**SMC Business Councils**
**Policy**
**Property Tax Reform**

**BACKGROUND:** School property tax elimination facts from a new Independent Fiscal Office (IFO) report show the following**:**

- Any proposal to eliminate school property taxes will have to generate billions in new revenue. School property tax collections are projected to total $14.294 billion for the 2017-18 fiscal year and will grow by an estimated $500 million to $600 million annually.
- Between 17% and 20% of the annual property tax revenue collected is spent to pay down school district debt.
- If PA capped district-levied income taxes at no greater than 0.5% then $347 million in new revenue would need to be generated for FY2017-18 by some other means to make up for the lost revenue in 85 school districts that have income tax rates exceeding .5% That figure grows to $406 million by FY2021-22.

SMC believes that the biggest step that PA can take to reduce property taxes is to fix the public pension system. Considering property tax reform without addressing the cost-drivers for school districts is short-sighted. *See Pension reform.*

SMC understands lawmakers have been pressured by constituents regarding the rising costs of school district property taxes for a number of years. However, property tax reform legislation similar to Senate Bill 76 from the 2015-2016 session will place undue burdens on PA's business community. SB 76 simply shifted the burden to businesses and their employees. Many businesses would experience a significant tax increase particularly small businesses that file at the individual rate and pay at the personal income tax rate (PIT).

SB 76 dramatically shifted the expense of funding PA's public schools by eliminating school property taxes, increased the Personal Income Tax (PIT) from 3.07% to 4.34% (60%), increased sales tax from 6% to 7% and expanded the sales tax base.

- The increase to the PIT rate would have a disproportionate and exceptionally negative financial impact on small businesses.
  - An increase in the PIT directly impacts the bottom line of many small businesses. 80% are organized as Subchapter S corporations, LLC's, and sole proprietorships with pass-through income taxed at the PIT rate.
  - Cash that is used to pay taxes cannot be reinvested by the business in adding new employees, buying equipment and expanding R & D. This will ultimately restrict the ability for many small businesses to grow and maintain a competitive edge.
- Small businesses will be forced to pass sales tax increases onto their customers. The increase and expansion of the sales tax will cause PA businesses to have a competitive disadvantage compared to bordering jurisdictions, especially those in areas that border states with lower tax or no tax jurisdictions.
- A past proposal for property tax relief allowed counties to adjust sales tax rates. Some PA businesses operate in multiple counties and would have to know the rates and file returns for each county, adding to overhead and administrative costs.

In addition to the loss of local control by local school boards, the proposed tax shift would send more than $14 billion to Harrisburg and substitute a stable revenue stream for more volatile income and sales tax revenues that fluctuate with the economy. That presents major risks for the public education funding system that could create significant funding shortfalls in future recessions.

*Partially adapted from the position statement of the Westmoreland County Chamber of Commerce*

For more information contact:
Eileen Anderson
Director, Government Relations, 412-342-1606, eileenanderson@smc.org