Deed Transfer Tax:

The deed transfer tax is a state authorized tax that must be paid when you are buying a house in Pa – it's typically known as one of those closing costs in the transaction. It's effectively a sales tax on real estate transactions. The state of Pennsylvania charges 1% of the sales price and receives that value. The locality is authorized and generally charges a second fee – in the case of Allentown, this totals 1%; and is split equally between the municipality and school district. This is typical. The rate of tax varies by municipalities, a copy of the rates is attached.

The School District would need to increase their rate. At this time, it is unclear as to whether they can do that.

The buyer and seller customarily split the PA deed transfer tax down the middle; the buyer pays 1% and the seller pays 1%. But this 50/50 arrangement isn't set in stone and can vary depending on the terms of the sale, as stipulated in the sales contract. There are exclusions and exemptions to paying the tax which is determined by state law.

Legislation:
Allentown's Home Rule Charter has a section that states: B. Council shall not raise the rates of ~~the~~ Deed Transfer, Earned Income, Business Privilege, Occupational Privilege, Amusement Devices and Resident Taxes above their respective 1996 levels.

The legislation before you would put a question on the November ballot that would ask the voters to remove the cap. Two referendum questions relating to the tax have failed in the past: November 2004, an attempt to allow Council to increase the tax by ordinance failed, 5,929 (y) to 12,195 (no) and in November of 2005, allowing Council to increase the tax by up to 1% failed, 3,660 (yes), 8.881 (no).

The EIT has been raised – this is a result of a previous administration taking a position that a Charter cannot place a limit on this type of tax authorized by the state and the pension being in a distressed status at one time.

The question on the ballot is simply that – voters would vote on removing the cap to the reality tax. It is a question, it does not authorize any increase, any spending, any allocation, eth.

SECTION ONE: "Shall Section 807(B), Revenue, of the Home Rule Charter of the City of Allentown be amended to allow City Council, by Ordinance, to remove the Deed Transfer Tax?" The Section would read as follows:
SECTION 807 REVENUE B. Council shall not raise the rates of ~~the Deed Transfer~~, Earned Income, Business Privilege, Occupational Privilege, Amusement Devices and Resident Taxes above their respective 1996 levels.

Rational:
The cost of doing business is increasing every year, and the revenues are not increasing at the same rate, the city simply needs revenue to pay for existing services and programs. A gap between revenues and expenditures looms in the future and will need to be addressed. This can only be addressed through cuts in expenditures or increases in revenue. Removing the cap on this tax, would simply create another option and add something new into the mix - rather than relying on the property or earned income tax.

Cities Sources of Revenue: The Cities major sources of revenue are, as listed in the most recent monthly re[ort: : EIT 41M; Property Tax 38.5M and the BPT 12.6M; the Deed Transfer comes in at 2.5M. Effectively, a .5 increase in the tax would bring in an additional 2.5M and a 1% increase would bring in an additional 5M – obviously these numbers would vary depending on market activity.

The referendum, if passed, would allow the Mayor and Council more flexibility in examining the equitable impact of revenue sources on the residents.

SEEKING COVER/APPEASMENT/VOTES/SIGNALING/ETC.

There were some questions about putting some parameters around the revenue that might be generated down the line for various particular interests should the referendum pass to reign in future malevolent mayors or councils.

The discussion moved around creating formulas for tax reduction, preventing funds from being inefficiently used, affordable housing, public safety, blight/neighborhood remediation to garner support of various constituent groups. This is premature at this time and simply hijacks future decision-makers that will have more capacity to make such decisions at that time.

Some discussion centered around the type of legislation noted below that would capture a number of different interests expressed by both council and the administration. Ultimately, no matter what, the Mayor and Council will need to appropriate funds in the end through the budgetary procedures.

Ordinance that would mandate any revenue received as a result of a future increase in the rate of the deed transfer tax would be assigned only be used for tax reduction, public safety, affordable housing or blight remediation as established in the mayor’s budget proposal adopted by City Council.

Might be wise to send it to the electorate on its own merits of an optional revenue source should the need arise and allow the voters to decide; deal with allocations, equity and other issues should you have the opportunity.