

Property Tax Elimination – Know the Facts

By Dr. Bob Pleis

The property tax elimination topic is back on the agenda in Pennsylvania again this year. Senate Bill 76 was introduced to replace revenue collected from property tax with revenue collected with state income tax and sales tax, but in 2015, a similar bill, was narrowly defeated in the senate. However, there is more to this current discussion on property tax elimination than meets the eye. According to Jay D. Himes, PASBO (Pennsylvania Association of School Business Officers) Executive Director “property tax elimination does nothing more than shift the burden of raising \$14 billion in education funding from one group of taxpayers to another.”

Working as a group, school district superintendents in Berks County compiled facts and questions about the proposed Senate Bill 76 (SB 76) to better inform our constituents. On January 26, 2017 four superintendents and their business managers (Reading, Conrad Weiser, Wilson and Twin Valley) held a press conference in the Reading School District to discuss our key points and raise unanswered questions about the topic, urging legislatures and residents to study the issue carefully. The following information was discussed and presented at the press conference:

1. Local control of school districts would be greatly diminished if what was proposed as SB 76 had passed. Local school boards would no longer have the ability to levy taxes, and with the switch to Personal Income Tax (PIT) and Sales and Use Tax (SUT) the state would control all monies that went to each school district across Pennsylvania. Without the ability to raise revenue, how would school districts deal with down turns in the economy or maintain current educational programs? How would districts handle other cost increases such as the state pension system, charter and cyber charter tuition, and special education costs?
2. Although proposed SB 76 claimed to eliminate school property tax, it would actually not have eliminated it completely if a district had debt. Districts would be able to use a minimum amount of property tax to pay-off their debt until it was cleared. Many residents would continue to pay significant amounts of school property tax (based on district debt). Only 8 of Pennsylvania’s 500 school districts are free of debt, which meant that 492 districts would require residents to pay some

portion of property tax until their district's debt was paid off, which may take years.

3. The proposed bill was to shift the tax burden from businesses to individuals. According to PASBO, businesses in Pennsylvania currently pay \$2.75 billion in property taxes. With the elimination of those taxes the tax burden would shift away from businesses to individuals through an increase in the PIT and SUT. Can you imagine the loss of revenue when large businesses would no longer have to pay property taxes and contribute to the local schools in their areas?

4. PIT and SUT are affected much more than property taxes during a recession. As PASBO has reported, property tax has been one of the most reliable and predictable sources of funding for school districts. The PIT and SUT funding model, on the other hand, is more sensitive to the ups and downs of the economy, making it unpredictable, year to year, for the state, as well as, providing school districts zero consistency for budgeting purposes.

5. Significant changes would be made to PIT and SUT to cover the 14 billion dollar revenue gap left by eliminating property taxes. For example, the PIT would be increased by 60% from 3.07% to 4.95%, a significant jump. There is also no guarantee that it will not go higher to cover unexpected costs. Tied to the increase in PIT was an increase in the SUT from 6% to 7%. In addition, taxes on more goods and services would have to be levied such as food, candy and gum, newspapers and magazines, textbooks, computer software, alcohol, towing services, movie theatre admission, daycare services, haircuts, dry cleaning, legal services, information services, cable subscriptions, museums, zoos, and amusement park admission etc.

Major Questions

We ended our press conference with a list of questions that were still unanswered since the full plan for the proposed Senate Bill 76 was not revealed.

1. How will education money be distributed in future years to school districts?
2. How will education money be affected by a downturn in the economy?
3. Will education dollars be distributed quarterly in advance or in arrears (cash flow)?
4. How will school districts handle increases in state mandated costs (PSERS, charter schools, special education, etc.) that rise?

5. Will first year distribution from the state, using a baseline of the prior year taxes collected, include both current and delinquent taxes?
6. Will the state negotiate and control collective bargaining?
7. Will the state revise its budget timeline in the future?
8. How will inequities in student funding be addressed?
9. Will this legislation really benefit all retired homeowners?

When we reviewed the key points and looked at the many unanswered questions, our advice to our residents and constituents, at the conclusion of our press conference, was to learn more about the proposed Senate Bill 76 by contacting their legislatures and school officials. It is important that everyone understood the pros and the cons of this latest effort to eliminate property tax.

Sources: PASBO, PASA, PARSS, PAIU, news media