$70k per year or 3.5 mills or 10% of our regular property tax collected. We are indebted to Matamoras for five years for a new trash truck.
- c. Eliminate other services
- 2. Pass an Earned Income tax or EIT

### **What is an EIT?**

1. An Earned Income Tax ("EIT") is an Act 511 tax permitted by PA statute which allows a municipality to collect 1% of the earned income or gross wages from individuals who reside in the municipality or work in the municipality and live in a municipality which does not already have an EIT in place.
2. It only taxes EARNED income. No EIT on Social Security, pensions, IRA distributions, 401K distributions(\*), interest or dividend income, unemployment, gifts, inheritances, or other unearned income. (\*) Early distributions taxable to PA and locally.
3. The entire 1% will come to Milford Borough as the sharing provision no longer applies to school districts who do not already collect the tax.
4. More than 96% of the 2,560 municipalities in Pennsylvania already have an EIT; only approximately 90 do not.
5. Milford Borough's Finance and Insurance Committee has been researching this tax with the assistance of Berkheimer Tax Innovations. What we found out is the following:
  - a. Approximately 110 Borough residents as of 2020, or approximately 25% of Borough employed individuals, already pay the tax, approximately \$25k to another municipality; 72 Borough residents pay it to Matamoras or Westfall. If Milford Borough implements an EIT, those taxes paid to Matamoras and Westfall would instead come to Milford Borough, where the person paying the tax lives.
  - b. Berkheimer estimates we would collect \$105-125k in the first full year of an EIT from Borough residents alone.
  - c. Berkheimer estimates that Milford, as a county seat, with many county employees who live in municipalities without an EIT, may collect an amount of tax from non-residents that could be equal to or greater than the amount collected from Borough residents.
  - d. Matamoras collected a total of \$315k in EIT in CY 2020.

### **What will an EIT do to your property tax bill?**

1. All Borough property owners, residential as well as commercial, will see a 5 mill or 10% Borough property tax decrease, since we will no longer be seeking the Court's permission for an additional 5 mills.
2. It is expected that additional reductions in the Borough's millage rate will occur once we know the full effect of an EIT for revenue collected.
3. We will be able to have funds available to pay for matching grants, which we are unable to do now.

4. We will be able to set aside funds for capital improvements to repair existing Borough properties.
5. Those individuals in our Borough on a fixed income or retirees will see their property taxes decline.
6. Those individuals working in our Borough but not residing in our Borough will bear some of the costs and services Borough residents have been providing to those employees such as police protection, fire protection, snow plowing, etc.

#### **Examples of How an EIT May Affect You**

1. Borough Property Owner Working in PA who Already Pays EIT:
  - a. Will receive a 5mill reduction in property tax = \$184 (based on average tax bill)
  - b. EIT will now come to Milford Borough not another municipality
  - c. No reduction in any services
2. Borough Property Owner Working in NJ or PA with no EIT:
  - a. Based on average salary of \$50k per year will pay \$500 EIT to Borough
  - b. Assuming same property tax reduction of 5 mills results in net tax increase of \$316
  - c. No reduction in any services
3. Borough Property Owner who is Retired with no Earned Income
  - a. Will not pay EIT but will also receive a 5mill reduction in property tax = \$184
  - b. No reduction in any services
4. Borough Resident who is Retired with no Earned Income
  - a. Will not pay EIT
  - b. No reduction in any services
5. Borough Resident who is working
  - a. Based on average salary of \$50k per year will pay \$500 EIT to Borough
  - b. No reduction in any services