



**Northgate School  
District  
Tax Study  
Commission**

**February 16, 2021 -  
May 10, 2021**



School districts in the Commonwealth of Pennsylvania are primarily funded with local tax dollars in the form of property taxes and earned income taxes.

### Act 1 of 2006

Also known as the Taxpayer Relief Act authorizes school districts in Pennsylvania to redistribute the local tax burden in one way: by decreasing the amount of property tax paid by some property owners, then replacing that lost revenue with increased revenue from an Earned Income Tax or Personal Income Tax.

This transfer of the tax burden can be done only by excluding part of a property's assessed value from taxation, creating what is known as a "Homestead Exclusion" or "Farmstead Exclusion."

# The Homestead Exclusion

Because there are no farmstead-eligible properties located within the Northgate School District, the Tax Study Commission focused entirely on the Homestead Exclusion.

**A “Homestead” is an owner-occupied residential property that is the primary residence of the owner.**



As part of Act 1, homeowners currently receive a Homestead Exclusion that is determined by a state formula and funded by state gambling revenue. This exclusion reduces the amount of assessed value that is subject to school district property taxes.

# The Homestead Exclusion Applied

Each year, the Northgate School District receives a specific sum of money from the state. That money must be used to reduce the taxable assessed value of Homestead Properties

In recent years, Northgate has received the following amounts that are split evenly among Homestead Properties in the district to obtain a flat-rate assessed value exclusion:

2015-16:	\$697,588
2016-17:	\$697,639
2017-18:	\$697,594
2018-19:	\$697,599
2019-20:	\$697,574
2020-21:	\$697,657
2021-22:	\$697,624 (est.)

There currently are 2,412 Homestead Properties located in the district.

In 2021-22, state gambling funds will be used to reduce the assessed value of each property by **\$11,342.37**, which results in a property tax reduction of **\$289.23 per Homestead Property**.

# Increasing the Homestead Exclusion

Act 1 permits school districts to increase the amount of assessed value of Homestead Properties excluded from taxation. Under Act 1, a school district may exclude up to 50% of the median assessed value of a Homestead Property.

The median assessed value of Homestead Properties in the Northgate School District is currently **\$93,700.**

**50% of the median assessed value is \$46,850**

Because the state Homestead Exclusion already reduces the assessed value of Homestead Properties by \$11,342.37, **the exclusion available to the Northgate School District is \$35,507.63**

<b>Assessed Value</b>	<b>\$100,000.00</b>
<b>Taxes due with NO HE @ Current Millage Rate of 25.5</b>	<b>\$2,550.00</b>
<b>Taxable assessed value with current HE of \$11,342.37</b>	<b>\$88,657.63</b>
<b>Taxes due @ Current Millage Rate</b>	<b>\$2,260.77</b> (Savings \$289.23)
<b>Taxable assessed value with full HE</b>	<b>\$53,150.00</b>
<b>Taxes due @ Current Millage Rate</b>	<b>\$1,355.33</b> (Savings +\$905.44) <b>Total Tax Savings:</b> <b>\$1,194.67</b>

# The Homestead Exclusion Applied

Increasing the Homestead Exclusion to the full 50% of Assessed Median Homestead Value results in a loss of property tax revenue to the school district.

$\$905.44 \times 2,412$  Homestead Properties =  
 **$\$2,183,921.28$**  in lost property tax revenue

Under Act 1, this loss must be made up by increasing the Earned Income Tax or Personal Income Tax rate in the school district.

Income Taxes      Property Taxes



**The school district is not permitted to profit from the conversion of property taxes to income taxes.**

Income Taxes      Property Taxes



# EIT vs PIT

The EIT is a tax on compensation and net profits, including:

Salaries

Wages

Commissions, bonuses, stock options and incentive payments

Fees

Tips

Net profits from the operation of a business, profession or farm

The PIT taxes compensation, net profits and other kinds of income:

Compensation and net profits (s/a EIT)

Interest

Dividends

Net gains or income - dispositions of property

Net gains or income - rents, royalties, patents and copyrights

Income derived through estates or trusts

Gambling and lottery winnings

No school district or municipality in Pennsylvania currently levies a PIT and there is no existing procedure for collection of a PIT. Without data, the Tax Study Commission is unable to evaluate the impact of the Homestead Exclusion on PIT revenues/rates.

# Impact of Homestead Exclusion on Northgate EIT Rate

Population Of Northgate School District: 12,655  
Wage earners: 9,301 (73.5%)

Divide the Revenue Needed (\$2,183,921.28)  
by the number of wage earners (9,301)

Average Increase in EIT per wage earner:  
\$234.80 per year

Current EIT Rates:  
Northgate: .5%  
Avalon: .5%  
Bellevue: 1.0%

Increase in Northgate EIT needed to cover property tax revenue loss: .64%





# Financial Impact of Expanded Homestead Exemption

Based on Earned Income Level and Homestead Status

Assumed EIT Rate Increase of .66%

		Impact - Savings/(Cost)					
				Annual		Monthly	
	Annual Earned Income	EIT Increase	Expanded Homestead Exemption	Homestead	Renter	Homestead	Renter
<b>No Earned Income</b>	\$ -	\$ -	\$ 905	\$ 905	\$ -	\$ 75	\$ -
	\$ 6,000	\$ 40	\$ 905	\$ 866	\$ (40)	\$ 72	\$ (3)
	\$ 10,000	\$ 66	\$ 905	\$ 839	\$ (66)	\$ 70	\$ (6)
	\$ 20,000	\$ 132	\$ 905	\$ 773	\$ (132)	\$ 64	\$ (11)
	\$ 30,000	\$ 198	\$ 905	\$ 707	\$ (198)	\$ 59	\$ (17)
<b>Avg HH Income</b>	<b>\$ 45,998</b>	<b>\$ 304</b>	<b>\$ 905</b>	<b>\$ 602</b>	<b>\$ (304)</b>	<b>\$ 50</b>	<b>\$ (25)</b>
	\$ 55,000	\$ 363	\$ 905	\$ 542	\$ (363)	\$ 45	\$ (30)
	\$ 65,000	\$ 429	\$ 905	\$ 476	\$ (429)	\$ 40	\$ (36)
	\$ 85,000	\$ 561	\$ 905	\$ 344	\$ (561)	\$ 29	\$ (47)
	\$ 100,000	\$ 660	\$ 905	\$ 245	\$ (660)	\$ 20	\$ (55)
	\$ 120,000	\$ 792	\$ 905	\$ 113	\$ (792)	\$ 9	\$ (66)
<b>Breakeven Income</b>	<b>\$ 136,500</b>	<b>\$ 901</b>	<b>\$ 905</b>	<b>\$ 5</b>	<b>\$ (901)</b>	<b>\$ 0</b>	<b>\$ (75)</b>
	\$ 150,000	\$ 990	\$ 905	\$ (85)	\$ (990)	\$ (7)	\$ (83)
	\$ 175,000	\$ 1,155	\$ 905	\$ (250)	\$ (1,155)	\$ (21)	\$ (96)
	\$ 200,000	\$ 1,320	\$ 905	\$ (415)	\$ (1,320)	\$ (35)	\$ (110)
	\$ 250,000	\$ 1,650	\$ 905	\$ (745)	\$ (1,650)	\$ (62)	\$ (138)

# Northgate Local Tax Receipts

<u>Property Tax Revenue</u>		<u>Millage Rate</u>
2015-16	\$10,386,704.34	24.7816
2016-17	\$10,449,550.29	24.7816
2017-18	\$10,462,405.10	24.7816
2018-19	\$10,948,977.51	24.7816
2019-20	\$10,957,711.29	25.5
2020-21	\$11,195,243.58	25.5

**Northgate's  
millage rate is  
currently the 8th  
highest in  
Allegheny County**

<u>Earned Income Tax Revenue</u>	
2015-16	\$1,406,541
2016-17	\$1,471,601
2017-18	\$1,533,833
2018-19	\$1,611,551
2019-20	\$1,698,125

# Tax Study Commission Recommendation

On May 10, 2021, the Tax Study Commission will present some form of the following recommendation to the Northgate School Board:

*The Local Tax Collection Commission of the Northgate School District (recommends)/(does not recommend) that the Board of School Directors of the Northgate School District approve a Resolution authorizing a referendum question for voters at the 2021 municipal election on whether to increase the Homestead Exclusion to a maximum amount allowable by law, with resulting property tax reduction, and corresponding increase in EIT/PIT rate to fund the property tax reduction.*

The Northgate School Board is not bound by this recommendation, and will conduct its own public hearing prior to deciding whether to approve a referendum for the November ballot.