

Five Quick Facts About Property Tax Elimination

The property tax elimination topic is back on the agenda in Pennsylvania again this year. However, there is more to this current discussion on property tax elimination than meets the eye. Below are five quick facts about property tax elimination:

1. **DOUBLE TAXATION ON CITIZENS** - The latest proposal claimed to eliminate school property tax, it would actually not have eliminated it completely if a district had debt. Districts would be able to use a minimum amount of property tax to pay-off their debt until it was cleared. Many residents would continue to pay significant amounts of school property tax (based on district debt). Only 8 of Pennsylvania's 500 school districts are free of debt, which meant that 492 districts would require residents to pay some portion of property tax until their district's debt was paid off, which may take years. In addition, Municipal and County governments would continue to levy property tax, so there wouldn't be a complete elimination of property tax and only a reduction of school property tax.
2. **TAX BURDEN SHIFT** - The proposed bill was to shift the tax burden from businesses to individuals. According to PASBO, businesses in Pennsylvania currently pay \$2.75 billion in property taxes. With the elimination of those taxes, the tax burden would shift away from businesses to individuals through an increase in the PIT (Personal Income Tax) and SUT (Sales and Use Tax). Can you imagine the loss of revenue when large businesses would no longer have to pay property taxes and contribute to the local schools in their areas?
3. **DISTRICT CASH FLOW PROBLEMS** - With the expiration of a school district's ability to levy a property tax (with the exception of that for debt service), it would be nearly impossible for school districts to open their doors and pay their bills each year. School districts would face serious cash flow problems until the state was able to provide them with revenue from the increase PIT and SUT, a process which would likely take 24 months. How would school districts operate in the absence of funding? Would the state provide all revenue necessary to ensure they could keep their doors open?
4. **WINDFALL TO THE FEDS** - The elimination of property taxes would mean that approximately \$600 million would be sent to the federal government each year through lost federal income tax deductions for real estate taxes. More Pennsylvania money would go to Washington D.C. than ever before, meaning that there would be hundreds of millions of dollars less to be used to generate additional tax revenue.
5. **INCREASED SALES TAX PERCENTAGE AND INCREASED TAXABLE ITEMS** – Sales Tax percentage was proposed to increase from 6% to 7%. In addition, there would be an extensive list of newly taxed goods and services. A few of the taxable items would be but not limited to: Food, daycare services, clothing, religious publications, computer software, recreational parks and campgrounds, haircuts and salon services, dry cleaning, towing services, investment advice and legal services. A full list of items can be found at <http://www.senatorargall.com/new-taxable-items/>

Sources: PASBO, PASA, PARSS, PAIU, news media