HB 76 SB

PROPERTY TAX Independence Act

LIBERTY EQUALITY PROSPERITY

HB 76 and SB 76, The Property Tax Independence Act

A solution that makes sense for Pennsylvania

INTRODUCTION

There is no “Holy Grail” of property tax reform. Any property tax reform measure will involve shifting the tax levy from one type of tax to another – there’s no free ride. But there are ways to fund our schools and to ensure a better education for our children that are fairer and more effective than property taxes.

Many Pennsylvanians lose their homes and a lifetime’s work to sheriff’s sales each year because they can no longer afford to pay their property taxes. Senior citizens on fixed incomes are increasingly forced to sell their homes because of unrelenting increases in their tax burden. Young families cannot afford to purchase a home because the per-month property tax escrow is simply too high. Multigenerational family farms are being sold piece by piece to pay property taxes, devastating Pennsylvania agriculture. School districts in areas of the state with limited population and no commercial tax base are in distress and are unable to afford to give their children a quality education. Job losses, outmigration, and abysmal state economic performance caused by burdensome property taxes are devastating Pennsylvania’s economy.

A sensible, broad-based, statewide and state-administered property tax replacement funding source is needed eliminate an antiquated and regressive property tax system, to end these educational inequities, to return home ownership to the homeowner instead of allowing the government to effectively own our homes, and to restore Pennsylvania’s economic vitality.

THE BOTTOM LINE: Our current system of school funding is crumbling. This decay has been occurring for many years and continues to escalate. Home foreclosures and tax sales are occurring at an expanding rate and the home market is at a standstill. The opportunity to fund education from a statewide source is rapidly vanishing as relentlessly rising property taxes outpace available revenue. This will have major implications for school districts statewide. It can no longer be ignored or diminished. Replacement of the school property tax must be accomplished now.

THE PLAN AND HOW IT IS FUNDED

After many months of work and negotiation by key legislators and in cooperation with the Pennsylvania Coalition of Taxpayer Associations, a plan to eliminate and replace school property taxes has been formally introduced in both the Pennsylvania House of Representatives as HB 76 and in the Pennsylvania Senate as SB 76.

The Property Tax Independence Act was crafted by members of the Pennsylvania General Assembly in full collaboration with the 76 member groups of the nonpartisan grassroots Pennsylvania Coalition of Taxpayer Associations. The Property Tax Independence Act belongs to the people; it is unique in that it is OUR legislation in a state that does not allow for citizen initiatives. The Property Tax Independence Act has many lawmaker proponents from both parties and enthusiastic grassroots supporters from across the entire political spectrum. We as taxpayer activists have accomplished what the politicians in both Washington and Harrisburg have been unable to do: work across party lines to reach a sensible and effective solution to a critical problem.

How To Offset $12.68 Billion in Annual Property Tax Revenue

Change	Estimated Revenue
Increase personal income tax to 4.34%	$4,541,000,000
Expand sales tax base and increase rate to 7% (8% in Philadelphia and Pittsburgh)	$5,552,000,000
Slot revenue redirected from property tax relief	$526,000,000
Existing school district debt service payments (to remain responsibility of each district)	$2,071,000,000
Total	**$12,690,000,000**
Source: Pennsylvania Independent Fiscal Office Analysis, 25 Sep 2012	

The Property Tax Independence Act will eliminate all school property taxes across the Commonwealth and will replace those taxes with funding from a single state source.

The most important provision of The Property Tax Independence Act is that it is tax revenue neutral. To provide absolute fairness, the legislation has been carefully crafted to ensure that the tax swap provision of the plan does not raise one dollar more than is already collected by the school property tax mechanism.

The Property Tax Independence Act utilizes a modernized school funding plan based on 21st century economic realities.

- The Property Tax Independence Act will ABOLISH the school property tax on all homesteads, farmsteads, and businesses.

- School property tax elimination will be accomplished via a two year phase-out of school property taxes. In the first year after enactment, school property taxes will be frozen at their current level; in the second year they will be completely eliminated except for a small portion that will be retained in each school district to retire the individual district's outstanding long-term debt, typically 10% of the original school tax bill.

- The Property Tax Independence Act utilizes our current sales tax mechanism to fund schools, restoring the original intent of the tax. The “The PA Education Sales Tax” was enacted in 1953 for this specific purpose and virtually 100% of the revenue from the sales tax is still dedicated to education funding.

- The sales tax provides a predictable and stable funding source that automatically increases revenue in sync with economic growth. This is in clear contrast to the school property tax which is not based on economic growth and is subject to much variation, forcing annual increases in the tax to increase revenue.

- The sales tax is also the most desirable revenue source because, unlike the property tax that has no relationship to family income, it is directly tied to a person’s ability to pay.

- While the sales tax is The Property Tax Independence Act’s primary revenue source, small increases in other taxes are blended into the total to spread the cost of education over the broadest possible base.

- The Property Tax Independence Act moderately broadens the base of the state sales tax to include more services and purchases at a new 7% rate. Items to be added to the taxable base include candy and gum, newspapers and magazines, dry cleaning and laundry services, haircuts, and spectator sports admissions. Food items not included on the WIC list and individual clothing and footwear items with a value greater than $50 will also be subject to the expanded sales tax. Generally, food items exempt from the sales tax will be fresh meats, produce, and dairy, along with many packaged and canned foods that are in their natural form, without added sugar or other adulterants. The complete list of newly taxed items and services is at www.ptcc.us/pdf/newly-taxed_items_and_services_020312.pdf as a PDF document.

> **IMPORTANT FACT...**
> **If your school property tax is $3500/year and is completely eliminated by HB/SB 76, you would have to spend $50,000 annually on newly-taxed products and services to equal the amount of property tax eliminated.**

While there are those who might object on an instinctive level to a sales tax on the last two items mentioned, consider this: If you spend eight thousand dollars annually on individual items of clothing over $50 and non-WIC food purchases combined, the total sales tax would be $560. If this is less than your school property tax bill you still will realize a substantial reduction in your overall tax burden.

Items that will continue to be exempt from the sales tax include food stamp purchases, all utilities, home heating fuels, health, hospital, and dental services, prescription drugs, home health care, tuition, day care, charitable organizations, and business-to-business transactions.

- While the sales tax is The Property Tax Independence Act’s primary revenue source, small increases in other taxes are blended into the total to spread the cost of education over the broadest possible base. As part of the funding mechanism, the Property Tax Independence Act finance package also includes a modest increase in the state income tax from 3.07% to 4.34%.

- In prior versions of property tax elimination legislation each school district was provided funding sufficient to service their outstanding long-term debt. This provision raised many objections to the plan from both taxpayers and legislators who felt that it was unfair to require taxpayers in frugal school districts to pay debt incurred by those districts that may have been financially irresponsible. Besides being politically unpopular, financing this debt from the state level would add $1.7 billion annually to the revenue that needs to be replaced, causing unnecessary tax increases.

To decrease the total revenue needed for property tax elimination, at enactment of The Property Tax Independence Act existing long-term debt will remain with each school district for them to service individually. Because of this a remnant of property tax will remain past the two year elimination phase-in but ONLY the amount of property tax necessary to meet current annual debt service that was on the books as of December 31, 2013. When that existing debt is retired the final bit of property tax will disappear and no further property taxes will be allowed.

On enactment of The Property Tax Independence Act each school district will be required to state the amount of property tax necessary for annual debt service and will not be allowed to increase that amount or add any new debt financed by property taxes.

The average debt service for all districts is 10% of their annual budget, with the highest district at 18%. This means that, at worst, one or more districts will enjoy an 82% reduction of property taxes at the end of the second year of the plan, with an average property tax reduction statewide of 90%. This will tremendously reduce the burden on property owners until the long term debt is retired.

As mentioned above, total elimination of the property tax in every school district will be achieved when their debt is retired, although that will vary by district depending on the length of the remaining debt term. As of the 2011-2012 school year, ninety Pennsylvania school districts were carrying no long-term debt and will see their property taxes totally eliminated immediately at the end of the two year phase-in period.

Note that none of these funding sources are particularly burdensome by themselves but, taken together, provide the funds necessary to replace all Pennsylvania local school taxes. Further, The Property Tax Independence Act will more equally distribute the cost of school funding across all of Pennsylvania’s population and visitors to the state, rather than just depending on taxing homeowners.

THE DISTRIBUTION TO THE SCHOOLS

The Property Tax Independence Act works to fully fund all Pennsylvania schools.

- All schools will initially be fully funded at their current levels.

- Schools will receive their property tax replacement funding directly from the state. The Property Tax Independence Act will fully fund all districts by replacing the property tax dollar-for-dollar at each district's current level. All students in Pennsylvania, regardless of their location or their area's economic condition, will have the opportunity for a quality education.

- Equity in schools is guaranteed because the state assumes the responsibility of school funding. Each school will receive the resources it needs regardless of the local ability to pay. This solves the funding problems faced by rural, urban and fast-growing districts.

- The Property Tax Independence Act calls for a dedicated lockbox account for all property tax replacement revenues that is separate from the General Fund. All replacement funding for the schools will be disbursed from this account through the existing Department of Education funding mechanism, requiring no growth of the current infrastructure.

In addition, The Property Tax Independence Act completely eliminates the taxing ability of local school boards. The only exception would be a possible local EIT or personal income tax for major projects such as new school construction, and that will be subject to a no-exception taxpayer referendum.

It is important to note that The Property Tax Independence Act imposes NO mandates of any kind on Pennsylvania school districts. The plan provides replacement funding only and the funding provided by the plan may be used in any manner the school district deems necessary. The Property Tax Independence Act does not interfere in any manner with local school district decisions.

> **IMPORTANT FACT...**
> **Statewide, current school district budgets increase, on average, at twice the rate of inflation.**

SPENDING CONTROLS

Current school spending regularly exceeds tax revenue and The Property Tax Independence Act addresses it head on.

- At enactment of The Property Tax Independence Act, all districts will receive 100% funding sufficient to meet all financial obligations with a dollar-for-dollar replacement of the eliminated property tax. In the future, every district will receive identical percentage annual base funding increases that will be limited to the increase in the Consumer Price Index (CPI), effectively tying annual school budget increases to the increase in available revenue and economic activity.

- If a district desires additional revenue, they can present a no-exception ballot referendum to the voters of their district to raise additional revenue by either an earned income tax or a personal income tax. However, property taxes will not be able to be re-instituted to raise revenue.

CONSTITUTIONAL AMENDMENT

School property taxes need to be prohibited from ever being imposed on Pennsylvanians again.

Companion legislation to the The Property Tax Independence Act will provide for a constitutional amendment which GUARANTEES that, once eliminated, school property taxes would be gone forever and that a future legislature could never re-institute the taxing of our properties.

ADDITIONAL INFORMATION

The fiscal provisions of HB 76 and SB 76, The Property Tax Independence Act, were developed using actual and projected revenue and school district expenditure figures provided by the House Appropriations Committee staff and the Governor's 2012-2013 Budget Book. In addition, the Pennsylvania Independent Fiscal Office conducted an analysis of the Property Tax Independence Act and reached these conclusions:

(IFO analysis page numbers and PTCC comments are in parentheses.)

The analysis of the 2011-2012 version of the Property Tax Independence Act that was released on September 25, 2012, by the Pennsylvania Independent Fiscal Office indicated that, with minor revenue adjustments, the plan is financially viable. Those adjustments have been made for the 2013-2014 introduction of the legislation.

The IFO analysis projects that if the legislation is delayed and is not enacted until 2017 school property taxes will increase and it will take an additional half-billion dollars from the state level to make the plan viable. (Page 3) The report also projects that school property taxes will increase more than $4 billion from the current replacement level of $10.063 billion to $14.188 billion by 2017.

Beyond the purely financial aspects of the plan, the IFO drew these conclusions:

• The report projects that in year five after enactment HB 1776 will save $1.152 billion annually in the replacement revenue compared to the growth of property taxes if that system remained in place (Page 4, fourth line from the bottom). Property taxes historically rise at greater than three times the level of inflation (which, by the way, is unsustainable in the long term); HB 1776 limits the growth of the replacement funding to the rate of inflation.

• The elimination of school property taxes increases the disposable income of property taxpayers. The analysis assumes that 70% of the property tax cut goes to individuals. It further assumes that homeowners spend 90% of the increase in disposable income. (Pages 17-18) (This would be an explosive economic stimulus for Pennsylvania.)

• The analysis indicates that HB 1776 will cause home values to increase, on average, by more than 10% statewide. (Page 23) (This would restore a big chunk of the equity that was lost to homeowners during the 2008 housing downturn.)

• (Regarding business entities) … the income flows through to individuals as higher disposable income. For pass through entities, the analysis assumes that owners and shareholders spend 90 percent of the increase and 70 percent is spent on taxable goods and services, yielding another secondary effect of $34 million in increased sales taxes for FY 2013-14. (Page 18) (More economic stimulus.)

• Working age homeowners realize a tax cut. The analysis finds that the increase in federal income tax (through lower itemized deductions), state income tax, and sales tax is more than offset by the reduction in property taxes. (Page 21)

• Retired homeowners realize a significant reduction in taxes. The analysis finds that the property tax reduction easily offsets any increase from the higher sales tax. (Page 21)

• Benefits would also accrue to home builders, home developers, and other land owners who convert current land holdings into new housing plots. Employment would increase in the construction sector as well. (Page 23)

• The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25) (Such an increase of businesses in Pennsylvania and expansion of existing businesses would create many much-needed jobs.)

These results are also available as a printable PDF document on the PTCC Website if you wish to circulate them.

HB 76 and SB 76, the Property Tax Independence Act, is supported by the
Pennsylvania Coalition of Taxpayer Associations

PCTA
Pennsylvania Coalition of Taxpayer Associations

More information is available at **www.ptcc.us**

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