

Rep. Seth Grove testimony on HB 1189 (OPTEA)
PA House Finance Committee
6/3/2013

School district property tax reform is an issue that has plagued homeowners and school districts in Pennsylvania for decades. Many property tax relief or property tax elimination proposals have been considered by the General Assembly. The majority of these proposals have attempted to provide a state-wide solution for a local tax issue. Pennsylvania is a very diverse state which has made it very difficult to find a one-size fits all state-wide solution. Not all school districts are faced with the same funding and property tax issues. This raises the question as to why homeowners in some school districts feel much stronger about the need for property tax elimination. The answer to this is simple; school districts that do not have a perceived property tax problem have utilized tools given to them in the past in order to garner additional revenues from sources other than homeowners.

The paramount goal of any property tax reform should be to allow school districts to retain local control and to ensure all tax dollars stay home. No one wants to see additional local tax dollars sent to Harrisburg and for redistribution to other school districts throughout the state.

This legislative proposal has been drafted to provide school districts with more options to eliminate property taxes. This legislation will allow a school district to implement an additional earned income tax, mercantile tax or business privilege tax with the additional revenues used solely for the elimination or reduction of school district property taxes. Revenues generated will be used on a dollar-for-dollar basis to reduce the school district millage rate. If revenues are generated to eliminate the property tax (reduce the millage rate to zero), all new tax rates that are implemented under this proposal to reach full elimination will be subject to Act 1 limitations.

HB 1189 maintains the paramount goals that should be included in any property tax reform proposal: (1) local control, (2) all monies remain with the school district, and (3) allows for the complete elimination of the school district property tax through local choice. This can all be accomplished by the local school board creating the correct array of taxing options within the school district which best suits the needs of the residents of the school district without a voter referendum.

One important part of this proposal is the option of the school district to levy a mercantile tax and business privilege tax. This creates a tool for the school board to level the playing field for residential and commercial property owners as both will benefit from the proposal. A mercantile tax is imposed upon dealers or vendors of goods, wares and merchandise while a business privilege tax is imposed upon all trades, occupations and professions that offer any service to the general public. Both taxes are calculated based on total gross receipts. Generally, any business that is subject to a mercantile tax is not subject to a business privilege tax.

Consideration was also given to allow a school district to implement a personal income tax. Currently, no taxing jurisdiction, besides the state, collects a personal income tax. With no administration or collection process currently in place at the local level there would be an additional burden on the school district to develop such a process. Furthermore, the personal income tax is a less stable tax regarding the collection of the unearned income portion (interest, dividends, capital gains, etc.) as it can vary dramatically from year to year.

Should a school district desire to switch to a personal income tax or only provide property tax relief to homeowners, Act 1 of 2006 (the Taxpayer Relief Act) currently provides such tools. Under Act 1, a school district has the authority to convert on a dollar-for-dollar basis its earned income tax to a personal income tax. Furthermore under the provisions of Act 1, a school district has the authority to provide property tax relief to homeowners by increasing the earned income tax to provide additional funds for the homestead exclusion. In order to do any of the above under Act 1, a school district would need to place a referendum on the ballot at any municipal election.

Act 24 of 2001 (the Optional Occupation Tax Elimination Act) provided school districts their first opportunity to levy an additional earned income tax to eliminate another local tax. The occupation tax was authorized under Act 511 and was a tax on residents' occupations. School districts that chose to use Act 24 were allowed to raise their earned income tax rates in order to generate a dollar-for-dollar swap to eliminate the occupation tax, even if that rate meant they exceeded the 1% cap on earned income tax rates found in Act 511. In order to do this the school district placed a referendum on the ballot. Act 130 of 2008 permanently allowed any municipality or school district that still imposed an occupation tax to place a referendum on the ballot to obtain voter approval to eliminate the occupation tax. Those school districts that chose to have an increased earned income tax rate through the utilization of Act 24 or Act 130 have seen increases in revenues as wages have increased over time. Furthermore, these school districts have not had to rely as heavily on revenues from property taxes.

In summary, HB 1189 or the Optional Property Tax Elimination Act (OPTTEA) retains control of all local taxes and school district funds. Additional local revenues generated stay home and are used on a dollar-for-dollar basis to reduce or eliminate property taxes. By eliminating the voter referendum requirement, we untie the school district's hands and give it the tools necessary to provide much needed property tax elimination to its residents. A variety of taxes are provided in order for the school district to utilize so it can custom tailor the taxes imposed to best fit its district. The school district has easy access to data showing the number of residential properties, the number of commercial properties and the number of homesteads in its district. This data can be obtained from the county assessment office and the State Tax Equalization Board. With the options that will be available, each school district can maximize its local revenues while considering the impact it will have on homeowners, wage earners and businesses.