

FASTFACTS

House Appropriations Committee (D)



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Property Tax

Property tax reform has been a topic of discussion for many years, and it appears as though the issue will be debated again in the 2017/18 legislative session. While many proposals have been offered, they have not resulted in significant changes. The history of proposals is deep and wide. However, this briefing is just a quick glimpse of several recent concepts that gained some traction in 2016/17.

Property Tax Relief Plan

The House passed [HB 504](#) on May 13, 2015, with 71 Republican and 34 Democratic votes. However, the Senate did not consider the legislation. The bill originated as HB 860 (Saylor) and was amended into HB 504 after bipartisan negotiation that, most significantly, led to an expanded property tax/rent rebate program.

The plan was designed to increase the personal income tax rate from 3.07 percent to 3.7 percent, and increase the sales tax rate from 6 percent to 7 percent. The revenue generated by the higher levy would have been dedicated to millage rate reductions; sales tax revenue would have been devoted to homestead exemptions and expanded property tax/rent rebate program.

The “76” Plans

[SB 76](#) was narrowly defeated with a tiebreaker vote by Lt. Gov. Mike Stack (as an amendment to [HB 683](#)) Nov. 23, 2015.

The amendment would have increased the sales tax from 6 percent to 7 percent and significantly expanded the sales tax base to include many new items and services. While previous versions, such as [SB 76 of 2013](#), increased the personal income tax rate from 3.07 percent to 4.37 percent, this amendment would have created a local option to impose a personal income tax at the school district level via referendum.

There are no fiscal notes available for the amendment that was voted on.

[in-depth analysis](#) of SB 76 of 2013 is available from the Independent Fiscal Office

Complexities of the Issue

Since both plans gained some traction in 2016/17, similar forms of the ideas are the most likely to resurface. Despite the movement, there are numerous flaws in the legislation, as well as complications of the issue, that have prevented enactment of a real solution.

Here are a few of the problems:

- School property tax revenue in 2017/18 is estimated at \$13.7 billion by the IFO, which is a significant amount of revenue to replace via tax shifts. Additionally, the IFO’s long-term projections show property tax revenues growing at a higher rate than proposed replacement revenue (sales and income taxes), which would leave a structural deficit in funding within a few years.
- Although commonly referred to as property tax elimination, these plans do not completely eliminate property

taxes. First, proposals have only applied to school property taxes, which means county and municipal property taxes would remain. Second, school districts would continue to impose property taxes to pay down any current debt.

- The IFO says [total outstanding debt](#) in 2014/15 was more than \$28 billion, representing 17.3 percent of property tax revenues, which is expected to increase as interest rates increase.
- Annual debt service payments are projected to be approximately \$2.5 billion in 2017/18.
- The “76” plans prohibit new debt from being issued, but it is unclear how schools would be able to properly function as buildings age and capital improvements are required.
- Any attempt to reduce or eliminate property taxes would result in a year of double taxation. Property taxes are generally paid up front through one-time payments, and it takes time for personal income tax and sales tax revenues to accrue. Therefore the first year of transition would have a significant impact on taxpayers.
- There is no consensus on defining the problem. The [overall property tax burden](#) in PA is lower than the national average. The average, however, does not reflect several extreme situations in PA.
- Some consider the commonwealth’s problem areas as places that pay the highest dollar amounts in property tax. While the numbers can be impressive, they often reflect high home values in wealthy areas.
 - Others view the problem areas as places where property taxes reflect a higher percentage compared to average income of an area. These are often poor urban or rural areas with a small tax base to pull from.
 - ◇ Without consensus on the root of the problem, there is also lack of consensus on where relief funds should be distributed. Many previous plans did not address the relief distribution to school districts and taxpayers
- Without consensus on the central problem, it is difficult to direct relief. Belief that those who pay the highest dollar amounts should receive the most relief results in wealthy suburban districts receiving a higher share of the relief and does not address the issues facing poor rural and urban districts.
- The various property tax relief plans would have affected taxpayers but they would have done nothing to address the adequacy of the education funding or the quality of education delivered.
- These tax relief plans are merely tax SHIFTS. Since senior citizens do not pay personal income tax on retirement income and many do not purchase as many taxable items, the tax burden shifts dramatically to younger working families, especially renters. Shifting the burden to younger renters does not encourage entry to homeownership and stifles the economy. These plans also do not address the issues of providing affordable housing solutions.
- Recognizing that these plans are tax shifts, the 76 plans have tried to curb education spending increases with more constrictive caps and requirements for voter referendum.
- The lack of consistency in property tax assessments has created an unequal system, which adds to the complexity of the problem and makes it more difficult to apply relief equally.
- In Philadelphia, property tax relief and so-called elimination plans do not result in proportionate relief due to the city’s relatively low property tax rates, which are offset by significant wage tax rates. The funding structure of the Philadelphia School District is unique in its wider array of revenue sources (i.e. local sales tax, drink tax and cigarette tax) and in its relation to municipal funding. Property taxes are currently split between the city and school district (45 percent city; 55 percent school district). Of the \$1.2 billion in school local tax revenue, only \$604.9 million comes from property taxes.

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