

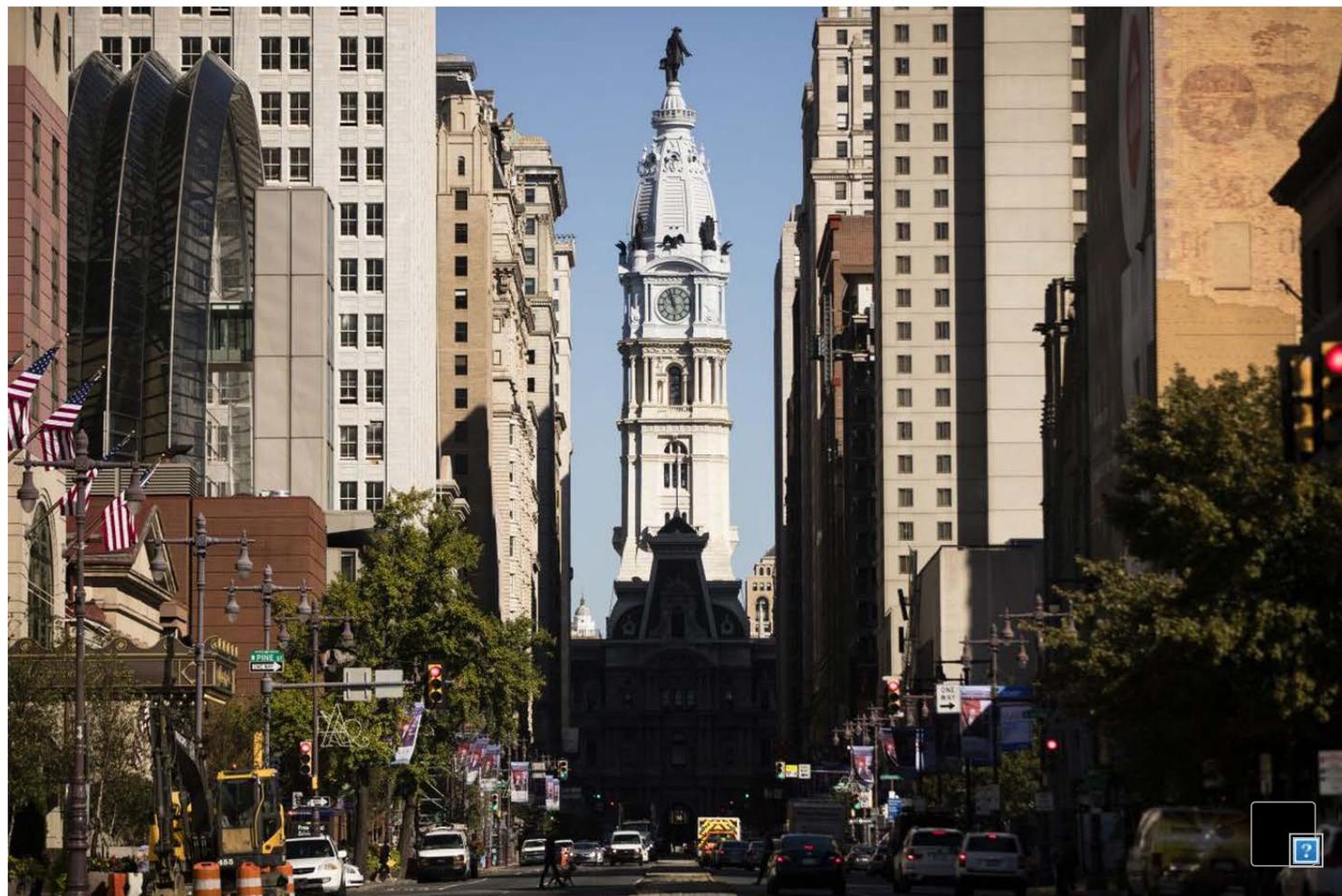
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# THE 1932 LAW THAT FOREVER CHANGED PHILLY'S TAXES

by Laura McCrystal,



AP PHOTO / MATT ROURKE

The bill was hailed as "the salvation of Philadelphia" at a time when the city and rest of the nation were in the depths of the Great Depression, and revenue was as scarce as jobs.

Today, the state law enacted in 1932, known as the Sterling Act, is a linchpin of the city treasury, and has a lot to do with why Pennsylvania's local-taxation system is so different from New Jersey's.

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Named for Rep. Philip Sterling, the Republican state representative from Philadelphia who sponsored the Depression-era bill,

the Sterling Act allowed the city to earn revenue by passing special taxes — as long as it did not pass levies on anything the state already taxed.

The law took center stage before the Pennsylvania Supreme Court recently, as the [justices heard oral arguments on the city's tax on soda](#) and other sweetened beverages. Opponents of the tax argued that it violated the Sterling Act because ultimately the costs are borne by consumers, who already pay the state sales tax. The city argued that the tax is levied on beverage distribution, not sales.

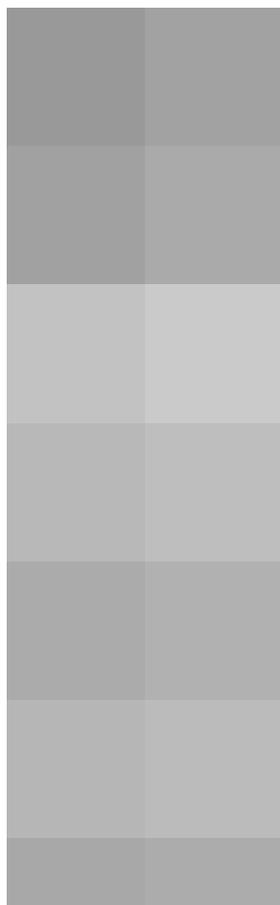
But the controversial beverage tax is just the latest in a long list of Sterling-related levies. The law enabled a host of taxes, including those on wages, parking, valet parking, amusement, and use-and-occupancy. Before 1932, the city depended on real estate taxes. Today, the city has a Sterling dependency.

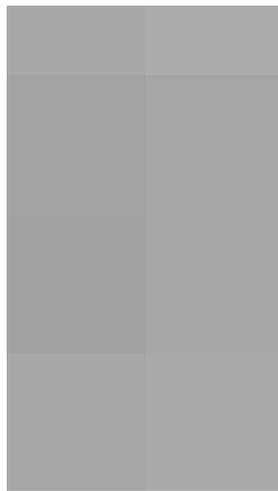
Residents cannot thank — or credit — the Sterling Act for every penny they pay the city. Because they duplicated state taxes, the city had to receive permission for lawmakers in Harrisburg to add its own 2 percent sales tax and to impose a [\\$2-per-pack charge on cigarettes](#) in 2014 to fund schools, for example. The city's liquor-by-the-drink tax was also authorized by state legislation.

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An article on the front page of the Inquirer on July 19, 1932 described the Sterling Act's passage as a means of "boosting taxation power of Phila."

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However, the Sterling Act forever changed the local tax landscape. Fifteen years later, all Pennsylvania municipalities received similar taxing powers. The 1947 "Tax Anything Act" somewhat leveled the playing field by allowing other cities, boroughs, townships, and school districts the authority to pass levies beyond the property tax. By contrast, New Jersey pays a far larger share of its local bills with property taxes.

But the taxing benefits conferred to other Pennsylvania communities in 1947 have not had the same heft as those reaped by Philadelphia under the Sterling Act. It has become "one of the major blocks upon which the current tax structure rests," the Pennsylvania Economy League wrote in a 1999 report.

"It had been backed by councilmanic and Republican organization leaders in Philadelphia as one of the principal means of securing much-needed revenue for the municipality, without further burdening real estate," the Inquirer reported in a front-page article in the July 19, 1932, issue of the Inquirer. "... Its passage by the House tonight, by vote of 195 to 0, was hailed by the Philadelphia political chieftains present here as one of the main accomplishments of this special session."

Within a few weeks, the Inquirer wrote, the City Council was considering several new taxes — from levies on amusement tickets to hot dog stands.

The amusement tax alone, was projected to bring in \$7 million per year for the city — \$17.5 million in 2018 dollars. Today, the amusement tax still accounts for 0.6 percent of revenue in the city's general fund and will raise an estimated \$21.3 million this fiscal year, according to city budget documents.

So what stops Philadelphia from taxing everything, and where does it draw the line on raising money and adding new taxes?

"The line is going to be politics," Mark Aronchick, a lawyer representing the city in its defense of the beverage tax, told Supreme Court justices. "Politicians don't get up every morning saying, 'Hey, what can I tax?' "

But the Sterling Act should not be used to mask a double tax, argued attorney Marc Sonnenfeld on behalf the group of businesses, consumers, and trade associations. "The city has to ask the General Assembly to impose duplicative taxes like this," he said.

Of all taxes created under the Sterling Act, the wage tax is the most significant. It brings in nearly half the city's revenue, and city officials estimate that it will raise \$1.5 billion in the current fiscal year. Without it, Philadelphia's property taxes would have to be significantly higher.

It also is a [source of frustration for municipalities outside of Philadelphia](#). Their wage tax levies are capped at 1 percent in most towns, and they cannot levy wage taxes on nonresidents. If you live in Abington and work in Horsham, for example, Horsham sends your income tax back to Abington. But Philadelphia keeps all the 3.5 percent wage tax imposed on nonresidents.

Municipalities have fought back against that measure, and state lawmakers have introduced legislation that would allow municipalities to recoup tax money paid by their residents who work in Philadelphia. The city has argued against such a change; in 2016 Mayor Kenney's office estimated that it would lose \$179 million in wage-tax revenues.

Meanwhile, a different attack on the city's beverage tax is under consideration in Harrisburg. Taking aim at the tax on soda, lawmakers have proposed a law banning any municipality from taxing food and beverages. If passed, it would essentially repeal a chunk of the Sterling Act.

"While there is no question that the goals of funding pre-K and rebuilding city assets in Philadelphia are laudable and should be pursued, it is my belief that the beverage tax levy has proven to be an extreme burden on retailers, especially grocery and convenience stores in the city," Rep. Mark Mustio of Allegheny County, the bill's primary sponsor, wrote in a memo seeking cosponsors.

A House committee voted this month to send the bill to the House floor. Not surprisingly, Kenney's office opposes it.

Said city spokesman Mike Dunn: "We have grave concerns about this attempt to preempt local governments from taking actions they deem necessary to effectively respond to the needs of their constituents."

Evidently, the city is still bullish on the Sterling Act.



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