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Combined Tax Impact Analysis

The Wilkinsburg Community Development Corporation (WCDC) contracted with Public Financial Management (PFM) to evaluate the fiscal impact of a potential merger between the Wilkinsburg and Pittsburgh from the perspective of the municipal government and the school district. PFM prepared two separate reports for these analyses, which were released in 2021 and 2022. This addendum is based on sections from the municipal and school district reports, and the analysis has been updated to show the combined tax impact for both entities on residents and business owners.

Tax impact: Wilkinsburg resident/business perspective

The answer to how a Wilkinsburg resident's or business's local tax bill would change after a merger is, "It depends on whether you own property and how much you earn."

In general, Wilkinsburg residents who pay real estate taxes now would pay less in a merger because Pittsburgh has a lower property tax rate than Wilkinsburg for municipal and school district operations. Someone who does not pay the real estate tax (e.g. renters for whom real estate taxes are not a direct part of their monthly rent) would likely pay more in a merger if they have taxable earnings, though the additional amount may be relatively small on a monthly basis. Businesses that own property would also pay lower real estate taxes in a merger, though whether their total tax bill is lower depends on several factors such as the type of business, their current level of gross receipts, and their payroll.

This document provides eight scenarios that show how these dynamics affect different types of residents and businesses, parallel to the scenarios in the separate municipal and school district analyses. First, we outline the major tax rate differences. Then, we show the combined impacts of the municipal and school district merger on taxes.

Real estate taxes

Wilkinsburg levies a higher cumulative real estate tax rate for municipal and school district operations than Pittsburgh does. In Wilkinsburg Borough, the current real estate tax rates are 10.590 mills for general operations, 2.940 mills for debt payments, and 0.470 mills for the library system for a total of 14.000 mills. On the Pittsburgh side, the real estate tax rates are 8.060 mills for municipal taxes, 0.250 mills for the Carnegie Library system, and 0.500 mills for parks[1] for a total of 8.810 mills. It is assumed that even after a merger, Wilkinsburg residents would continue to pay the 0.470 mills for the library system, leading to a post-merger total of 9.280 mills. In the Wilkinsburg School District, the real estate tax rate was lowered to 26.500 mills in the 2021-22 school year. Pittsburgh Public Schools approved a 3 percent real estate tax increase to 10.250 mills for the 2022 calendar year. Therefore, under a merger, the combined real estate tax rate for Wilkinsburg residents would decrease from 40.500 mills to 19.530 mills.

In our scenario model, Wilkinsburg residents begin to pay the tax rate for all real estate tax levies in Pittsburgh. Delinquent taxes from prior to the merger would continue to be paid based on Wilkinsburg's tax rates, while post-merger taxes would be subject to the rates and collections practices for the City of Pittsburgh and Pittsburgh Public Schools. We do not account for certain homestead rebates and other discounts that various taxpayers may be eligible for.

[1] The park tax was passed in December 2020 and went into effect January 1, 2021. Funds are diverted to a separate parks trust fund.

Current Real Estate Taxes

Tax (Mills)	Wilkinsburg	Pittsburgh
Municipal	10.590	8.060
Wilkinsburg Debt	2.940	0.000
Wilkinsburg Library	0.470	0.470
Carnegie Library	0.000	0.250
Pittsburgh Parks	0.000	0.500
School District	26.500	10.250
Total Millage Rate	**40.500**	**19.530**

Earned income taxes

The City of Pittsburgh and Pittsburgh Public Schools levy a higher earned income tax (EIT) rate on its residents than the Wilkinsburg Borough and School District. Pittsburgh's combined EIT rate is 3 percent compared to Wilkinsburg's 1 percent.

Current Earned Income Taxes

Tax (%)	WSD	PPS
Earned Income Tax	1%	3%

The key questions for individual residents are whether and how much they pay in real estate taxes and EIT. The scenarios presented later explain this further.

Business taxes

Some businesses in Wilkinsburg pay a business privilege tax (BPT) or mercantile tax (MCT) levied on annual gross receipts. The BPT rate is 0.15 percent for retail businesses and 0.10 percent for wholesale businesses. Not all businesses are subject to these two taxes. For example, manufacturers do not pay the BPT or MCT.

Pittsburgh moved away from this structure and adopted a payroll preparation tax at the beginning of the Commonwealth fiscal oversight period (2004 – 2018). The City has a payroll preparation tax (PPT) of 0.55 percent on the gross payroll of employers and the net income from self-employed individuals working in Pittsburgh. Non-profit institutions are exempt from the PPT. Businesses that perform work in Pittsburgh but are located elsewhere are expected to track and pay their PPT liability.

The scenarios that follow show this dynamic for hypothetical businesses.

Other service charges and fees

Wilkinsburg residents pay $200 annually to the Turtle Creek Valley Council of Governments which collects the municipal service fee on behalf of the Borough and then routes the money to the City for refuse and recycling collection. Property owners pay the fee, multiplied by the number of dwelling units in a multi-unit building.[2] In a merger situation, those residents would no longer pay this fee since Pittsburgh uses general tax revenue to fund trash collection for its residents.

[2] Owners of buildings without dwelling units who hire their own commercial trash collectors are exempt from the fee.

Both communities levy the **local services tax** (LST), although the allocation of the taxes to the municipality and the school district differ. Someone employed in Wilkinsburg[3] pays $47 annually to the Borough and $5 annually to the School District. Pittsburgh-based employees pay $52 annually to the City. We consider the combined tax rate in our scenario, which does not change with the merger of both the municipality and the school district.

Both communities also levy a **real estate (or deed) transfer tax** on transactions involving deeds, long-term leases, or similar instruments. Wilkinsburg's realty transfer tax is 2 percent split evenly between the Borough (0.5 percent), School District (0.5 percent), with the balance to the Commonwealth (1 percent). In Pittsburgh, the real estate transfer tax rate in Pittsburgh is 5 percent split between the City (3 percent), Pittsburgh Public Schools (1 percent), and the Commonwealth (1 percent). While these types of transactions are not everyday occurrences for Wilkinsburg residents or businesses, when property transfers occur they would be subject to the higher tax rate after a merger.

Scenario analysis

As noted earlier, the answer to how the tax bill for an individual household or business would change in a merger depends on several variables. To help the reader understand the interplay of those variables, we've provided eight scenarios below that show the estimated pre- and post-merger tax bills. For ease of comparison, we have used the same base year as the previous municipal and school district merger analyses. Note that all analyses are made on a twelve-month basis without regard for the different fiscal years for the Wilkinsburg and Pittsburgh school districts, or any other differences in billing schedules.

For residents, the major assumptions are:

- Wilkinsburg's median household income was $36,743 in 2019.[4] While "income" could include items that are not subject to the EIT, like pensions or Social Security, we use the full median household income figure as our hypothetical base for calculating the EIT liability.

- The median property value for homeowners was $87,800 in 2019.[5] We do not include the homestead exemption in our calculations, though both would make the real estate tax savings larger post-merger.

- We assume that renters do not pay real estate taxes or benefit from real estate tax reduction after a merger, although there may be cases where renters pay all or a share of real estate taxes, or have their rent tied to real estate tax increases or decreases.

While the Census Bureau provides five-year estimates for key variables in the resident tax bill calculation, there is not a parallel resource that provides estimates for key variables in the business tax calculation. We are using the following assumptions, which the reader could modify to reflect different circumstances.

- We assume that a small business that owns property in Wilkinsburg has an assessed taxable value of $200,000 while a large business has an assessed taxable value of $750,000. The 10 largest property owners have assessed values ranging from $1.5 million to $10 million.

[3] The LST is levied on employees based on where they work regardless of residency, so commuters also pay this tax.
[4] Census Bureau, American Community Survey 5-year estimates, 2019.
[5] Census Bureau, American Community Survey 5-year estimates, 2019.

- Based on analysis of business privilege/mercantile tax payment data, we assume a small business would have $270,000 in taxable gross receipts[6] and a large business would have $1,600,000 in taxable gross receipts. In both cases we apply the retail business privilege tax rate (0.15 percent of gross receipts).

- Payroll as a proportion of gross receipts varies greatly depending on the industry type and business size. As a placeholder, we assumed that payroll for a small business is $100,000 and the payroll for a large business is $500,000.

High level findings

Most working homeowners (Scenario 1) and **all non-working homeowners** (Scenario 2) would pay less in their annual tax bills because the real estate tax reduction offsets the higher EIT payments after a merger. The "break-even" income point at which the reduction in real estate taxes is entirely offset by higher EIT is about $92,000. Census data shows that 11.8 percent of the population made over $100,000 in 2019, which is the reported income level that is closest to the break-even point. Homeowners who do not have any income subject to the EIT (i.e. retired or unemployed homeowners) would only see savings in a merger because they would pay lower real estate taxes, no municipal service fees, and would pay $0 in EIT and LST.

Property-owning businesses would also likely see a decrease in their annual bills, again due to the real estate tax drop. Using the input assumptions, **business that rent property** might see a small increase in taxes, depending on the balance between payroll (PPT base) and gross receipts (BPT base). Businesses with proportionally larger payrolls and no real estate tax liability would see a larger increase.

Census data shows that almost two thirds (65.4 percent) of Wilkinsburg's occupied housing units are occupied by renters, though a portion of those households have little or no taxable income. **Non-working renters** would not experience a change in their annual bills since they do not pay the real estate or the earned income tax.

Working renters (Scenario 3) would pay a higher tax bill due to the EIT rate tripling in a merger. For someone making the median household income ($36,743), annual taxes would increase by $735 per year or $61.24 per month. If the renter currently pays the municipal service fee for trash collection, the savings from no longer paying that fee would offset some of the higher tax bill. While we do not have an exact count of working renters in Wilkinsburg, we estimate that 35 to 45 percent of total households fall into this category.

The key question for working renters is whether the City and PPS can provide a higher quality of service (e.g. police, education, public works, code enforcement) in exchange for the higher EIT bill.

[6] We reviewed BPT and MCT receipts from 2012 – 2014. The lowest quartile of taxpayers with gross receipts over $100,000 had $224,000 in taxable receipts and the highest quartile had $1,356,000 during that period. This number assumes some growth in receipts since 2014.

	Wilkinsburg Current	Pittsburgh Post Merger
Income	$36,743	$36,743
Assessed home value	$87,800	$87,800
Pays municipal service fee?	Yes	No
Municipal	$930	$708
Wilkinsburg Debt	$258	$0
Wilkinsburg Library	$41	$41
Carnegie Library	$0	$22
Pittsburgh Parks	$0	$44
School District	$2,327	$900
Real estate tax bill	**$3,556**	**$1,715**
EIT bill	**$367**	**$1,102**
Local services tax	**$52**	**$52**
Municipal service fee	**$200**	**$0**
Tax/Fee bill	**$4,175**	**$2,869**
Savings ($)	**$1,306**	
Savings (%)	**31.3%**	

Scenario 1: Working Homeowner

This scenario shows the estimated impact on the combined tax bill for a Wilkinsburg resident who pays real estate tax on their home and currently pays EIT.

This assumes that the libraries remain separate with Wilkinsburg residents paying the millage for their own library and the Carnegie Library in Pittsburgh after the merger.

While a working Wilkinsburg resident would see increases to their earned income taxes, increases would be offset by significant savings in their real estate taxes and the elimination of their municipal service fee.

There may be additional savings for real estate tax exemptions that are not shown here.

	Wilkinsburg Current	Pittsburgh Post Merger
Income	$0	$0
Assessed home value	$87,800	$87,800
Pays municipal service fee?	Yes	No
Municipal	$930	$708
Wilkinsburg Debt	$258	$0
Wilkinsburg Library	$41	$41
Carnegie Library	$0	$22
Pittsburgh Parks	$0	$44
School District	$2,327	$900
Real estate tax bill	**$3,556**	**$1,715**
EIT bill	**$0**	**$0**
Local services tax	**$0**	**$0**
Municipal service fee	**$200**	**$0**
Tax/Fee bill	**$3,756**	**$1,715**
Savings ($)	**$2,041**	
Savings (%)	**54.3%**	

Scenario 2: Non-Working Homeowner

This is the same as the prior scenario, except none of the homeowner's income is subject to the EIT. The homeowner enjoys the real estate tax savings without any offsetting increase in the EIT.

There may be additional savings for real estate tax exemptions that are not shown here.

	Wilkinsburg Current	Pittsburgh Post Merger
Income	$36,743	$36,743
Assessed home value	N/A	N/A
Pays municipal service fee?	No	No
Municipal	$0	$0
Wilkinsburg Debt	$0	$0
Wilkinsburg Library	$0	$0
Carnegie Library	$0	$0
Pittsburgh Parks	$0	$0
School District	$0	$0
Real estate tax bill	**$0**	**$0**
EIT bill	**$367**	**$1,102**
Local services tax	**$52**	**$52**
Municipal service fee	**$0**	**$0**
Tax/Fee bill	**$419**	**$1,154**
Savings ($)	**($735)**	
Savings (%)	**-175.2%**	

Scenario 3: Working Renter

This scenario shows the estimated impact on the combined tax bill for a Wilkinsburg resident who lives in a rental unit and does not pay the real estate tax or municipal service fee.

In this case the household pays the higher EIT rate but does not enjoy any of the savings associated with a lower real estate tax or the eliminated municipal service fee.

If the rental household does pay the $200 per year municipal service fee, the savings may offset the higher EIT liability.

	Wilkinsburg Current	Pittsburgh Post Merger
Income	$0	$0
Assessed home value	N/A	N/A
Pays municipal service fee?	No	No
Municipal	$0	$0
Wilkinsburg Debt	$0	$0
Wilkinsburg Library	$0	$0
Carnegie Library	$0	$0
Pittsburgh Parks	$0	$0
School District	$0	$0
Real estate tax bill	**$0**	**$0**
EIT bill	**$0**	**$0**
Local services tax	**$0**	**$0**
Municipal service fee	**$0**	**$0**
Tax/Fee bill	**$0**	**$0**
Savings ($)	**$0**	
Savings (%)	**0%**	

Scenario 4: Non-working Renter

This is the same as the prior scenario, except the household does not have any income subject to the EIT.

Anyone in this group does not currently pay local government taxes to Wilkinsburg and would not pay them to Pittsburgh either.

If the renter currently pays the $200 annual municipal service fee for trash collection, that fee would be eliminated in a merger.

	Wilkinsburg Current	Pittsburgh Post Merger
Taxable gross receipts	$270,000	$270,000
Assessed property value	$200,000	$200,000
Payroll	$100,000	$100,000
Municipal	$2,118	$1,612
Wilkinsburg Debt	$588	$0
Wilkinsburg Library	$94	$94
Carnegie Library	$0	$50
Pittsburgh Parks	$0	$100
School District	$5,300	$2,050
Real estate tax bill	**$8,100**	**$3,906**
BPT bill	**$405**	**$0**
PPT bill	**$0**	**$550**
Tax/Fee bill	**$8,505**	**$4,456**
Savings ($)	**$4,049**	
Savings (%)	**47.6%**	

Scenario 5: Small business that owns property

This scenario shows the estimated impact on the combined tax bill for a small business in Wilkinsburg that owns taxable real estate.

The small business would benefit from Pittsburgh's lower real estate tax rate, which would generate significant savings in a merger. The business would exchange the business privilege tax (BPT) on gross receipts for a payroll preparation tax (PPT). In this scenario the PPT costs more than the BPT, but the difference is smaller than the savings in real estate taxes.

Manufacturers do not pay the BPT but would pay the PPT. A small manufacturer with these attributes would have lower, but still positive, savings.

	Wilkinsburg Current	Pittsburgh Post Merger
Taxable gross receipts	$270,000	$270,000
Assessed property value	$0	$0
Payroll	$100,000	$100,000
Municipal	$0	$0
Wilkinsburg Debt	$0	$0
Wilkinsburg Library	$0	$0
Carnegie Library	$0	$0
Pittsburgh Parks	$0	$0
School District	$0	$0
Real estate tax bill	**$0**	**$0**
BPT bill	**$405**	**$0**
PPT bill	**$0**	**$550**
Tax/Fee bill	**$405**	**$550**
Savings ($)	**($145)**	
Savings (%)	**-35.8%**	

Scenario 6: Small business that rents property

This scenario shows the estimated impact on the combined tax bill for a small business in Wilkinsburg that rents property.

Since this business does not own real estate, it is not affected by the lower real estate tax rates.

The business would exchange the current BPT for the PPT and pay $145 per year more, or 0.05 percent of taxable gross receipts. As the ratio of a business's payroll to gross receipts increases, so too will the difference between their pre- and post- merger tax bills.

Scenario 7: Larger business that owns property

	Wilkinsburg Current	Pittsburgh Post Merger
Taxable gross receipts	$1,600,000	$1,600,000
Assessed property value	$750,000	$750,000
Payroll	$500,000	$500,000
Municipal	$7,943	$6,045
Wilkinsburg Debt	$2,205	$0
Wilkinsburg Library	$353	$353
Carnegie Library	$0	$188
Pittsburgh Parks	$0	$375
School District	$19,875	$7,688
Real estate tax bill	**$30,375**	**$14,648**
BPT bill	**$2,400**	**$0**
PPT bill	**$0**	**$2,750**
Tax/Fee bill	**$32,775**	**$17,398**
Savings ($)	**$15,378**	
Savings (%)	**46.9%**	

This scenario shows the estimated impact on the combined tax bill for a larger business in Wilkinsburg that owns taxable real estate.

The large business would benefit from the lower real estate tax rate, which would generate significant savings in a merger. The business would exchange the BPT on gross receipts for a PPT on payroll.

Wholesale businesses pay a lower BPT rate (0.10 percent) than assumed here and manufacturers do not pay the tax at all. Businesses in those categories would still have some savings under these assumptions because of the real estate tax reduction.

Scenario 8: Larger business that rents property

	Wilkinsburg Current	Pittsburgh Post Merger
Taxable gross receipts	$1,600,000	$1,600,000
Assessed property value	$0	$0
Payroll	$500,000	$500,000
Municipal	$0	$0
Wilkinsburg Debt	$0	$0
Wilkinsburg Library	$0	$0
Carnegie Library	$0	$0
Pittsburgh Parks	$0	$0
School District	$0	$0
Real estate tax bill	**$0**	**$0**
BPT bill	**$2,400**	**$0**
PPT bill	**$0**	**$2,750**
Tax/Fee bill	**$2,400**	**$2,750**
Savings ($)	**($350)**	
Savings (%)	**-14.6%**	

This scenario shows the estimated impact on the combined tax bill for a larger business in Wilkinsburg that rents property.

Since this business does not own real estate, it is not affected by the lower real estate tax rates.

The business would exchange the current BPT for the PPT and pay more in local taxes, but the difference translates to 0.02 percent of gross taxable receipts in this scenario.