

## **The Legislative Solution A Plan 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. 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.

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

**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 are occurring at an incredible rate and the new home market is at a standstill. This will have major implications for districts statewide. It can no longer be ignored or diminished.

### **THE SOLUTION AND HOW IT IS FUNDED**

The PTCC and PCTA support House Bill 1275, The School Property Tax Elimination Act (SPTEA), House legislation that will eliminate all school property and nuisance taxes across the Commonwealth and will fund all Pennsylvania schools from a single state source.

HB 1275, the School Property Tax Elimination Act, introduces a modernized school funding plan based on 21st century economic realities.

- The SPTEA will **ABOLISH** the school property tax on all homestead/farmsteads as well as eliminate all local school nuisance taxes, local school EIT, and other ACT 511 taxes imposed by school districts.
- School property tax elimination will be accomplished via a four year phase out of school property taxes at a rate of 25% per year.
- The SPTEA utilizes our current sales tax mechanism to fund schools, restoring the original intent of the

tax. Unlike the former House Bill 1600 and House Bill 1489, the School Property Tax Elimination Act does not increase the rate but maintains the current rate of six percent.

- The sales tax provides a predictable and stable funding source that is tied to economic growth. This is in clear contrast to the school property tax which was not based on economic growth and was subject to much variation.

<b>KEY TAXPAYER EXEMPTIONS</b>
<input checked="" type="checkbox"/> All food and clothing currently exempt from the sales tax; food stamp and WIC purchases
<input checked="" type="checkbox"/> All residential utilities - electric, gas, water, all heating fuels
<input checked="" type="checkbox"/> Health services - doctors, dentists, hospitals
<input checked="" type="checkbox"/> All prescription drugs
<input checked="" type="checkbox"/> All public transportation
<input checked="" type="checkbox"/> Professional services - legal, accounting, computer and data services, engineering, research
<b>KEY BUSINESS EXEMPTIONS</b>
<input checked="" type="checkbox"/> Sale for resale
<input checked="" type="checkbox"/> Advertising
<input checked="" type="checkbox"/> Trucking
<input checked="" type="checkbox"/> Manufacturing wholesale purchases
<input checked="" type="checkbox"/> Core business services - legal, accounting, computer and data services, engineering, research

The SPTEA's revenue sources are twofold:

- Broadens the base of the state sales tax to include more services and purchases at the current rate, but does not raise the rate above six percent. Items exempt from the sales tax are listed in the chart at the left.

- Completely eliminates the local school district 0.5% EIT and nuisance taxes and swaps these taxes for an increase of 0.5% in the state income tax, from 3.07% to 3.57%. 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.

Note that neither of these taxes are particularly burdensome by themselves but, taken together, provide the funds necessary to support all Pennsylvania schools. Further, the SPTEA will more equally distribute the cost of school funding across all of Pennsylvania's population, rather than just depending on taxing homeowners.

## **THE DISTRIBUTION TO THE SCHOOLS**

The School Property Tax Elimination Act is historic in that, for the first time, Pennsylvania schools will be fully funded.

- All schools will be held harmless, providing financing at current levels.

- The legislation establishes an exclusively dedicated Education Operating Fund (EOF) separate from the General Fund into which all sales tax revenue would be deposited and from which schools would be funded.

- 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.

- In addition, the first 50 percent of gaming revenue is dedicated to enhancing the addressing of the equity issue in rural, urban and fast-growing districts.

- Eliminates unfunded mandates.

Schools will receive their funding directly from the state. Initially, the SPTEA will fully fund the districts at their current per-pupil level. The SPTEA then will provide upward equity adjustments to bring less affluent districts to a statewide per-pupil benchmark level without reducing funding to other districts, thus leveling the playing field between wealthier and poorer districts. All students in Pennsylvania, regardless of their location or their area's economic condition, will have the opportunity for a quality education.

In addition, the School Property Tax Elimination Act of 2007 completely eliminates the taxing ability of local school boards. The only exception will be a possible local EIT for major projects such as new school construction, and that will be subject to a no-exemption taxpayer referendum.

## **SPENDING CONTROLS**

Current school spending regularly exceeds tax revenue and the School Property Tax Elimination Act of 2007 addresses it head on.

- The problem is not about simply providing the schools with more money. A need for more cash is not the problem.
- Under the first phase of the SPTEA (Years 1-4), all districts will begin held harmless in that they will initially receive 100% funding sufficient to meet all financial obligations and will be established at a per student expenditure level per district. Initial funding will receive adjustments for changes in enrollment as well as yearly base increases indexed to the rate of inflation.
- Under the second phase of the SPTEA, all districts will integrate locally-driven, state of the art performance and evaluation methods to improve spending efficiency and academic performance. The savings that accrue as a result of this widely-used Data-Driven Decision Making ([D3M](#)) technology belong to the school district to use as desired. This is first time that Pennsylvania schools will be given the tools to conduct regular, ongoing performance analyses.
- If a district desires additional revenue, they can present a 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 School Property Tax Elimination Act provides 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.
- In addition, the amendment would cap commercial and non-homestead property taxes at their current rate.

