



## **HB 1776, 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, a plan to eliminate and replace school property and local school nuisance taxes has been finalized and will be formally introduced in both the Pennsylvania House of Representatives and Senate in the near future.

House Bill 1776, The Property Tax Independence Act, looks in part to the former School Property Tax Elimination Act (SPTEA) for its basic structure. While The Property Tax Independence Act mirrors some of the provisions of the former SPTEA, the plan has been comprehensively rewritten to account for lawmakers' concerns and preferences in order to eliminate objections common to the previous legislation.

As with the former SPTEA, The Property Tax Independence Act will eliminate all school property and nuisance 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 as well as eliminate the local school Earned Income Tax (EIT) and other Act 511 nuisance taxes imposed by school districts.

- 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.

- 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.

While there are those who might object on an instinctual level to a sales tax on the last two items, consider this: If you spend eight thousand dollars annually on 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.

- The Property Tax Independence Act completely eliminates the local school district Earned Income Tax (generally 0.5%) and nuisance taxes such as the amusement tax, business gross receipts tax, business privilege tax, earned income tax, mechanical devices tax, mercantile tax, occupational privilege tax, and occupation tax and swaps these taxes for an increase of 0.92% in the state personal income tax, from 3.07% to 3.99%. Although those taxpayers with much non-earned income may see a slight increase in their total income taxes, for most taxpayers this will be a direct swap that is tax neutral.

Because low income families pay the EIT from the first dollar earned but receive forgiveness from the state personal income tax if they earn less than \$35,000 annually, this tax swap will more than offset any additional sales tax that they may incur.

- 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 \$2.3 billion annually to the revenue that needs to be replaced, causing unnecessary tax increases.

To decrease the total revenue needed for property tax elimination, the proposed North Dakota property tax elimination plan was used as a model. 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. 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. Fifteen Pennsylvania school districts are 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. Initially, The Property Tax Independence Act will fully fund the districts at their current per-pupil level, with funding adjustments in later years to account for changes in student population. 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-exemption 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.

## **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. A per-student expenditure level will be determined for each district and will be re-calculated annually. Each school district will then receive annual upward or downward funding adjustments based on changes in student enrollment multiplied by the current per-pupil cost.

Additionally, every district will receive identical percentage annual base funding increases that will be limited by the increase in the Consumer Price Index (CPI), effectively tying annual school budget increases to the increase in available revenue.

- 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**

HB 1776, The Property Tax Independence Act, has been vetted against actual and projected revenue figures provided by the Pennsylvania House Appropriations Committee and has absolutely been shown to be fiscally viable as written.

HB 1776 is supported by the Pennsylvania Coalition of Taxpayer Associations



More information is available at **[www.ptcc.us](http://www.ptcc.us)**