

# Property Tax Elimination and Replacement

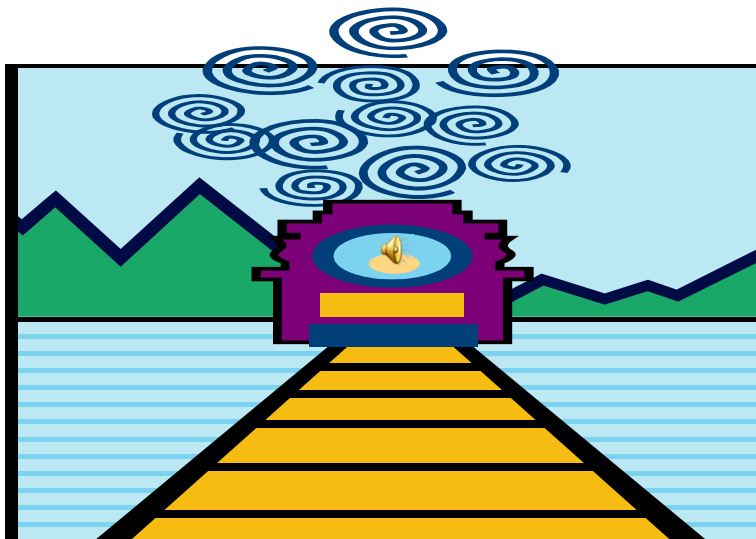
PASBO Annual Conference  
March 22, 2013

HB 1776/SB 1400 of 2012

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There is a train coming down the track.  
Can we stop it or at least not get hit by it?



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## Presenters

- Jeff Mummert – Business Administrator/Board Secretary, South Western York School District
- Rick Vensel – Operations and Business Manager, South Middleton School District



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## Essential Questions

- How/what should PASBO provide as possible alternatives to this legislation?
- What feedback can our membership provide in preparation of future PASBO testimony?



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## Summary of Legislation

- HB 1776 and SB 1400
  - Eliminates school property taxes.
  - Increases state personal income tax from 3.07% to 4.01%.
  - Increases state sales tax from 6% to 7%.
  - Expands the sales tax base.



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## Twin children of the same mother

- Both House Bill 1776 and Senate Bill 1400 are substantially the same with the same objective: To eliminate school property tax as source of funding for education and to replace it with other types of income.
- Intended to be tax neutral
- Assumes the State's General Fund is held harmless



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## The Proposed Law Makes Many Changes

- It repeals the ability of School Districts to levy property tax except to retain the tax to pay for debt service that existed on 12/31/2011
- Would distribute funds quarterly to districts using a new Educational Stabilization Fund (ESF) in lieu of districts issuing property tax.
  - Would be distributed based on 2012-13 property tax collections (less debt service)
- Four revenue sources would fund the new ESF.



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## The Four Revenue Sources

- An expansion of state sales and use tax base  
Newly taxed items and services such as:
  - Food items
  - Clothing and apparel >\$50
  - Certain health care
  - Recreation
  - Basic Cable
  - Intrastate Transport of persons (Taxi, Bus, Rail)
  - Other
- An increase in the state sales and use tax from 6% to 7%
- An increase in the state personal income tax from 3.07% to 4.01%
- A redirection of funds from the Property Tax Relief fund “Slots/Homestead Money”



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## Independent Fiscal Office

- Information summarized from a Analysis of HB 1776 and SB 1400 of the bill by the Independent Fiscal Office.
- [www.info.state.pa.us](http://www.info.state.pa.us)
  - The analysis
  - Notes presented at hearing



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## The Effects

- The Finances of the proposal do not work!
  - **Revenues are roughly \$1.51 to 2.02 billion short**
    - **The numbers simply do not work!**
  - Federal Tax issues
    - An exchange of a tax that is deductible (property tax for business and homeowners) for one that is not (sales tax)
    - Itemizers realize federal income tax increase of \$550,000,000
  - Effect on businesses – mixed
    - Firms with much real property gain
    - Retailer effected by base expansion of sales tax may lose
    - Small pass through entities with little real property



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## The Economic Quandary

- Three elements of effective taxation:
  - Property/wealth/ownership?
    - Real Estate tax
  - Income/productivity?
    - Earned or personal income tax
  - Consumption?
    - Sales Tax



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<h3>Biggest Winners</h3> <ul style="list-style-type: none"> <li>•Big Businesses (Varies)</li> <li>•Retired Home Owner (-37.5%)</li> <li>•Fast Declining SDs (property assessments and/or students)</li> <li>•School Boards (no longer the bad guy raising taxes)</li> </ul>	<h3>Moderate Winners</h3> <ul style="list-style-type: none"> <li>•Small Businesses (Varies)</li> <li>•Working Home Owner (-7.0%)</li> <li>•Moderate Declining SDs (property assessments and/or students)</li> </ul>
<h3>Biggest Losers</h3> <ul style="list-style-type: none"> <li>•<b><u>Children of Pennsylvania</u></b></li> <li>•Working Renters (10.6%)</li> <li>•Retired Renters (7.7%)</li> <li>•Fast Growing School Districts (property assessments and/or students)</li> </ul>	<h3>Moderate Losers</h3> <ul style="list-style-type: none"> <li>•Small Businesses (Varies)</li> <li>•Farmers in Clean &amp; Green</li> <li>•Moderate Growing SDs (property assessments and/or students)</li> </ul>

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<h2>Talking Points</h2>	
Perceptions	Reality
This will eliminate all property taxes.	This legislation only eliminates school district property taxes, and only completely after all current debt service has been paid off.
My taxes will be significantly reduced.	While your school real estate tax will be eliminated, it will need to be replaced. The proposal calls for replacing it with an increase in the state's Personal Income Tax from 3.07% to 4.01% and an increase in the state's sales tax from 6% to 7%. The effect of the change will vary between renters/home owners/retirees and workers.
Now that school property taxes have been eliminated, I don't have to worry about losing my house for failing to pay taxes.	You can still have your property sold at tax sale for failing to pay taxes. Remember, you still will have county and township real estate taxes and don't forget – the state can sell your property for failing to pay income tax. <sup>13</sup>

<h2>Talking Points</h2>	
Perceptions	Reality
Eliminating school taxes is a good thing	<b>Let's be clear – while the legislation claims to eliminate school property taxes, it really is only shifting them from property tax to sales and income taxes. And since the businesses no longer will need to pay the school property tax, all of the rest of us (individuals) will need to not only make up for the loss of the revenues from residential school property taxes, but also for the lost commercial and industrial taxes. So how many of you actually believe you will pay less in taxes?</b>
Property taxes are unfair. This legislation eliminates the unfair property tax.	Property tax is one of three elements of effective taxation
What will be the other effects on the economy of Pennsylvania?	With increased sales tax what effect will this have on retail establishments – especially in counties that border other states. What effects will the expanded sales tax have on business?
All taxes will be reduced or remain neutral.	You will pay more to the federal Government if you <sup>14</sup>

## Concerns/Items Not Addressed

- What happens to the funding stream to school districts during economic downturns? (lower income and sales tax collections) Do we still get our money?
- When the State doesn't have a budget on July 1st, will the districts still receive this state revenue?
- Will this revenue stream be as predictable as the property tax base?



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## Concerns/Items Not Addressed

- How will quarterly distributions of this revenue affect district cash flow?
- How will debt service payments be funded in the future? (They won't. Under this legislation school district's can't incur debt.)



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## Concerns/Items Not Addressed

- Since the IFO indicated that HB 1776/SB 1400 do not provide enough funding to offset the lost property tax amounts – to what level will the sales tax and/or PIT need to be increased above what is in the proposals in order to provide the necessary funds?
- What impact will those higher rates have? (IFO just looked at the impact from the proposals)



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## Concerns/Items Not Addressed

- School property tax collections increase annually. Is the assumption in the law that once properly established, the revenues from the increase sales and income tax will grow at a rate fast enough to provide for the annual cost of living adjustment accurate/viable? Or will the COLA be based on the revenue collections?



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## Concerns/Items Not Addressed

- Is there a problem that needs to be addressed? (Are many people losing their homes to tax sale)
- Act 1 referendum did not go over very well with the public. What has changed in the last 7 years to lead us to believe there would be a different outcome?



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## Essential Questions

- How/what should PASBO provide as possible alternatives to this legislation?
- What feedback can our membership provide in preparation of future PASBO testimony?



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## What are your Thoughts? Possible Alternatives?

- If you had a magic wand, how would you fund education in Pennsylvania?
- For example - Keep school property taxes on commercial and industrial properties, offsetting only residential and farm properties? (may require a constitutional amendment)
- Discussion



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## What are your thoughts?

- Discussion

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