MCSDLC

Montgomery County School Directors Legislative Committee

"Property tax elimination does nothing more than shift the burden of raising $14 billion in education funding from one group of taxpayers to another."
– Jay D. Himes, PASBO Executive Director

MONTGOMERY COUNTY SCHOOL DISTRICTS

PROPOSED PROPERTY TAX ELIMINATION SUMMARY

- School Property Tax – eliminated except to cover district debt
- Personal Income Tax (PIT) – 3.07% to 4.95%
- Sales and Use Tax (SUT) – 6% to 7% (expanded to tax additional goods and services)

(The information above is based on legislation as previously introduced.)

WINNERS:

- Big Business/Corporations
- Landlords/Commercial Property Owners
- Possibly Delinquent Taxpayers
- Out-of-State Property Owners
- Many Retired Homeowners?

LOSERS:

- Renters
- Individual Working Taxpayers
- Small Business Owners
- Public School Students
- Local Control

KEY POINTS:

1. Tax shift from businesses to individuals ($2 billion)
2. Local control of school districts will be greatly diminished
3. Reliance on State to collect and disperse education dollars from increased individual taxes
4. Some residents will continue to pay significant amounts of property tax (based on district debt)
5. Property taxes will still be collected for Municipal and County Governments
6. PA schools may physically deteriorate more quickly (construction loans require voter referendum)
7. Personal Income Tax and Sales and Use Tax are affected much more than property taxes during a recession
8. Federal Income tax deduction for school district real estate taxes will be lost
9. Inequity in education funding will lock in place
10. New bipartisan-approved Basic Education Funding Formula will be meaningless

MAJOR QUESTIONS:

1. How will education money be distributed in future years?
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 mandated costs (PSERS, charter schools, special ed, etc.) that rise greater than the cost of living increases the state will give school districts each year?
5. Will delinquent property taxpayers be left off the hook?
6. Will first year distribution from the state that will use a baseline of the prior year taxes collected include both current and delinquent taxes collected?
7. Will the state negotiate and control collective bargaining?
8. Will the state revise its budget timeline in the future?
9. How will inequities in student funding be addressed?
10. Will it really benefit all retired homeowners?

MCIU MONTGOMERY COUNTY INTERMEDIATE UNIT 23

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

SENATE BILL 76 PROS/CONS

PRO

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.

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 property tax burden.

The current tax structure disincentivizes home ownership: Young families cannot afford to purchase a home because the per-month property tax escrow is simply too high.

Multigenerational family farms are being sold piece by piece to pay property taxes, hurting Pennsylvania's agriculture economy.

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.

Job losses, outmigration, and abysmal state economic performance caused by burdensome property taxes hurt Pennsylvania's economy.

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

Home foreclosures and tax sales are occurring at an expanding rate and the home market is at a standstill.

The opportunity to fund education from a statewide source is rapidly vanishing as relentlessly rising property taxes outpace available revenue.

CON

Taxpayers will pay more taxes under SB 76

Regardless of property ownership, taxpayers will pay increased personal income and sales taxes.

There will also be a lengthy list of newly-taxable goods and services (i.e. personal hygiene products, diapers, textbooks, caskets, public transportation, theatre admission, services for buildings and homes, veterinary services, daycare, haircuts, student housing, funeral home services, etc.)

Taxpayers in 488/500 school districts will continue to pay a portion of school property taxes to allow them to pay off their outstanding debt.

- Only 12 school districts will be able to completely eliminate property taxes
- 353 school districts will retain at least 25% of their existing school property tax
- 29 school districts will keep at least 50% of their current property tax to pay for existing debt

Other local property taxes will not be eliminated either. Taxpayers will continue to pay ~$5 billion in property taxes to counties and other local governments.

Taxpayers will also not be able claim federal income tax deductions for school district property taxes, leaving them will less disposable income to purchase consumer goods (potentially decreasing SUT revenues)

Tax burdens are shifted disproportionately

The use of income taxes shifts the local tax burden away from large businesses to individual taxpayers, allowing some businesses to benefit from the elimination of their school property taxes without paying more.

PA businesses currently pay ~$2.7 billion in property taxes, which will be shifted away from those businesses and onto individuals.

Out-of-state vacation homeowners who live in our communities do not pay personal income tax and now will not pay property tax either.

This will have major implications for school districts statewide.

The Property Tax Independence Act was crafted by members of the Pennsylvania General Assembly in full collaboration with the 84 member groups of the nonpartisan grassroots Pennsylvania Coalition of Taxpayer Associations.

The residents in some of Pennsylvania's poorest school districts will be hit the hardest by property tax elimination. Most will continue to pay some property taxes. In fact, many will maintain more than 50% of their current property taxes, but they will also be paying the increased personal income and sales taxes, which will be shipped out of their community to subsidize the education in some of the wealthiest school districts in the state.

SB 76 removes local control; fails to address cost-drivers

Under SB 76, the state will make payments to schools from one pot of funding that comes from the increased PIT/SUT revenues.

- It's unlikely much of the increase in PIT/SUT paid locally will go to the local school district because revenue collected would go to a state fund to be distributed statewide.

- This means that education funding is no longer local and tax dollars are likely to be shipped across the state to benefit students hundreds of miles away.

SB 76 does not address the factors driving school costs.

- Eliminating property taxes without addressing the factors driving districts' budgets does not help contain the cost of mandates such as pensions, charter school tuition payments, special education, health care, etc. These mandated costs and are largely why this plan fails replace projected property tax revenue amounts needed by school districts.

By abolishing local ability to raise revenue or make financial decisions, the proposal effectively eliminates local control.

- Without the ability to raise taxes or if income tax revenues decline due to the unexpected economic factors, school districts will need to rely on the state to provide sufficient funds for all mandated costs, operations, building construction or necessary maintenance.