



HB 1776, The Property Tax Independence Act Frequently Asked Questions (FAQs)

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

A simple substitution of the 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 existing severe financial problems facing our schools and the Commonwealth.

The authors of House Bill 1776, 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 using an expanded sales tax base 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.

- It provides the most flexibility possible so that people have a choice in how they contribute (for example, when they buy and 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 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 through its predecessor versions, is simple to understand, and fully addresses ALL the problems we have with the current funding system.

While there are those who would argue that The Property Tax Independence Act seems socialistic in nature, the real fact is that the philosophical underpinnings of the plan are painstakingly free market in every element. In fact, it can be argued that the current system of government education is socialistic in that it provides no real parental choice, takes taxes at will, and through the power of government, can and increasingly does take people's property (their homes and farms) when they cannot afford to pay their "rent." That is truly the pattern of socialism.

Much has been written about the plan through its years of development and it has been directly presented to more than 50,000 people all across Pennsylvania with the same response in every location – nearly unanimous support.

Below are some of the most frequently asked questions (FAQs) about House Bill 1776, the Property Tax Independence Act.

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

A. The current total cost of providing K-12 public education in Pennsylvania is now approximately \$24 billion per year. This figure is the result of Pennsylvania Department of Education and local school districts' financial statements.

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

A. 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.

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

A. No. It is not true that sales tax rates are lower in states that border Pennsylvania. Almost every border state has a sales tax rate already greater than 6 percent. For example, some counties in New York have rates as high as 9.75 percent. 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.

Q. A Sales and Use 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 counterproductive? The sales tax would be crushing, something like 23 percent 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. Is this a reasonable and fair assessment?

A. 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. Its findings and the economic underpinnings of the Property Tax Independence Act prove just the opposite of these fears. As an example, the plan, if enacted, would create tremendous economic expansion and produce more than 130,000 NEW jobs in the first three years. The economic stimulus created by the elimination of the largest tax burden afflicting our citizens would put approximately \$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, which is exactly what cutting taxes always does.

Secondly, the greatest immediate economic stimulus will be realized through 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 will immediately go up substantially and for all intents and purposes would make our entire state a Keystone Opportunity Zone. Ask any real estate agent 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.

Third, the Property Tax Independence Act broadens the base by including services as well, with key business exemptions remaining for certain services and for manufacturing and agriculture (as it is now). Under the SUT, 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 about 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?

Q. 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?

A. 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 businesses. 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 paid 1 percent of all collections to offset the costs that are incurred as “tax collecting agents” for the Department of Revenue.

Q. 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?

A. No, this is not necessarily true, but this is a frequently asked question about which many people 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 with the swap from a local Earned Income Tax to the state-level Personal Income Tax, since low-income people earning less than \$35,000 are forgiven the Personal Income Tax while they pay the local Earned income Tax from the first dollar earned.

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 (similar to what happens under the current property tax system) or thirty students pay \$1 (like what would happen under 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, like tourists, would be contributing to fund public education.

Q. 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?

A. Under the Property Tax Independence Act, all school districts would be fully funded.

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.

1. Initially, all school districts will initially receive 100 percent funding sufficient to meet all financial obligations and levels will be established at a per-student expenditure level per district. Initial funding levels will increase annually based on the increase in the Consumer Price Index (CPI), allowing school budgets to remain in step with inflation.
2. Further, all districts will be evaluated in predetermined periods for changes in student population and funding will be adjusted upward or downward to reflect those changes.

Q. Much of the increase in cost is as a result of construction. Wouldn't strengthening the “Taj Mahal Act” help reduce spending that does not seem to lead to learning?

A. 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 during 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 more than \$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 a voter referendum for any new construction debt that requires funding not provided in the basic school district budget.

Q. Shouldn't the focus be on spending? Isn't the taxpayer protection or Taxpayer Bill of Rights (TABOR) the more effective and, politically, the more feasible approach?

A. If you favor TABOR and taxpayer protection, then you must embrace the Property Tax Independence Act because it incorporates a common element of control that would 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. No other suggestion for tax reform has been developed and tested like the Property Tax Independence Act.



Q. Property taxes have been approved by voters of your own local community and it would seem that the place to address the issue is through the local school board and in those elections. What is the objection to this strategy?

A. 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 referendums 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 more than 100 school districts that 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 regarding public education. Therefore, the solution is NOT local.

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

A. 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.

Q. 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. Is this a fair and accurate prediction?

A. 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 tax and forces financial discipline on the school boards by only allowing them a certain amount of revenue in which to operate. At the same time, the act does provide the revenue sufficient to meet their needs. It also introduces the concept of voter approval for new projects and expenditures.

Q. Does the bill reduce the size of the state government? How?

A. Initially, there is no change in state government size affected by this legislation, although because the Property Tax Independence Act slows the growth of spending, the size of local government will be reduced.