

Co-sponsor memo for House Bill 13 – Property Tax Elimination

This is a unique co-sponsorship memo concerning property tax elimination.

I would humbly ask that you NOT cosponsor this bill on property tax elimination until we meet personally to discuss all of the nuances in this very complex piece of legislation. My hope is that you will agree with me to meet to discuss and then hopefully cosponsor.

Currently, there is a case before the Pennsylvania Commonwealth Court concerning the fair funding of schools in the Commonwealth. It is virtually impossible to determine how a court will rule; however, Pennsylvania's education funding is so complex and archaic that a judicial decision would likely be reams of paper in the making. It is also very likely that the Court will direct the legislature to fix the system of funding.

HB-13 provides the needed legislative solution to modernize education funding as well as eliminate school property taxes. It will end the archaic reliance on property taxes, and transition to fair and equitable funding sources for our education system.

As background, property tax elimination has been discussed for decades with no end in sight.

After an extensive number of meetings with stakeholders over the past four years to determine why property tax elimination has not been achieved, it became apparent that the complexity of the funding model is so intertwined and convoluted that any previous solution would have created havoc for a protracted period of time. Candidly, the solutions were, in essence, worse than the problem being solved in the minds of those affected.

As a result, in HB-13, I have attempted to address a wide range of stakeholder concerns by incorporating balanced solutions in my bill to eliminate the school property tax.

With this in mind, in the very near future, I intend to re-introduce my bill that calls for a full elimination of the school property tax and associated school debt within the Commonwealth.

The current rate of increase in school property taxes is unsustainable. Unchanged, Pennsylvania residents will continue to lose their homes to this hostile school property tax or choose to leave the Commonwealth to avoid it. The most recent Demographics Outlook shows a rapidly expanding retiree (age 65+) population whose growing costs fall on a contracting working-age (age 20-64) population. This bill must move forward because it eliminates the unsustainable school property tax yet ensures that no single segment of population in this Commonwealth shoulders the entire burden.

Details of House Bill 13 (HB 13)

1. The property tax elimination would be total school property tax elimination.
2. The replacement revenue will be from the following:
 - a. An additional sales and use tax of 2% on all currently taxable items that would be paid to the county to be distributed to the local school districts.
 - b. A new sales tax of 2% ONLY on food and clothing will be distributed to the counties to then be distributed to the local school districts.
 - c. A personal income tax of 1.85% paid directly to the local school district, in addition to the current state personal income tax of 3.07%, for a total personal income tax of 4.92%.

- d. Expand the 4.92% personal income tax to include retirement income (with 3.07% going to state and 1.85% going to local districts) with the following EXEMPTIONS:
 - i. Social security (or substitute pension) would NOT be taxed.
 - ii. Employee contributions in pension and defined contribution plans would NOT be taxed.
 - iii. Military pension or survivor benefit payments would NOT be taxable.
- 3. Employee contributions to a pension plan would now be tax deductible when the deductions are withheld. This provision becomes effective 2 years after the law is enacted.
- 4. Other constraints:
 - a. Landlords are required to reduce rent by the amount of property tax saved for the duration of the current lease.
 - b. Limits on cash balances held by the school districts would be eliminated.
 - c. A "School District Emergency Fund" will be established as a lender of last resort for school districts in financial trouble and unable to balance their budget. The emergency fund will be appropriated from the General Fund with \$250 million per year for two years.
 - d. Districts short on cash due to taxation issues would be required to undergo financial restructuring services.

The time is now to save the Commonwealth from financial bankruptcy and its residents from homelessness. The property tax is effectively an asset tax on homes, which for many people is their largest asset. The disproportionately impacts middle and lower-income residents. Shifting to a sales/income tax eliminates the regressive school property tax and will serve to eliminate barriers to home ownership. The bill will also ensure an improved fair funding formula for each school district and to allow a transition period from the archaic system to a modern school funding model.

HB – 13 Highlights

Some have asked for specific reference points on the bill to check areas of interest that various special interest groups have.

1. There is an additional 1.85% PIT that is paid directly to the local school district
pg4 lines 7-10 & pg 20 line 12

53 Pa.C.S. Chapter 90A, Subchapter D, specifically section 90A32: see page 20.

2. There is an additional sales and tax of 2% on existing items that would be paid to the county to be distributed to the local school districts based upon their percentage of the total budget for all school districts in the county
pg3 lines 26-29

53 Pa.C.S. section 90A22 – see pages 16-17 (the 2% rate is on page 17).

3. We are adding a 2% sales tax on food and clothing ONLY which would be distributed to the counties. Additionally, any sales tax collected at the state level due to the Wayfair decision would be allocated to the school districts through the county as well.
Pg4 lines 1-2

- A. Purchases of food (except for candy and gum) with an access card will not be taxed.
pg91 lines 9-13 only refers to SNAP

72 Pa.C.S. section 1102 – the definition of “sale at retail”: see paragraph (1)(iv) on page 56, as well as section 1321(19) on page 87-88 and section 1321(60) on page 98. Note that the exclusions have changed by reserving section 1321(17) and (40), which correspond to the exclusions made in section 204(26) and (53) of the Tax Reform Code of 1971 and involve candy, gum, and clothing. Therefore, by reserving the new paragraphs and not carrying over the provisions to the consolidated framework, those exclusions would no longer exist.

- 4. The 4.92% personal income tax would be expanded to include retirement income, with 3.07% going to the state and 1.85% going to the local school district

pg195 lines 1-2

pg4 lines 7-10 & pg 20 line 12

See the definition of “Compensation” in 72 Pa.C.S. section 2102 on pages 182-185.

- A. Social Security would not be taxed
pg4 line 13 & pg183 lines 20-23

See page 183.

- B. Income for pension plans such as certain civil service, police officers and others who do not qualify for Social Security would be exempt as if it were Social Security
See page 183-184.

Clause (B) on page 183 provides that compensation would not include pension benefits regarding a plan for a person whose employment was not covered by the Social Security Act, whether or not the person is a civil servant, police officer or other former worker receiving this pension in lieu of Social Security. We do not explicitly account for civil servants or police officers, but we instead use the general category of these “substitute pension plans.”

- C. Distributions from a pension plan of money contributed by the employee would be tax exempt. If the employee cannot determine the basis of the money contributed to the pension plan, 15% of the amount of the distributions shall be deemed compensation.

See page 184 at clause (D).

- D. Military pension and survivor benefits would not be taxable
pg184 lines 4-7

- 5. Contributions to a retirement plan would no longer be taxable if made by the employee
pg197 lines 4-7

pg 183, lines 7-13.

- 6. There is a penalty if a school district attempts to impose a property taxes and all property taxes for schools must be eliminated.

Pg6 lines 20-24

53 Pa.C.S. section 9011 – see page 6.

7. A “School District Emergency Fund” will be established as a lender of last resort for school districts in financial trouble and unable to balance their budget. The fund will be appropriated from the General Fund with \$250 million per year for two and then contributions from school districts of 0.25% per year from each school district budget. It would be accounted for as a contribution from the school district in the school districts name

pg9 lines 24-25: ¼ of 1%

53 Pa.C.S. section 9013 – see pages 8-10.

8. School districts that have individuals from New York working in PA that do not pay income taxes to Pennsylvania would be part of a hold harmless agreement from the Commonwealth. Should tax reciprocity ever occur with New York State that hold harmless agreement would terminate

53 Pa.C.S. section 9014(c) – see page 10.

9. Landlords are required to reduce rent by the amount of the property tax saved for the one year in which the bill has been introduced and enacted. This is a one-year cap only.

Pg3 lines 16-22, pg. 11 lines 13-30, & pg12 lines 1-20

53 Pa.C.S. section 9017 – see pages 11-12.

10. The cap on cash balances held by school district would be eliminated

53 Pa.C.S. section 9015 – see page 11.

11. School districts that are short of cash due to taxation issues would be required to undergo restructuring services

See 53 Pa.C.S. section 9018 (regarding training) – see page 12.