



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 504

PRINTERS NO. 1560

PRIME SPONSOR: Gabler

COST / (SAVINGS)

FUND	FY 2014/15	FY 2015/16
General Fund	See Fiscal Impact	See Fiscal Impact
Public Transportation Assistance Fund (PTAF)	See Fiscal Impact	See Fiscal Impact
Public Transportation Trust Fund (PTTF)	See Fiscal Impact	See Fiscal Impact
Lottery Fund	See Fiscal Impact	See Fiscal Impact
School District Millage Rate Reduction Fund	See Fiscal Impact	See Fiscal Impact
School District Homestead / Farmstead Relief Fund	See Fiscal Impact	See Fiscal Impact

SUMMARY: House Bill 504, Printer's Number 1560, amends the Tax Reform Code further providing for sales and use tax for timbering; establishing the School District Millage Rate Reduction Fund; establishing the School District Homestead and Farmstead Relief Fund; providing for additional taxation; providing for Senior Citizens Property Tax and Rent Rebate, and repealing provisions of the Taxpayer Relief Act.

ANALYSIS: Current law provides a manufacturing exemption for the purchase or use of machinery, equipment, parts and supplies or the use of services or utilities used directly in farming, dairying, agriculture, horticulture, or floriculture. This legislation expands the current manufacturing exemption to include timbering operations.

This legislation adds Article XVI to the Tax Reform Code to be known as the School Property Tax Reform Act. This legislation increases the state personal income tax (PIT) rate to 3.7% and the state sales and use tax (SUT) rate to 7% in order to provide local tax relief to property owners through allocations to school districts beginning in 2016-17 and expands the Property Tax and Rent Rebate (PTRR) program providing increased eligibility for renters and an additional base amount rebate for both owners and renters for taxes and rents paid in 2016.

Statewide Sources

Part II of Article XVI imposes an additional state PIT and SUT beginning January 1, 2016. An additional 0.63% PIT is levied with the monies generated being deposited into the newly established School District Millage Rate Reduction Fund. An additional 1% SUT is levied with the monies generated being deposited into the newly established School District Homestead and Farmstead Relief Fund. The additional 1% SUT shall be subject to the transfer of 0.947% of collections to the Public Transportation Assistance Fund pursuant to Section 281.2 of the Tax Reform Code and the transfer of 4.4% of collections to the Public Transportation Trust Fund pursuant to 74 Pa.C.S § 1506(c)(1) and (3.4).

School District Millage Rate Reduction Fund

Monies in this special fund are used to provide state allocations to school districts for millage rate reductions on school district real property tax bills. The allocation formula is based on the equalized mills (EM) for each school district. The amount to be allocated to each school district in fiscal year 2016-17 for millage rate reductions shall be based on 2012-13 data for each school district and be no less than 12% of the 2012-13 real property taxes collected and no more than 19%. The amount to be allocated to each school district in fiscal year 2017-18 shall be based on 2013-14 data for each school district and shall be no less than 20% of real property taxes collected and no more than 30%. For fiscal years 2018-19 and thereafter, each school district shall be allocated an amount equal to the previous fiscal year's allocation amount times the percentage growth in the amount collected from the additional 0.63% PIT, except that the percentage calculated shall not be less than zero. If in any one fiscal year PIT collections decline from the previous fiscal year, the State Treasurer shall transfer an amount from the School District Homestead and Farmstead Relief Fund sufficient to ensure that the total amount of revenue in the School District Millage Rate Reduction Fund is not less than the amount distributed in the previous fiscal year.

In the first fiscal year that a school district receives a millage rate reduction allocation, a school board is prohibited from adopting a budget that includes a tax on real property that would generate revenue greater than the maximum amount of revenue allowable under the Act 1 index plus amounts permitted under referendum exceptions minus the millage rate reduction allocation to the school district. In the second fiscal year and each fiscal year thereafter, a school board is prohibited from adopting a budget that includes a tax on real property that would generate revenue greater than the maximum amount of revenue allowable under the Act 1 index plus amounts permitted under referendum exceptions minus the increase in the millage rate reduction allocation to the school district.

School District Homestead and Farmstead Relief Fund

Monies in this special fund are used to fund the increased PTTR rebates, to ensure that the total amount available in the Millage Rate Reduction Fund is no less than the prior year amount and to provide state allocations to school districts to fund exclusions for homestead/farmstead properties. The allocation formula is based on the average daily membership (ADM) multiplied by the equalized mills (EM) for each school district. The amount to be allocated to each school district in fiscal year 2016-17 for homestead and farmstead exclusions shall be based on 2012-13 data and each school district shall receive no less than 10% of the 2012-13 residential real property taxes collected and no more than 16%. The amount to be allocated to each school district in fiscal year 2017-18 and each fiscal year thereafter shall be based on data for the fourth fiscal year immediately preceding the fiscal year for which the allocation is being made and shall be no less than 14% of the residential real property taxes collected in the fourth fiscal year immediately preceding the fiscal year for which the allocation is made and no more than 23%.

Certification and Payment of School District Allocations

The Secretary of the Budget is required to certify the amount available in each special fund by April 15, 2016, and each April 15 thereafter. The Budget Secretary shall notify the Department of Education (PDE) by April 20, 2016, and each April 20 thereafter of the amount available to be distributed. By May 1, 2016, and each May 1 thereafter, PDE shall notify each school district of the amount of its allocations from each fund and the allocations shall be distributed to each school district in two equal payments with the first allocation being made on the fourth Thursday of August and the second allocation being made on the fourth Thursday of October.

Property Tax and Rent Rebate Program (PTRR)

The legislation expands the current PTRR program eligibility for renters and provides an additional base amount of up to \$200 for all claimants, both owners and renters. The additional base amount provided in this legislation is eligible for the high-burden supplement of 50% of the amount for qualified claimants. The eligible income for renters is increased from the current threshold of \$15,000 to a maximum income amount of \$35,000. Beginning in 2017-18, the first year of increased PTRR rebates, an amount sufficient to fund the increased rebates under the PTRR program is transferred from the School District Homestead and Farmstead Relief Fund to the State Lottery Fund. Section 342 (Homestead and Farmstead Exclusion Process), Section 343 (School District Tax Notices) and Chapter 13 of the Taxpayer Relief Act are repealed.

Other Provisions

A school district receiving an allocation for millage rate reductions or homestead/farmstead exclusions must (1) itemize the total reductions on tax bills sent to property owners; (2) show the tax liability due for the previous year, the amount of reduced tax liability due to rate reductions and the amount of the applicable homestead/farmstead exclusion; and (3) include a notice that the property is receiving a millage rate reduction or homestead/farmstead exclusion, or receiving both. The bill and notice must be written in a manner that is easily understandable.

PDE must develop an information collection policy that will allow it to confirm that the allocations provided for millage rate reductions and homestead/farmstead exclusions are used for the purposes enumerated.

The exclusion for timbering operations shall take effect in 60 days. The act shall take effect immediately.

FISCAL IMPACT:

Sales And Use Tax Exemption

The expansion of the current manufacturing exemption to the sales and use tax is estimated to reduce General Fund revenues by \$500,000 annually.

Additional State Tax Collections from PIT and SUT

According to estimates provided by the Department of Revenue, this legislation will result in additional state tax collections from the increased PIT and SUT rates estimated to be \$1.7 billion in fiscal year 2015-16 and \$4.3 billion in 2016-17 which is the first full year of implementation of the increased tax rates.

2016-17 Allocations to School Districts

The amount of state tax dollars to be allocated by the Commonwealth to school districts for local property tax relief in 2016-17 will include monies deposited in the special funds in 2015-16 plus monies estimated by the Budget Secretary to be deposited in the special funds for the period July 1, 2016, through October 15, 2016. The state allocations to each school district will be used to reduce its property tax millage rate and provide homestead/farmstead exclusions on the 2016-17 school district property tax bills. The estimated total amount of relief provided to property owners in 2016-17 is \$2.75 billion after adding in the estimated collections through October 15, 2016. Of the \$2.75 billion which will be allocated to school districts in 2016-17, \$1.73 billion will be generated from the increased PIT and will be allocated to school districts for local millage rate reductions for all property owners and \$1.02 billion will be generated from the increased SUT and will be allocated to school districts for homestead/farmstead exclusions.

2017-18 Allocations to School Districts and Increased PTRR rebates

In the first full year of property tax relief, fiscal year 2017-18, it is estimated that a total of \$4.16 billion of new state tax dollars will be generated from the increased PIT and SUT and allocated to school districts to provide local tax relief to property owners in addition to an estimated \$125 million in increased PTRR rebates to owners and renters for taxes and rents paid in 2016. A total of \$2.71 billion will be allocated for millage rate reductions and a total of \$1.45 billion will be allocated for homestead/farmstead exclusions.

Public Transportation Assistance Fund (PTAF) and Public Transportation Trust Fund (PTTF)

PTAF will receive an estimated additional \$6.1 million and PTTF will receive an estimated additional \$28.9 million in funding in 2015-16 representing 5 months of transfers of new SUT monies from the application of the existing transfer percentages applied to the new 1% of SUT collections. Beginning in fiscal year 2016-17 and each fiscal year thereafter, the transfer percentages will be applied to a full year of SUT collections resulting in additional funds of approximately \$15 million for PTAF and \$65 million for PTTF.

General Fund

The Department of Revenue estimates a loss of \$27.2 million in sales tax collections for the General Fund in 2015-16 due to the negative elasticity associated with the SUT rate increase. The estimated revenue loss in 2016-17 to the General Fund is \$122.3 million. The amount of revenues collected from the local sales taxes currently levied would also be impacted.

The Department of Revenue assumes the transfers of the increased PIT and SUT collections to the newly created special funds occur in the month following the collection of the increased taxes. As a result the Department of Revenue estimates a one-time increase in revenues of \$217.9 million for the General Fund in 2015-16 due to the June 2016 increased collections not being transferred to the special funds until July 2016. In future fiscal years, the impact of this delay is estimated to generate an additional \$10 million per fiscal year.

Administrative Costs

For purposes of this analysis it is assumed that any additional costs incurred by PDE or the Department of Revenue as a result of this legislation will be absorbed within their respective general government operations line items.

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House Appropriations Committee (R)

DATE: May 13, 2015

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.