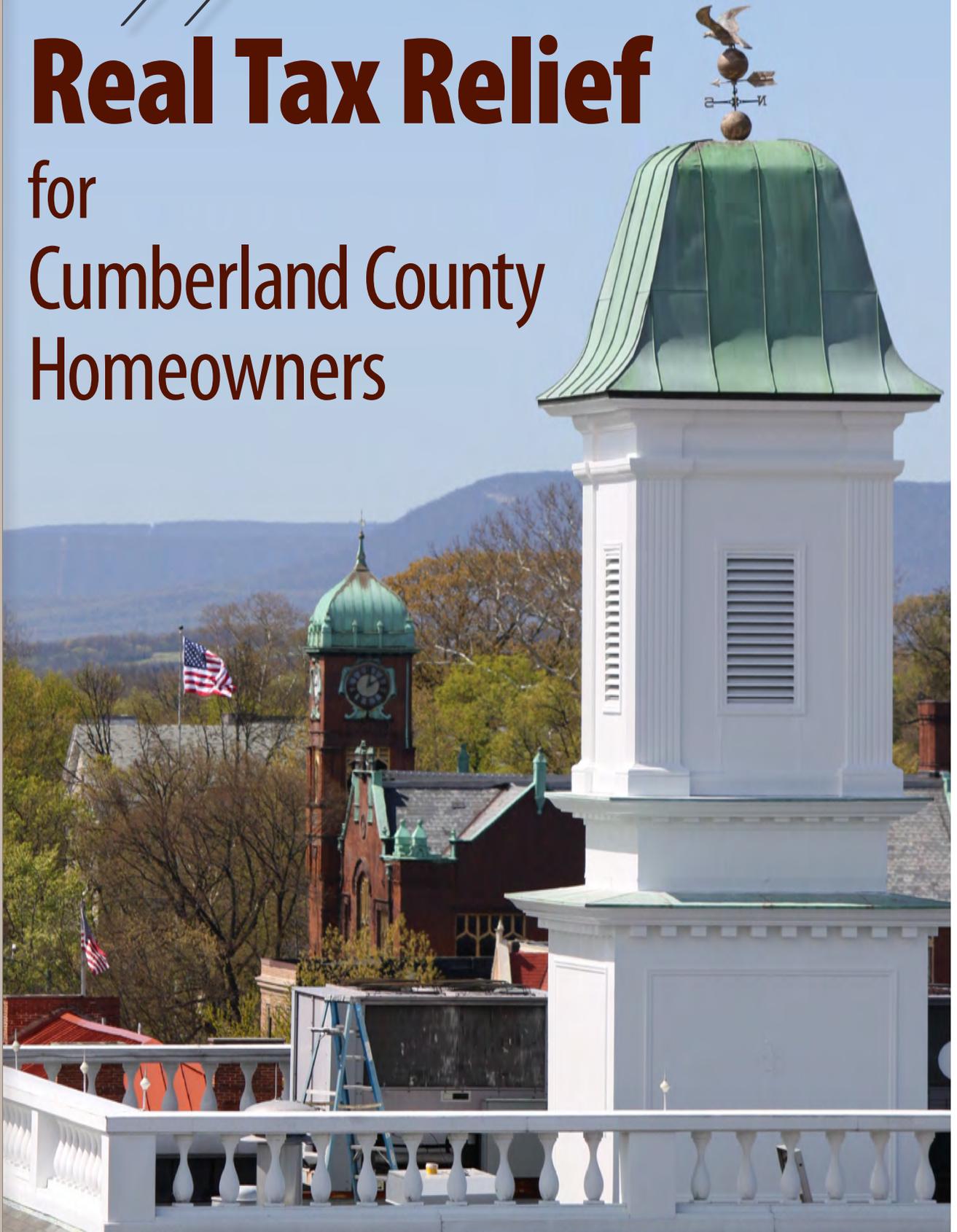


A proposal:

Real Tax Relief

for
Cumberland County
Homeowners



A proposal:

'Penny on a Dollar' Sales Tax

for
Cumberland
County
Homeowner
Property
Tax Relief

by Jim Hertzler
Cumberland County Commissioner

December, 2012

For decades, Pennsylvania's taxpayers have been crying out for substantive reform of Pennsylvania's antiquated system of local government finance which – today – remains overly dependent on the inequitable property tax. This regressive levy, which has no real correlation with ability to pay, has been blamed for years for taxing people out of their homes.

The situation is only exacerbated when demands for local government services are on the increase and state and federal funding resources are diminishing – while the state and federal mandates for those services are not.

It is incumbent upon our state General Assembly to finally address this issue in a meaningful way by providing alternatives that will permit our local jurisdictions to carry out their respective responsibilities based on a varying set of revenue options and a fairer way to pay.

On this issue, however, history has shown that meaningful property tax relief and substantial local government finance reform has been overly complicated and an elusive struggle.

To reverse the failure of the past, any new effort along these lines requires practicality and simplicity.

To be sure, while some may wish to completely eliminate the property tax in its entirety, total elimination in Pennsylvania would require a huge, \$15 billion-plus tax shift. Efforts to secure complete property tax elimination – even the effort launched last session to eliminate the school property tax (HB 1776) -- are undoubtedly going nowhere fast based, in part, on the fact that they will require increases in other taxes beyond any level of political or public acceptability. But, that doesn't mean that the problem will just go away, or that homeowners, in particular, don't need meaningful property tax relief.

On the contrary, what it does mean is that **Pennsylvania can no longer afford to sacrifice the possible by holding out for the perfect.** Progress demands that this not be allowed to become an all or nothing game.

Overview and Commentary

by
Commissioner
Hertzler

“Pennsylvania can no longer afford to sacrifice the possible by holding out for the perfect.”

A Proposal for the Possible

It was 15 years ago, on November 4, 1997, that Pennsylvania's voters overwhelmingly approved (1,240,406-778,105) the state's "homestead exemption" constitutional amendment. It was hoped that the new constitutional provision would lead to substantial property tax relief to homeowners. Unfortunately, to date, such homeowner tax relief – limited as it has been – has been primarily from revenues raised by people betting at the state's casinos.

- ✓ It is long past time for a meaningful revenue source to begin to substantially reduce the homeowner property tax as was envisioned by Pennsylvania's voters a decade and a half ago.

County Option 1% Sales Tax

The plan suggested here would provide for a county option 1 percent sales tax with a requirement that all revenue generated by the "penny on a dollar" sales tax within each participating county be directed to provide homestead/farmstead relief to school district, county and municipal taxpayers.

- ✓ If all counties participated, preliminary estimates statewide suggest that this could result in homestead/farmstead property relief of more than \$1.4 billion.
- ✓ In Cumberland County, a 1% sales tax would generate as much as \$42.3 million to cut property taxes on each one of the county's 60,346 homesteads and farmsteads by as much as \$700 apiece.

In an effort to maximize homeowner tax relief, to more fully utilize the "homestead exemption" constitutional amendment of up to one half of the medium assessed value of homestead properties within a taxing jurisdiction, the proposal envisions that:

- 50% of the revenue generated by the 1 percent sales tax would be used to reduce homeowner **SCHOOL** property taxes;
- 25% of the revenue generated by the 1 percent sales tax would be used to reduce homeowner **COUNTY** property taxes;
- 25% of the revenue generated by the 1 percent sales tax would be used to reduce homeowner **MUNICIPAL** property taxes. (In the case of municipalities without a property tax, the municipal 25% share would be reflected in an additional reduction in the homeowner's school property tax bill.)

Real Tax Relief

for

Cumberland County Homeowners

1%
County
Option
Sales Tax

\$42,319,000 {

revenue
from
1% county
sales tax

÷

60,436 {

total
homesteads/
farmsteads

= \$700.23 {

PER
homestead/
farmstead

Property Tax Cut

1% County Option Sales Tax

Pennsylvania Counties	2010 -11 State Sales Tax Collected (\$ thousands) *	Proposed 1% Sales Tax (\$ thousands)
Adams	47,879	7,980
Allegheny	1,111,367	185,228
Armstrong	28,103	4,684
Beaver	63,797	10,633
Bedford	36,930	6,155
Berks	314,009	52,335
Blair	154,016	25,669
Bradford	40,032	6,672
Bucks	419,921	69,987
Butler	142,604	23,767
Cambria	86,261	14,377
Cameron	1,531	255
Carbon	32,278	5,380
Centre	76,620	12,770
Chester	408,993	68,166
Clarion	20,668	3,445
Clearfield	44,683	7,447
Clinton	18,606	3,101
Columbia	40,098	6,683
Crawford	37,929	6,321
Cumberland	253,913	42,319
Dauphin	306,842	51,140
Delaware	349,408	58,235
Elk	15,040	2,507
Erie	143,162	23,860
Fayette	71,329	11,888
Forest	2,329	388
Franklin	67,446	11,241
Fulton	5,224	871
Greene	16,091	2,682
Huntingdon	14,084	2,347
Indiana	49,377	8,229
Jefferson	23,020	3,837
Juniata	8,927	1,488
Lackawanna	137,855	22,976
Lancaster	386,906	64,484
Lawrence	50,057	8,343
Lebanon	73,679	12,280
Lehigh	261,372	43,562
Luzerne	184,457	30,743
Lycoming	72,471	12,079
McKean	45,695	7,616
Mercer	55,379	9,230
Mifflin	17,030	2,838
Monroe	80,737	13,456
Montgomery	710,899	118,483
Montour	10,189	1,698
Northampton	139,066	23,178
Northumberland	71,282	11,880
Perry	14,565	2,428
Philadelphia	861,977	143,663
Pike	24,263	4,044
Potter	10,648	1,775
Schuylkill	62,240	10,373
Snyder	19,770	3,295
Somerset	38,441	6,407
Sullivan	2,961	493
Susquehanna	23,098	3,850
Tioga	20,898	3,483
Union	22,684	3,781
Venango	33,499	5,583
Warren	27,268	4,545
Washington	137,441	22,907
Wayne	47,121	7,854
Westmoreland	238,228	39,705
Wyoming	17,036	2,839
York	238,485	39,747
TOTAL	\$8,590,217	\$1,431,703

* Includes reported collections by county, vehicle sales by county of registration, and miscellaneous collections. Miscellaneous collections include LCB (\$117M), out of state vehicle sales (\$2.2M), and other out of state, unallocated, and separately remitted use tax collections (\$3.1B), and for the purposes of this analysis are prorated based on relative county and vehicle collections.

Source:
County Commissioners
Association of
Pennsylvania (CCAP);
PA Department of
Revenue

Homestead Exemption Constitutional Amendment



Homestead Exemption

Joint Resolution 1997-1

Shall the Pennsylvania Constitution be amended to permit the enactment of legislation authorizing local taxing authorities to exclude from taxation an amount based on the assessed value of homestead property, with the limitations that the exclusions shall not exceed one-half of the median assessed value of all homestead property within the taxing jurisdiction and that the taxing authority may not increase the millage rate of its tax on real property to pay for these exclusions?

Passed Statewide:

1,240,406 to 778,105

Passed in Cumberland County:

26,420 to 11,195

Source:

Pennsylvania
Department of State,
Bureau of
Commissions,
Elections and
Legislation

Homestead Exemption

an amendment to article VIII

Source:

Pennsylvania
Legislator's Municipal
Deskbook, Third Edition
(2006) . p 149 -150

1 A homestead is generally considered to be a dwelling and the land on which the dwelling sits, as well as any other improvements on that land so long as one of the following three situations applies:

(1) an owner-occupied dwelling (the land is included only if the owner of the dwelling also owns the land beneath it);

(2) an owner-occupied condominium or cooperative where the assessed value is based on the individual unit or in some cases the pro rata share of the real property; or

(3) if a dwelling does not otherwise qualify under the previous two situations, that portion of the real property that is occupied by the owner of that portion. 53 Pa.C.S. § 8401. An "owner" is considered to be only a natural person or natural persons rather than an organization, association, or corporate entity. Id.

2 Median assessed value is defined as the "value which is the middle point in the sequential distribution of assessed values, above and below which exist an equal number of assessed values." 53 Pa.C.S. § 8582.

3 Taxation Manual, 8th ed., Governor's Center for Local Government Services, Pennsylvania Department of Community and Economic Development, Harrisburg, Pa., 2002, p. 18.

4 The act of June 27, 2006, Special Session 1 (PL. ____, No. 1).

5 See related Deskbook article entitled "Taxpayer Relief Act."

6 53 Pa.C.S. § 8581 et seq.

7 53 P.S. § 6925.101 et seq.

8 Counties and municipalities do not have these additional taxing powers.

9 4 Pa.C.S. § 1101 et seq.

Homestead Exemption

Pennsylvania Legislator's Municipal Deskbook, Third Edition (2006) / page 149-150

An amendment to Article VIII of the Pennsylvania Constitution, approved by the voters in November 1997, authorized a "homestead exclusion." This exclusion provides an exception from the uniformity of taxation requirement that is also set forth in Article VIII. Local "taxing districts," which include counties, municipalities, and school districts, may now exclude from real estate taxation a portion of the assessed value of homestead property.¹ A cap is placed on the amount of the homestead exclusion. First, the median assessed value of all homestead property within the taxing jurisdiction must be determined. The maximum homestead exclusion that a taxing district may offer may not exceed one-half this median.²

The law authorizing local taxing bodies to implement homestead exclusions became effective January 1, 1999, and became usable in 2000. The exclusion is a flat-rate uniform dollar amount, and it cannot exceed 50 percent of the median value of all homestead property within the taxing jurisdiction as certified by the county assessment office. If different millage rates are applied to land and buildings, the exclusion is applied first to buildings. "The county calculates this figure from applications that must be filed by property owners before March 1 of each year and then certifies it when it certifies the tax duplicates for the coming year . . . All farms of at least 10 acres, which are the domicile of the owner, qualify for an additional exclusion known as the farmstead exclusion, which can be any amount up to the level of the homestead exemption."³ A taxing jurisdiction may not increase its millage rate on real property to pay for the homestead and farmstead exemptions.

The Taxpayer Relief Act (Special Session Act 1 of 2006)⁴ uses homestead and farmstead exclusions to target real property tax reductions to homeowners and farmers.⁵ It is the General Assembly's latest attempt to provide relief from rising school property taxes to the state's homeowners and farmers through a combination of new money from state gaming revenues and higher local income taxes. This method of property tax reduction, involving homestead and farmstead exclusions, was first used in Act 50 of 1998.⁶ It should be noted that, after September 5, 2004, the effective date of the Homeowner Tax Relief Act (Act 72 of 2004),⁷ the Legislature's penultimate effort to provide homeowners with school property tax reductions financed by a combination of state funds and local funds, no school district can opt into Act 50. Act 72, however, was repealed by Special Session Act 1 of 2006. Moreover, it is important to note that Special Session Act 1, as well as its predecessors, Act 50 and Act 72, exclusively granted to school districts additional taxing powers in order to fund the homestead and farmstead exclusions.⁸

Most of the money to be used for the tax reductions will eventually come from state gaming revenues, pursuant to the Pennsylvania Race Horse Development and Gaming Act (Act 71 of 2004).⁹ The Commonwealth will accumulate gaming revenues in a state property tax relief fund, from which it will make distributions to school districts.

All the property tax relief fund money that school districts receive must be used solely for real property tax reductions given through homestead and farmstead exclusions. If the amount of state money varies from year to year, districts are allowed to adjust the size of the exclusions to compensate.

A previous requirement (under Act 72) to raise the earned income tax by 0.1 percent in order to qualify for state-funded tax relief has been eliminated. Now, every school district will be able to receive tax relief from the state without any mandate to raise local taxes. As with the new state fund money, revenues from higher local income tax rates can only be used for real property tax reductions given through homestead and farmstead exclusions.

Local Tax Reform History Brief

In state legislative sessions over the past 4 decades, many proposals have been advanced to reform Pennsylvania's antiquated system of local government finance – to shift the burden away from the onerous property tax. There has been study after study. Special task forces. Thousands of pages. Volumes of reports. And yet, the goal of achieving a fairer local system of taxation – one that substantially reduces or eliminates the property tax – has remained elusive.

Act 1 of Special Session 2005/06

While nowhere near the solution taxpayers had hoped, legislation (SS HB 39) enacted on June 27, 2006 (SS Act 1 of 2006) remains the most significant action to date providing at least a modicum of relief to property tax-weary homeowners. The measure authorized slots gaming at horse racetracks with the lion's share of the revenues generated designated to reduce school district property taxes on homesteads and farmsteads. As of fiscal 2012-13, the annual allocation from gaming to reduce school taxes statewide had reached \$782.5 million – providing a statewide average homeowner tax break of about \$200 (although a complicated formula provides for wide disparity in actual per homeowner tax relief from one district to the next). Although not yet utilized to any extent, SS Act 1 of 2006 also grants school districts the authority to pursue – in odd numbered election years – local ballot referenda that, if approved by voters, could facilitate further homestead/farmstead tax relief via a higher local earned income tax or the institution of a personal income tax on the same base as the state PIT. The law also contained limited provisions that were intended to require school districts seeking tax increases above inflation to secure voter approval for such increases.

Act 72 of 2004

Enacted on July 5, 2004, and later repealed by Special Session Act 1 of 2006, Senate Bill 100 (Act 72/2004) gave school boards the ability to "opt in" to receive a portion of a projected \$1 billion in slots gaming revenues for homeowner property tax relief if they also agreed to impose a one-tenth of one percent local earned income tax increase (also for a reduction in property taxes) and agreed to submit future increases in property taxes above inflation to a so-called back end referendum. The school boards of only about one in five districts in the state (111) opted to participate in the law, prompting the General Assembly to return to the drawing board with the enactment of Special Session Act 1 of 2006.

Act 24 of 2001

Dozens of school districts, primarily in central Pennsylvania, took advantage of this law which provided, subject to voter approval, for an increase in the local earned income tax (a wage only tax) for the sole purpose of eliminating the notorious Occupational Assessment Tax. In some jurisdictions, the Occupational Assessment Tax was being levied on workers based on job title or job classification without any direct correlation to an individual's actual wages or income. The success of Act 24 was attributed to the fact that it replaced an unfair tax on workers with a fairer tax on workers. It did nothing, however, to address the property tax issue.

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Local Tax Reform History Brief (continued)

Homeowners' Century Tax Rebate – 2000

During the administration for former Governor Tom Ridge, the General Assembly authorized a one-time, \$100 property tax rebate to homeowners by designating a portion of burgeoning state revenue surpluses at the tail end of the economic boom of the 1990s.

Act 50 of 1998

Labeled as "historic" when it was signed into law, Act 50 of 1998 was later viewed as "historic for its failure." Only a handful of school districts (4) implemented Act 50, primarily because it contained so-called front end and back end referenda requirements that locally-elected school board members argued usurped their decision-making authority, tied their hands and jeopardized their fiscal stability and future bond ratings. Subject to local voter approval (front end referendum), the law allowed school districts to increase the local earned income tax by an additional 1.5% to eliminate so-called nuisance taxes and lower property taxes. Districts adopting the change were required to submit future increases in property taxes to voter approval (back end referendum).

Homestead Exemption / Constitutional Amendment – 1997

Fifteen years have passed since Pennsylvania's voters, on November 4, 1997, by a nearly two to one margin (1,240,406 to 778,105), approved the "homestead" property tax relief constitutional amendment. The amendment altered the state's so-called uniformity clause to permit a property tax assessment reduction on homestead property. Viewed as an essential ingredient of any long-term homeowner property tax reduction effort, the constitutional change was necessary to assure that commercial property owners (business complexes, shopping malls, etc.) would continue to pay their fair share of property taxes when other taxes are raised on citizens to pay for property tax cuts. The constitutional amendment allows taxing jurisdictions "to exclude from taxation" up to "one-half of the median assessed value of all homestead property within a local taxing jurisdiction." The benefit of such a provision was to ensure that while the dollar amount of tax relief for homeowners would be the same in each taxing jurisdiction, the proportional share of relief would be greater for modest homesteads and lower for larger estates.

Act 145 of 1988

An attempt at comprehensive property tax reform occurred during the administration of the late Gov. Robert P. Casey. The principle features of Act 145 of 1988, however, were conditioned on voter approval of a constitutional amendment (an earlier version of the homestead exemption) that would have lowered residential property taxes on a dollar-for-dollar basis "to the extent of additional revenues obtained from personal income taxes." Most of Act 145 never took effect because voters overwhelmingly rejected the constitutional amendment after opponents labeled it a tax increase. Because it was multi-faceted and comprehensive, the plan was also complicated and confusing. Key features of Act 145 would have allowed local school districts to levy a personal income tax of up to 1.5 percent, municipalities to levy a personal income tax of up to .75 percent and counties the option of a one-half percent local sales tax. The new revenue would have been required to eliminate, replace or reduce local nuisance and residential property taxes.