

The Property Tax Problem Simplified

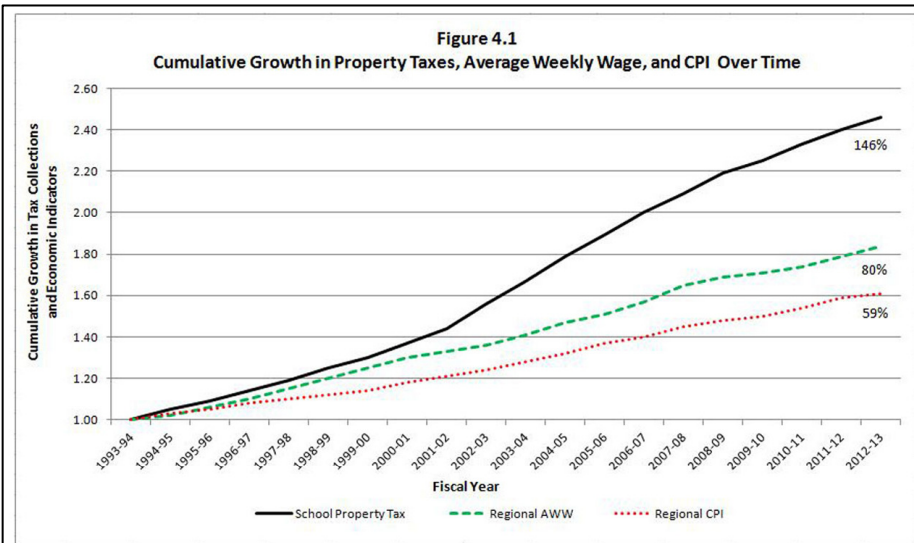


Figure 4.1 from page 28 of the Pennsylvania Independent Fiscal Office analysis of HB/SB 76, the Property Tax Independence Act, dated October 1, 2013 (with Average Weekly Wage [AWW] added) shows the growth of the property tax over time compared to the AWW and the Regional Consumer Price Index (CPI), a measure of inflation.

The report indicates that since 1993-94, the beginning of the reference period shown in Figure 4.1, school property taxes have increased by 146%. In contrast, the Pennsylvania average weekly wage (AWW) has increased by only 80% - just a bit more than half the increase in the school property tax - and inflation, as measured by the Consumer Price Index (CPI) has increased a mere 59% since 1994. The acceleration in the increase in property taxes and the widening gap as compared to the income indicators simply will not be sustainable in the long term and the system will eventually fail.

Table 1.1
Net Fiscal Impact of House Bill 76 / Senate Bill 76
 (fiscal year, \$ millions)

	2014-15	2015-16	2016-17	2017-18	2018-19
Education Stabilization Fund	\$354	\$720	\$1,056	\$1,380	\$1,716
School Districts ¹	-304	-1,098	-1,761	-2,311	-2,813
Other Impacts ²	-53	-15	17	41	66
Net Fiscal Impact	-3	-393	-688	-890	-1,031

¹ Includes the impact of replacing property taxes for all school districts and eliminating non-property taxes levied to fund the School District of Philadelphia.

² Includes the impact on the General Fund and special funds.

Table 1.1 is from page 2 of the analysis. It is a high-level view of HB/SB 76 and

demonstrates the legislation’s effect on school funding for the years mentioned. This is the chart that opponents are using to claim a \$1 billion shortfall. The only line in which we are interested is “Net Fiscal Impact.”

Note that for 2014-15 the shortfall is \$3 million against \$11.07 billion, the amount the IFO has calculated as necessary for replacement of the property tax. That shortfall is .0003% of the total, and is essentially rounding error. HB/SB 76 generates the required amount of replacement revenue almost exactly and fully funds the schools at their current level.

The numbers for the out years (2015-16, 2016-17, 2017-18, 2018-19) are the differences between what the property tax will generate if it is still in effect and the amount of replacement revenue from HB/SB 76. You’ll notice that the deficit increases each year until in 2018-19 it reaches just over \$1 billion, the amount the opponents are using as an argument against the legislation by claiming that the schools are being underfunded.

One of the primary goals of HB/SB 76 is to limit the continued acceleration in taxation currently exhibited by the property tax as demonstrated by the top line in Figure 4.1. The increasing year-over-year deficit actually demonstrates that what HB/SB 76 is attempting to do is working, slowing the growth of taxation and flattening the property tax line to bring annual funding increases closer to the level of inflation and the taxpayers’ ability to pay. The \$1.031 billion for 2018-19 is the cost savings, not a shortfall in funding.

The IFO Analysis HB/SB 76 Comments

On Monday, October 7, 2013, several members of the General Assembly along with a representative of the grassroots organizations that support House Bill 76 and Senate Bill 76 met for about ninety minutes with the Director and Deputy Director of the Pennsylvania Independent Fiscal Office (IFO) to discuss their analysis of HB/SB 76, the Property Tax Independence Act, that was released on October 1.

Although the comments below are not contained in the October 1, 2013 version of the analysis, the IFO representatives confirmed that the benefits to Pennsylvania that were outlined in the original IFO analysis from September 25, 2012, are still valid (added comments in parentheses):

- The elimination of school property taxes increases the disposable income of property taxpayers. The analysis assumes that 70% of the property tax cut goes to individuals. It further assumes that homeowners spend 80% of the increase in disposable income. (Pages 17-18) (This would be a huge stimulus for Pennsylvania's economy.)
- The analysis indicates that HB 1776 will cause home values to increase, on average, by more than 10% statewide. (Page 23) (This will restore a large amount of the equity that was lost to homeowners during the 2008 housing downturn.)
- (Regarding business entities) ... the income flows through to individuals as higher disposable income. For pass through entities, the analysis assumes that owners and shareholders spend 80 percent of the increase and 70 percent is spent on taxable goods and services, yielding another secondary effect of \$34 million in increased sales taxes for FY 2013-14. (Page 18)
- Working age homeowners realize a tax cut. The analysis finds that the increase in federal income tax (through lower itemized deductions), state income tax, and sales tax is more than offset by the reduction in property taxes. (Page 21)
- Retired homeowners realize a significant reduction in taxes. The analysis finds that the property tax reduction easily offsets any increase from the higher sales tax. (Page 21)
- Benefits would also accrue to home builders, home developers, and other land owners who convert current land holdings into new housing plots. Employment would increase in the construction sector as well. (Page 23)
- The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25) (Expansion of existing businesses and attracting new businesses to the Commonwealth will generate jobs for Pennsylvanians.)