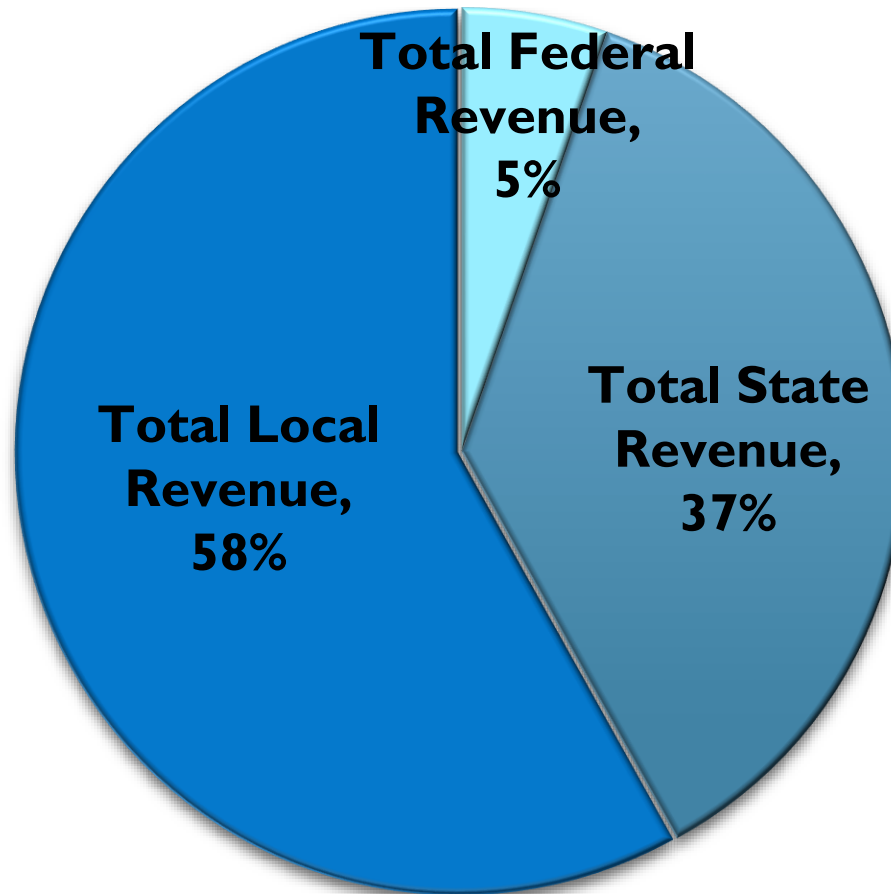




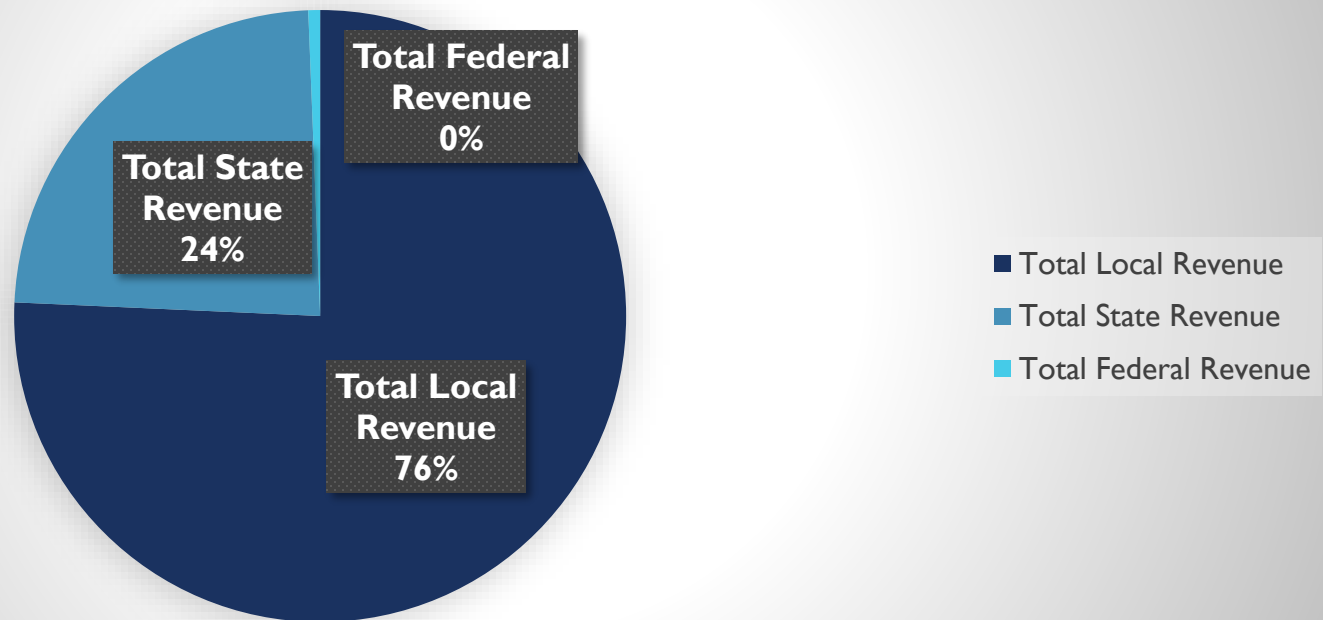
Property tax independence act

Education Funding in Pennsylvania



Education Funding In Pennridge

Revenue 2017-2018 Proposed Budget



Property tax elimination is a TAX SHIFT

- Shifts \$14 billion in school property taxes to Personal Income Tax (PIT) and Sales & Use Tax (SUT)
- Shift occurs over time—school districts continue to levy a property tax to pay off current debt
- Shift does NOT impact other property taxes paid to counties and other municipalities

Mechanics of Proposal

To generate \$14 billion to replace school property taxes:

- Increase statewide PIT from 3.07% to 4.95%
- Increase statewide SUT from 6% to 7% (7% to 8% in Allegheny and Philadelphia)
- Expand statewide SUT to tax many goods and services currently exempt

Mechanics of Proposal

- School districts continue to levy property taxes to pay off existing debt
- School districts receive state funding from increases in PIT and SUT to give them the same amount of local revenue they collected in the prior year (minus the amount still levied in property taxes)
- Going forward, school districts would get an annual adjustment

Mechanics of Proposal

- School districts could not levy, raise or collect a property tax going forward (with the exception of that needed for existing debt)
- School districts are prohibited from incurring new debt without a local referendum for a time-limited local earned income or personal income tax increase

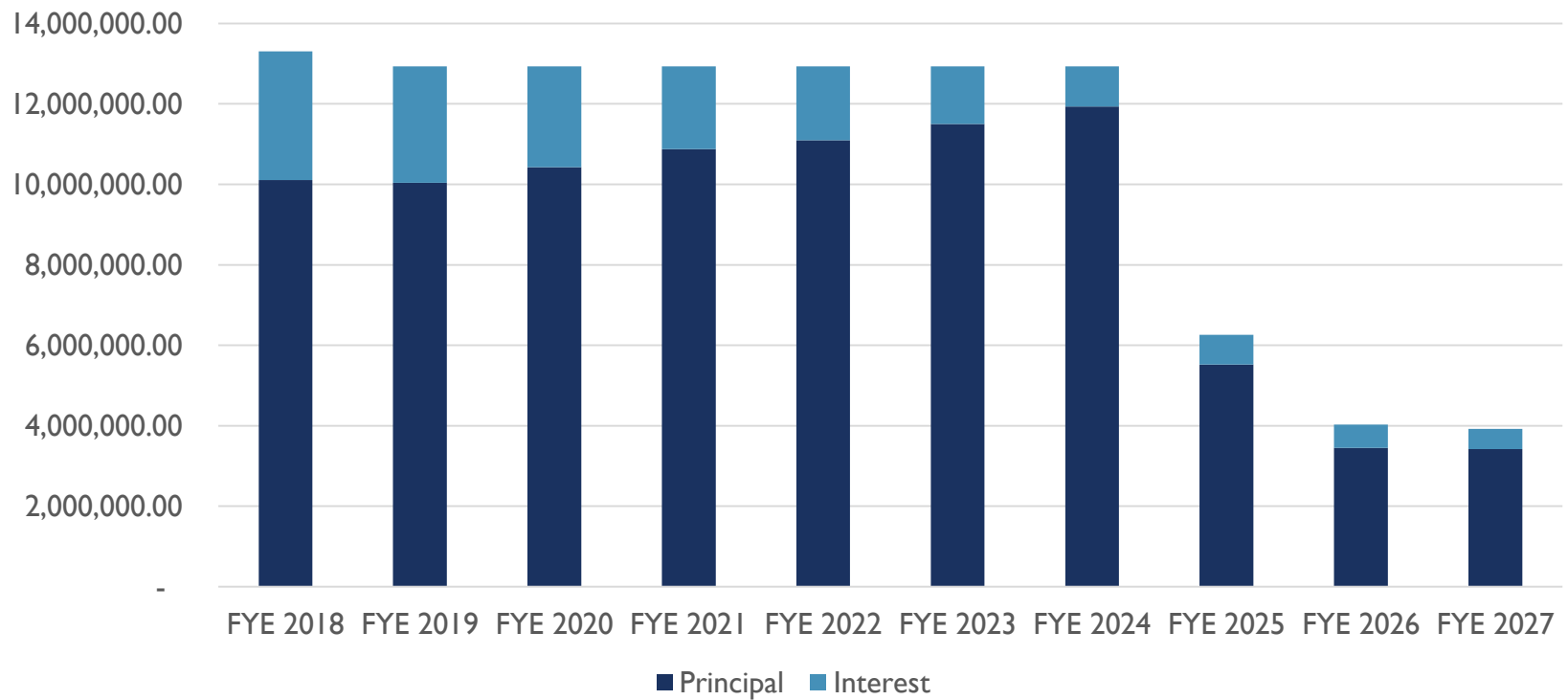
Implications for Taxpayers

Shifts to PIT and SUT before property taxes are eliminated

- School property taxes will not be eliminated in the short term in 98% of school districts due to debt
- Taxpayers in 43% of school districts will maintain at least 20% of their current school property taxes
- This will occur at the same time as the shift to increased PIT and SUT

| | % Property Taxes Remaining | \$ Amount of Property Taxes Remaining |
|-------------|----------------------------|---------------------------------------|
| Penridge SD | 16.5% | \$13.3 million |

Pennridge Debt Service



Implications for Taxpayers

Proposal shifts away from property taxes for all taxpayers—not just homeowners

- Businesses will eventually see property taxes eliminated, but will not pay a corresponding amount in increased PIT and SUT

Elimination of

\$3 billion = **\$2 billion** + **\$1 billion**
in school property taxes Increased PIT and SUT Increased PIT and SUT
PAID BY BUSINESSES PAID BY INDIVIDUALS PAID BY BUSINESSES

Source: PA Department of Education; 2014-15 AFR data and Independent Fiscal Office estimates

Implications for Taxpayers

Individual taxpayers will pay a larger portion of the revenue necessary for the shift, making up the revenue that will no longer be paid by businesses.

Shift an estimated 2/3 of cost to Individual tax payers.

| County/SD | Business Property Taxes |
|------------------|--------------------------------|
| Penridge SD | \$11.3 million |

Implications for Taxpayers

Creates higher federal income taxes

- Taxpayers will pay an additional \$600 million in federal income taxes due to the loss of the real estate tax deduction
- Taxpayers will continue to be able to deduct PIT or SUT, but not both

Implications for School Districts

Creates inequity in state funding across school districts

- When ALL state funding is factored in, the state will be sending one district \$8,000 per student and another more than \$27,000 per student

Implications for School Districts

Shifts from a stable base to a volatile base

- PIT and SUT revenue is sensitive to changes in the economy
- Makes it difficult to ensure revenue grows to cover rising mandated costs (pension, charter school, special education, etc.)

PIT Revenue



from 07-08 to 09-10

SUT Revenue



from 07-08 to 09-10

Implications for School Districts

Shifts control of education to Harrisburg

- School boards will have little ability to make decisions that have a financial impact on districts (hiring, negotiating contracts, developing programming, etc.)

