PROPERTY TAX *Independence Act*

HB 76 SB

LIBERTY EQUALITY PROSPERITY

Since the first introduction of a proposal to replace school property taxes with a broadened Sales and Use Tax (SUT) base, much of the debate has centered on which goods and services would be taxed.

The newly taxed goods and services listed here have been carefully reviewed and considered using multiple metrics including revenue generation capabilities, economic effects on businesses and consumers, and socio-economic factors. All are a necessary part of the total school property tax replacement package.

Pennsylvania's current SUT base as compared with those of other states is extremely limited; the expansion proposed in House Bill 76 and Senate Bill 76, the Property Tax Independence Act, brings Pennsylvania more in line with the SUT taxation methodology of the majority of jurisdictions nationwide.

While certain goods and services on the expansion list may be immediately opposed on an instinctive level, in actuality it matters little which specific items are taxed when considering the overall economic effect of the expansion of the SUT base.

Additionally, some may not favor the taxation of goods and services that may be considered "life necessities." However, Pennsylvania, through the school property tax, already imposes an egregious and inequitable levy on the most basic of life's necessities: shelter. In some areas of the state, the annual rate of property taxation approaches that of the sales tax. Considering the damage done by property taxes of that magnitude, the imposition of the sales tax to certain additional items is insignificant.

For example, completely replacing a $3,500 school property tax bill would require the homeowner to purchase $50,000 in newly taxed items at 7 percent to equal the amount of property tax eliminated.

Finally, during the past year, the provisions of the Property Tax Independence Act – including specific mentions of numerous newly taxed items and services – have been presented in more than 50 meetings with more than 4,000 Pennsylvanians in community groups from all areas of the state. Virtually none of the attendees objected to the taxation of the specific items mentioned as long as the school property tax is completely eliminated.

NEWLY TAXABLE GOODS

- Food (Items not on WIC food list)
- Candy and gum
- Personal hygiene products
- Storage
- Newspapers
- Bad debts
- Magazines
- UCC filing fees
- Clothing and footwear (individual items $50 and higher)
- Call center tax credit Non prescription drugs
- Rental of films for commercial exhibition
- Airline catering
- Investment metal bullion and investment coins
- Charges for returnable containers
- Catalogs and direct mail advertising
- Caskets and burial vaults
- Construction of memorials
- Flags
- Horses
- Hotel permanent resident
- Textbooks
- Liquor or malt beverage purchased from retail dispenser
- Coin-operated food and beverage vending machines
- Commission - SUT collectors (capped at $250/month

NEWLY TAXABLE SERVICES

Personal Services:
Dry cleaning and laundry services
Personal care services
Funeral parlors, crematories, and death care services
All other personal services

Recreation Services:
Spectator sports admissions (excludes schools)
Theater, dance, music and performing arts
Amusement and recreation industries
Museums, historical sites, zoos and parks

Transportation Services:
Transit and ground transportation
Air transportation
Truck transportation
Other transportation

Professional Services:
Legal (except business-to-business, domestic relations matters and criminal defense matters)
Architectural, engineering and related services (except business-to-business)

Accounting, auditing and bookkeeping services (except business-to-business)
Specialized design (except business-to-business)
All other professional and technical services (except business-to-business)

Miscellaneous Services:
Basic TV
Veterinary fees (except business-to-business)
Finance and insurance
Waste management and remediation
Recreational parks, camps & campgrounds
Custom programming, design and data processing (except business-to-business)
Parking lots and garages

HB 76 SB

PROPERTY TAX
Independence Act

LIBERTY EQUALITY PROSPERITY

HB 76 and SB 76, The Property Tax Independence Act
Frequently Asked Questions (FAQs)

First, let's look at the basic philosophy of HB 1776, The Property Tax Independence Act.

A simple substituting of property tax with a sales and use tax (SUT) as some lawmakers have suggested will not be effective at solving the education finance problem in Pennsylvania. Former Governors' recommendations (and everyone else who recommends a similar idea) of raising the sales tax rate just to reduce property taxes a bit is a valueless recommendation. Like the failed Act 1, this proposal and others like it are all the same - they just throw different money at the problem. They incorporate nothing that fixes any of the causes of the current public school financing meltdown, do nothing to discipline out of control spending, and do nothing to improve economic conditions, restore homeownership, or address any of the already incurred severe financial problems facing our schools and the Commonwealth.

The legislators and grassroots taxpayer advocates who together crafted HB 76 and SB 76, The Property Tax Independence Act, are sensitive to the philosophical underpinnings of this plan, as evidenced by the history of the development of this legislation over many years. The primary reason for utilizing an expanded sales tax base coupled with the Personal Income Tax to solve the property tax problem is first and foremost a financial reason; this is built on the premise that to ELIMINATE the school property tax in order to restore homeownership we must have the following:

• A predictable revenue stream that will grow with economic activity so that when designed properly (as it is in The Property Tax Independence Act) it will never again require an increase in the tax rate.

• A revenue stream that is the most broad-based possible so that:

- The financial burden is the lowest possible for all our citizens.

- The most people possible contribute to the tax because it is for the purpose of public education which is a Constitutional obligation for the benefit of all.

- Is the most flexible possible so that people have a choice in how they contribute (when they buy, what they buy).

• A revenue stream that has the economic capacity to replace the current taxes used for paying for education costs. This criteria is ONLY met with the sales tax and income tax, and when one considers the fact that the sales tax was implemented by the Legislature in 1953 for the stated reason that it was to be the mechanism to provide the state's share of Public Education costs AND that the name of the sales tax in law today remains, "The PA Education Sales Tax", it makes good sense to use that tax as the primary funding source.

It is, however, important to note that The Property Tax Independence Act is the ONLY comprehensive financial reform plan ever put forward, and to date is the ONLY plan that has been vetted in the public and through the Pennsylvania Independent Fiscal Office, is simple to understand, and fully addresses ALL the problems we have with the current funding system.

Much has been written about the plan and it has been directly presented to over 50,000 people in meetings all across Pennsylvania with the same response in every location - virtually unanimous support.

Below are some of the most frequently asked questions (FAQs) about HB 76 and SB 76, The Property Tax Independence Act.

How much money is required to fund K-12 public education in Pennsylvania? Who or what entity determines this amount?

• Current total costs of providing K-12 public education in Pennsylvania is now approximately $24.0 billion/year. This figure is the result of Pennsylvania Department of Education and local districts' financial statements.

The addition of the sales tax on some items currently not taxed has produced opposition to the bill since they believe it will hamper the ability to compete and be profitable. Is this a valid objection?

• No. As the broadened sales tax will be uniform, any company, whether a Pennsylvania company or an out of state company, that does business in Pennsylvania will be required to collect the sales tax. Also, any Pennsylvania company that provides goods or services to an out of state company that does not require a sales tax on the particular goods or services will not be subject to the sales tax.

Is it true that sales tax rates are lower in border states, prompting many Pennsylvanians to shop out of state?

- No, it is not true that sales tax rates are lower in states that border Pennsylvania. Almost every border state has sales tax rates already above 6%. For example, some counties in New York have rates as high as 9.75%. In addition, most of the border states also tax a wider range of goods and services or in the case of Delaware, rely on a gross receipts tax on goods and services.

Sales tax (SUT) shifts the burden, probably to businesses and those earning money, and inhibits investment in new businesses which create jobs, which produce the goods and provide the services we need, and which generate the revenue to finance necessary government services. Would centralizing the education bureaucracy then be counter-productive? The sales tax would be crushing, something like 23% and will fall on the same people the property tax does now. The productive people, especially young people looking for jobs, will leave the state as they are now doing and businesses, jobs, products and services will decline.

- This is "in the box" thinking and is very wrong. The Property Tax Independence Act has been studied in previous versions by Moody's Economy.com. This was the very first econometric study obtained on any proposed tax plan in the Pennsylvania Legislature. Their findings and the economic underpinnings of The Property Tax Independence Act would prove just the opposite of these fears. As an example, the plan, if enacted, would create tremendous economic expansion and produce a substantial number of NEW jobs in the first 3 years. The economic stimulus created by the elimination of the largest tax burden afflicting our citizens would put about $10 Billion a year into the pockets of our people, all of which will either be spent, saved, or given away, all of which is good economically. The increased spending power will produce tremendous broad-based economic growth.

Secondly, the greatest immediate economic stimulus will be realized by commercial investment because the value of all commercial property will skyrocket overnight at the signing of the legislation when the second largest business tax (property taxes) is eliminated. The return on investment immediately goes up substantially and for all intents and purposes would make our entire state a Keystone Opportunity Zone. Ask any realtor or commercial developer what this would do - there are many who are ready to buy the moment The Property Tax Independence Act makes its way to the Governor.

Thirdly, The Property Tax Independence Act broadens the base by including services as well, with key business-to-business exemptions remaining for certain services and for manufacturing and agriculture (as it is now). Under the sales tax, everyone pays a little. The less you earn, the less you spend, and the less you spend the less you contribute. This fact as well as the fact that the sales tax is fair and flexible is why literally everyone who knows of The Property Tax Independence Act so strongly supports it.

DID YOU KNOW...
The sales tax was implemented in 1953 for the express purpose of funding public education?

There are many goods and services in Pennsylvania that are not currently subject to the state sales tax. However, under The Property Tax Independence Act the businesses that provide these goods and services will now be required to become "tax collectors" for the Department of Revenue. Is this true?

• Yes, it is true that some businesses that previously did not file with the state as sales tax collecting entities will now be required to do so. This again is a leveling of the playing field for business. However, many businesses are already required to submit the appropriate paperwork as they sell a combination of taxed and non-taxed items. It should also be noted that all businesses by law are reimbursed a percentage of what they collect to offset the costs that are incurred as "tax collecting agents" for the Department of Revenue.

It would appear that for every household that pays less in total taxes there is a household that will pay more in taxes. Is this true?

• No, this is not necessarily true but this is a frequently asked question about which many are unclear. Right now in Pennsylvania, the burden of funding public education rests unevenly on those who own property. Anyone who does not own property does not proportionally contribute to public education funding. Therefore, in a general sense, those who rent and therefore do not pay a proportional share of education funding may see a net increase in cost. However, low income renters will actually benefit from the plan since low income people earning less than $35,000 are forgiven the Personal Income Tax. Further, renters who aspire to home ownership are given an opportunity to finally seize a piece of the American Dream because of the lower monthly purchase payments through the elimination of the school property tax escrow.

• The Property Tax Independence Act simply changes public education funding to a revenue stream that takes a little from everyone rather than a large amount from some. In a simple analogy, imagine a classroom of 30 students that is being asked by their teacher to pay for a $30 gift for their principal. You have the option of having three students pay $10 (i.e. the current system) or thirty students pay $1 (i.e. the Property tax Independence Act). In the end, the same amount of revenue is raised without having to rely unfairly on a certain segment of the classroom (population).

• In addition, those who never own property in Pennsylvania but still buy items in Pennsylvania. Tourists, for example, would be contributing to funding public education.

Will this bill eliminate the "hold harmless" feature of the current school district funding system? If not, how do we overcome the objection that growing school districts are being short-funded?

• Under The Property Tax Independence Act, all school districts would be fully funded at their current levels.

• Because of significant variations between districts, and the phase out of property taxes and into the new sales and use tax, new funding will occur in two different ways.

Initially, all school districts will initially receive 100% funding sufficient to meet all financial obligations. Initial funding will then receive annual increases based on the increase in the Consumer Price Index (CPI), allowing school budgets to remain in step with inflation and not requiring less affluent districts to rely on the crushing burden of the school property tax to fund their schools.

Much of the increase in cost is as a result of construction. Would not strengthening the Taj Mahal act help reduce spending that does not seem to lead to learning?

• Most of the crushing property tax burden borne by our taxpayers and the cause of the high cost of public education is attributable to salaries, federal special education mandates, and similar programs. However, the tremendous increase in property taxes in the past 10 years or so has increasingly been because of construction. In fact, the current long-term debt held by our 500 school districts is now over $24 Billion. Some legislators have been saying that this debt albatross is like the horse coming around the outside of the track that overtakes the lead horse of teacher salaries as the leader of the property tax burden. If we do not overhaul the entire public education financial system soon and put immediate controls on spending, the system will be nearly impossible to stabilize.

The Taj Mahal act is a good thing, but it does not work when the voters have no say. And, it does not work when the horse is already out of the barn. It is critical to understand that The Property Tax Independence Act is not just trying to prevent a future problem. It is, in fact, trying to correct a very bad current financial problem that is getting geometrically worse by the month. The Property Tax Independence Act deals very specifically with the issue of construction debt and the entire issue of spending by requiring voter referendum for any new construction debt that requires funding not provided in the basic school district budget.

Shouldn't the focus be on spending? Isn't the taxpayer protection or taxpayer bill of rights the more effective and, politically, the more feasible approach?

• If you favor TABOR and taxpayer protection, then you must embrace The Property Tax Independence Act because it incorporates a common element of control - constrain spending to at or below economic growth. Under this legislation, the taxpayers keep more of their money. That means less taxes, more consumer spending, a more vibrant economy, and more financially secure citizens. Please try the PCTA's interactive tax calculator on the PTCC website that will allow you to compute the impact that the passage of The Property Tax Independence Act will have on your family. It is dramatic. No other suggestion for tax reform has been developed and tested as has been The Property Tax Independence Act. No other plan has ever produced a factual interactive calculator such as this one that can allow folks to figure out for themselves the impact of The Property Tax Independence Act.

> **DID YOU KNOW...**
> **Years ago the state provided the majority of school funding but today the state contribution to school funding is only about 36 % of the total.**

Property taxes have been voted in by voters of your own local community and it would seem that the place to address the issue is at local School Board and in those elections. What is the objection to this strategy?

• The fact is, none of the property taxes in the state have been voted in by the voters. They have been voted in by a small band of school board members essentially unaccountable to the taxpayer. If we would have had genuine voter referendum like many states, this statement might be true. Therefore, the problem is in fact not really "local" in the sense that the voters have created the current problem. Secondly, there is NO "local" solution for over 100 school districts who will be forced to declare "financial distress" in the next few years and for which the State will be responsible by law to take over. These districts are poor districts that have NO wealth from which to derive revenue. They have no property value to tax and they have no income base to tax, either. The entire system is on the verge of financial collapse and whether we like it or not, the Commonwealth by statute and Constitution has an obligation for public education. Therefore, the solution is NOT local.

Will this bill eliminate the need for properties to be reassessed?

• No, not immediately. However, the need for assessment will be reduced. The frequency of assessments will decrease as the most common need for reassessment is to meet the demand for school budgets. Ultimately, if all property taxes are eliminated, assessments would be eliminated.

The Pennsylvania School Boards Association and Pennsylvania State Education Association are very influential in Harrisburg and would not permit any reduction in spending for their members, whether administrators or teachers, and would capture the bureaucracy as the insurance industry has captured the Department of Insurance.

• It is very true that these entities are influential. That is why in most districts and certainly in a statewide view, there has been no genuine spending control in our districts. The locals have been captive and that is why the spending has increased so sharply and why the Taj Mahals have been built even against the wishes of the local taxpayers. Under The Property Tax Independence Act, spending increases are not suspended but are realistically reduced. In part, The Property Tax Independence Act in a disciplined but realistic and predictable fashion slows the spending beneath the economic growth rate of the sales and income taxes and forces the financial discipline on the school boards by only allowing them a certain amount of revenue in which to operate - but does provide the revenue sufficient to meet their needs. It also introduces the concept of voter approval for new projects and expenditures.

PROPERTY TAX Independence Act

LIBERTY EQUALITY PROSPERITY

HB 76 and SB 76, The Property Tax Independence Act
A solution that makes sense for Pennsylvania

INTRODUCTION

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 – there's no free ride. But there are ways to fund our schools and to ensure a better education for our children that are fairer and more effective than property taxes.

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 tax burden. 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, devastating Pennsylvania agriculture. 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 are devastating 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.

THE BOTTOM LINE: Our current system of school funding is crumbling. This decay has been occurring for many years and continues to escalate. 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. This will have major implications for school districts statewide. It can no longer be ignored or diminished. Replacement of the school property tax must be accomplished now.

THE PLAN AND HOW IT IS FUNDED

After many months of work and negotiation by key legislators and in cooperation with the Pennsylvania Coalition of Taxpayer Associations, a plan to eliminate and replace school property and local school nuisance taxes has been formally introduced in both the Pennsylvania House of Representatives as HB 76 and in the Pennsylvania Senate as SB 76.

The Property Tax Independence Act was crafted by members of the Pennsylvania General Assembly in full collaboration with the 76 member groups of the nonpartisan grassroots Pennsylvania Coalition of Taxpayer Associations. The Property Tax Independence Act belongs to the people; it is unique in that it is OUR legislation in a state that does not allow for citizen initiatives. The Property Tax Independence Act has many lawmaker proponents from both parties and enthusiastic grassroots supporters from across the entire political spectrum. We as taxpayer activists have accomplished what the politicians in both Washington and Harrisburg have been unable to do: work across party lines to reach a sensible and effective solution to a critical problem.

How To Offset $12.68 Billion in Annual Property Tax Revenue

Change	Estimated Revenue
Increase personal income tax to 4.34%	$4,541,000,000
Expand sales tax base and increase rate to 7% (8% in Philadelphia and Pittsburgh)	$5,552,000,000
Slot revenue redirected from property tax relief	$526,000,000
Existing school district debt service payments (to remain responsibility of each district)	$2,071,000,000
Total	**$12,690,000,000**

Source: Pennsylvania Independent Fiscal Office Analysis, 25 Sep 2012

The Property Tax Independence Act will eliminate all school property taxes across the Commonwealth and will replace those taxes with funding from a single state source.

The most important provision of The Property Tax Independence Act is that it is tax revenue neutral. To provide absolute fairness, the legislation has been carefully crafted to ensure that the tax swap provision of the plan does not raise one dollar more than is already collected by the school property tax mechanism.

The Property Tax Independence Act utilizes a modernized school funding plan based on 21st century economic realities.

- The Property Tax Independence Act will ABOLISH the school property tax on all homesteads, farmsteads, and businesses.

- School property tax elimination will be accomplished via a two year phase-out of school property taxes. In the first year after enactment, school property taxes will be frozen at their current level; in the second year they will be completely eliminated except for a small portion that will be retained in each school district to retire the individual district's outstanding long-term debt, typically 10% of the original school tax bill.

- The Property Tax Independence Act utilizes our current sales tax mechanism to fund schools, restoring the original intent of the tax. The "The PA Education Sales Tax" was enacted in 1953 for this specific purpose and virtually 100% of the revenue from the sales tax is still dedicated to education funding.

- The sales tax provides a predictable and stable funding source that automatically increases revenue in sync with economic growth. This is in clear contrast to the school property tax which is not based on economic growth and is subject to much variation, forcing annual increases in the tax to increase revenue.

- The sales tax is also the most desirable revenue source because, unlike the property tax that has no relationship to family income, it is directly tied to a person's ability to pay.

- While the sales tax is The Property Tax Independence Act's primary revenue source, small increases in other taxes are blended into the total to spread the cost of education over the broadest possible base.

- The Property Tax Independence Act moderately broadens the base of the state sales tax to include more services and purchases at a new 7% rate. Items to be added to the taxable base include candy and gum, newspapers and magazines, dry cleaning and laundry services, haircuts, and spectator sports admissions. Food items not included on the WIC list and individual clothing and footwear items with a value greater than $50 will also be subject to the expanded sales tax. Generally, food items exempt from the sales tax will be fresh meats, produce, and dairy, along with many packaged and canned foods that are in their natural form, without added sugar or other adulterants. The complete list of newly taxed items and services is at www.ptcc.us/pdf/newly-taxed_items_and_services_020312.pdf as a PDF document.

IMPORTANT FACT...
If your school property tax is $3500/year and is completely eliminated by HB/SB 76, you would have to spend $50,000 annually on newly-taxed products and services to equal the amount of property tax eliminated.

While there are those who might object on an instinctive level to a sales tax on the last two items mentioned, consider this: If you spend eight thousand dollars annually on individual items of clothing over $50 and non-WIC food purchases combined, the total sales tax would be $560. If this is less than your school property tax bill you still will realize a substantial reduction in your overall tax burden.

Items that will continue to be exempt from the sales tax include food stamp purchases, all utilities, home heating fuels, health, hospital, and dental services, prescription drugs, home health care, tuition, day care, charitable organizations, and business-to-business transactions.

- While the sales tax is The Property Tax Independence Act's primary revenue source, small increases in other taxes are blended into the total to spread the cost of education over the broadest possible base. As part of the funding mechanism, the Property Tax Independence Act finance package also includes a modest increase in the state income tax.

- In prior versions of property tax elimination legislation each school district was provided funding sufficient to service their outstanding long-term debt. This provision raised many objections to the plan from both taxpayers and legislators who felt that it was unfair to require taxpayers in frugal school districts to pay debt incurred by those districts that may have been financially irresponsible. Besides being politically unpopular, financing this debt from the state level would add $2.3 billion annually to the revenue that needs to be replaced, causing unnecessary tax increases.

To decrease the total revenue needed for property tax elimination, at enactment of The Property Tax Independence Act existing long-term debt will remain with each school district for them to service individually. Because of this a remnant of property tax will remain past the two year elimination phase-in but ONLY the amount of property tax necessary to meet current annual debt service that was on the books as of December 31, 2012. When that existing debt is retired the final bit of property tax will disappear and no further property taxes will be allowed.

On enactment of The Property Tax Independence Act each school district will be required to state the amount of property tax necessary for annual debt service and will not be allowed to increase that amount or add any new debt financed by property taxes.

The average debt service for all districts is 10% of their annual budget, with the highest district at 18%. This means that, at worst, one or more districts will enjoy an 82% reduction of property taxes at the end of the second year of the plan, with an average property tax reduction statewide of 90%. This will tremendously reduce the burden on property owners until the long term debt is retired.

As mentioned above, total elimination of the property tax in every school district will be achieved when their debt is retired, although that will vary by district depending on the length of the remaining debt term. Fifteen Pennsylvania school districts are carrying no long-term debt and will see their property taxes totally eliminated immediately at the end of the two year phase-in period.

Note that none of these funding sources are particularly burdensome by themselves but, taken together, provide the funds necessary to replace all Pennsylvania local school taxes. Further, The Property Tax Independence Act will more equally distribute the cost of school funding across all of Pennsylvania's population and visitors to the state, rather than just depending on taxing homeowners.

THE DISTRIBUTION TO THE SCHOOLS

The Property Tax Independence Act works to fully fund all Pennsylvania schools.

- All schools will initially be fully funded at their current levels.

- Schools will receive their property tax replacement funding directly from the state. The Property Tax Independence Act will fully fund all districts by replacing the property tax dollar-for-dollar at each district's current level. All students in Pennsylvania, regardless of their location or their area's economic condition, will have the opportunity for a quality education.

- Equity in schools is guaranteed because the state assumes the responsibility of school funding. Each school will receive the resources it needs regardless of the local ability to pay. This solves the funding problems faced by rural, urban and fast-growing districts.

- The Property Tax Independence Act calls for a dedicated lockbox account for all property tax replacement revenues that is separate from the General Fund. All replacement funding for the schools will be disbursed from this account through the existing Department of Education funding mechanism, requiring no growth of the current infrastructure.

In addition, The Property Tax Independence Act completely eliminates the taxing ability of local school boards. The only exception would be a possible local EIT or personal income tax for major projects such as new school construction, and that will be subject to a no-exception taxpayer referendum.

It is important to note that The Property Tax Independence Act imposes NO mandates of any kind on Pennsylvania school districts. The plan provides replacement funding only and the funding provided by the plan may be used in any manner the school district deems necessary. The Property Tax Independence Act does not interfere in any manner with local school district decisions.

IMPORTANT FACT...

Statewide, current school district budgets increase, on average, at twice the rate of inflation.

SPENDING CONTROLS

Current school spending regularly exceeds tax revenue and The Property Tax Independence Act addresses it head on.

- At enactment of The Property Tax Independence Act, all districts will receive 100% funding sufficient to meet all financial obligations with a dollar-for-dollar replacement of the eliminated property tax. In the future, every district will receive identical percentage annual base funding increases that will be limited to the increase in the Consumer Price Index (CPI), effectively tying annual school budget increases to the increase in available revenue and economic activity.

- If a district desires additional revenue, they can present a no-exception ballot referendum to the voters of their district to raise additional revenue by either an earned income tax or a personal income tax. However, property taxes will not be able to be re-instituted to raise revenue.

CONSTITUTIONAL AMENDMENT

School property taxes need to be prohibited from ever being imposed on Pennsylvanians again.

Companion legislation to the The Property Tax Independence Act will provide for a constitutional amendment which GUARANTEES that, once eliminated, school property taxes would be gone forever and that a future legislature could never re-institute the taxing of our properties.

ADDITIONAL INFORMATION

The fiscal provisions of HB 76 and SB 76, The Property Tax Independence Act, were developed using actual and projected revenue and school district expenditure figures provided by the House Appropriations Committee staff and the Governor's 2012-2013 Budget Book. In addition, the Pennsylvania Independent Fiscal Office conducted an analysis of the Property Tax Independence Act and reached these conclusions:

(IFO analysis page numbers and PTCC comments are in parentheses.)

The analysis of the 2011-2012 version of the Property Tax Independence Act that was released on September 25, 2012, by the Pennsylvania Independent Fiscal Office indicated that, with minor revenue adjustments, the plan is financially viable. Those adjustments have been made for the 2013-2014 introduction of the legislation.

The IFO analysis projects that if the legislation is delayed and is not enacted until 2017 school property taxes will increase and it will take an additional half-billion dollars from the state level to make the plan viable. (Page 3) The report also projects that school property taxes will increase more than $4 billion from the current replacement level of $10.063 billion to $14.188 billion by 2017.

Beyond the purely financial aspects of the plan, the IFO drew these conclusions:

• The report projects that in year five after enactment HB 1776 will save $1.152 billion annually in the replacement revenue compared to the growth of property taxes if that system remained in place (Page 4, fourth line from the bottom). Property taxes historically rise at greater than three times the level of inflation (which, by the way, is unsustainable in the long term); HB 1776 limits the growth of the replacement funding to the rate of inflation.

• 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 90% of the increase in disposable income. (Pages 17-18) (This would be an explosive economic stimulus for Pennsylvania.)

• The analysis indicates that HB 1776 will cause home values to increase, on average, by more than 10% statewide. (Page 23) (This would restore a big chunk 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 90 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) (More economic stimulus.)

• 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) (Such an increase of businesses in Pennsylvania and expansion of existing businesses would create many much-needed jobs.)

PROPERTY TAX
Independence Act
LIBERTY EQUALITY PROSPERITY

Revenue Sources to Eliminate School Property Taxes

- State Personal Income Tax increase from 3.07 percent to 4.34 percent
- State Sales and Use Tax increases from 6 percent to 7 percent
  - Sales and Use Tax "special interest" loopholes closed
  - SUT expanded to include some currently exempt products and services
- Existing gambling revenues

Sales Tax Loopholes to be Closed

Special "loopholes" or SUT exemptions for the following products and services would be closed:

- Candy and gum
- Newspapers
- Magazines
- Liquor or malt beverages purchased from a retail dispenser
- Charges for returnable containers
- Caskets and burial vaults
- Flags
- Textbooks
- Airline catering
- Coin-operated food and beverage vending machines
- Hotel permanent residents
- Horses
- Construction of memorials
- Storage
- Bad debt
- Uniform Commercial Code filing fees
- Rental of films for commercial exhibition
- Investment metal bullion and investment coins
- Catalogs and direct mail advertising
- Dry cleaning and laundry services
- Personal care services
- Funeral parlors, crematories and death care services
- Spectator sports admissions (excludes schools)
- Theater, dance, music and performing arts
- Amusement and recreation industries
- Museums, historical sites, zoos and parks
- Transit and ground transportation
- Air transportation

(Continued on back)

Sales Tax Loopholes to be Closed (Continued)

- Truck transportation
- Legal services (except business-to-business services, domestic relations matters and criminal defense matters)
- Architectural, engineering and related services (except business-to-business services)
- Accounting, auditing and bookkeeping services (except business-to-business services)
- Specialized design (except business-to-business services)
- Basic TV service
- Veterinary fees (except business-to-business services)
- Finance and insurance
- Waste management and remediation
- Recreational parks, camps and campgrounds
- Custom programming, design and data processing (except business-to-business services)
- Parking lots and garages

Sales Tax Expanded to Include Some Items

- Food (only items that are not on the Women, Infant and Children program food list)
- Clothing and footwear (only items that cost $50 or more)
- Non-prescription drugs

Fast Facts

- ✓ If a homeowner had his or her entire $5,000 property tax bill eliminated, he or she would need to spend more than $70,000 on items that would be ***newly*** subject to the Sales and Use Tax before he or she would see any form of tax increase.
  - ✓ For homeowners with higher property tax bills that would be eliminated, they would need to spend even more on those items before they would be negatively affected by the tax swap.
- ✓ Every new dollar that would be collected from an out-of-state shopper through the enhanced state Sales and Use Tax would be a dollar to support Pennsylvania schools that would not need to be collected from Pennsylvania taxpayers.
- ✓ The plan would spur economic growth by eliminating school property taxes for homeowners and employers.
  - ✓ Employers will have more money to invest in their businesses, expand their operations and hire more workers.
  - ✓ Homeowners will have more money to spend and invest in Pennsylvania's economy.