

The School Property Tax Elimination Act of 2007 (SPTEA) Frequently Asked Questions (FAQs)

First, let's look at the basic philosophy of HB 1275, the *School Property Tax Elimination Act of 2007*.

A simple substituting of 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. The Governor's recommendation (and everyone else who recommends a similar idea such as the useless House Bill 1600) of raising the SUT rate just to reduce property taxes a bit is an valueless recommendation. Like the failed Act 1, this proposal and the one that came out of the House for a half-point increase in the SUT 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 melt-down, do nothing to discipline out of control spending, and do nothing to improve economic conditions, restore homeownership, or address any of the already incurred severe financial problems facing our schools and the Commonwealth.

The authors of HB 1275, the *School Property Tax Elimination Act of 2007*, are sensitive to the philosophical underpinnings of this plan, as evidenced by the history of the development of this legislation. The primary reason for utilizing SUT 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 SPTEA) 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.
 - Is the most flexible possible so that people have a choice in how they contribute (when they buy, 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 SUT, and when one considers the fact that the SUT 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 SUT tax in law today remains, "The PA Education Sales Tax", it makes good sense to use the SUT.

It is, however, important to note that the *School Property Tax Elimination Act of 2007* is the ONLY comprehensive financial reform plan ever put forward, and to date is the ONLY plan that has been vetted in the public, 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 *School Property Tax Elimination Act of 2007* 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 and it has been directly presented to over 30,000 people all across this state in the last three years with the same response in every location - nearly unanimous support.

Below are some of the most frequently asked questions (FAQs) about the *School Property Tax Elimination Act of 2007*.

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

- Current total costs of providing K-12 public education in Pennsylvania is now approximately \$19.5 billion/year. This figure is the result of PDE and local districts' financial statements.

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

- 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.

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

- No, it is not true that sales tax rates are lower in states that border Pennsylvania. Most every border state has sales tax rates already above 6%. For example, some counties in New York have rates as high as 9.75%. 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 good and services.

Sales 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 counter-productive? The sales tax would be crushing, something like 23% 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.

• This is "in the box" thinking and is very wrong. The *School Property Tax Elimination Act of 2007* has been studied by Economy.com from West Chester. This was the very first econometric study obtained on any proposed tax plan in the Pennsylvania Legislature. Their findings and the economic underpinnings of the SPTEA would prove just the opposite of these fears. As an example, the SPTEA, if enacted, would create tremendous economic expansion and produce over 130,000 NEW jobs in the first 3 years. The economic stimulus created by the elimination of the largest tax burden afflicting our citizens would put about \$5 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 by 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 capped (which is what would happen in the SPTEA). The return on investment immediately goes up substantially and for all intents and purposes would make our entire state a Keystone Opportunity Zone. Ask any realtor or commercial developer what this would do – there are many who are ready to buy the moment the SPTEA makes its way to the Governor.

Thirdly, the SPTEA does NOT raise the SUT rate. The raising of rates DOES produce a noticeable hardship. The SPTEA 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 SUT is fair and flexible is why literally everyone who knows of the *School Property Tax Elimination Act of 2007* so strongly supports it.

There are many goods and services in Pennsylvania that are not currently subject to the state sales tax. However, under the SPTEA the businesses that provide these goods and services will now be required to become “tax collectors” for the Department of Revenue. Is this true?

• Yes, it is true that some businesses who 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 business. 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% of all collections to offset the costs that are incurred as “tax collecting agents” for the Department of Revenue.

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?

- No, this is not necessarily true but this is a frequently asked question about which many 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.
- In addition, for low income senior citizens who rent, the Rent Rebate Program is doubled which could likely offset any increase experienced under an expanded Sales Tax. Also, those renters who have low income and would therefore qualify for the PIT Tax Forgiveness Program would potentially have any increase in sales tax spending offset by the elimination of the ½ % EIT.
- The SPTEA 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 (i.e. the current system) or thirty students pay \$1 (i.e. the *School Property Tax Elimination Act of 2007*). 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, tourists for example, would be contributing to funding public education.

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?

- Under the SPTEA, all school districts would be fully funded.
 - Because of significant variations between districts, and the four-year phase out of property taxes and into the new sales and use tax (SUT), new funding will occur in two different phases.
 1. Under Phase I, all districts will begin held harmless. That is, all districts will initially receive 100% funding sufficient to meet all financial obligations and will be established at a per student expenditure level per district. Initial funding will also receive quarterly adjustments for changes in enrollment as well as yearly base increases indexed to the rate of inflation.
 2. Under Phase II, all districts will integrate locally driven, state of the art performance and evaluation methods to improve spending efficiency and academic performance. Formula and discretionary disbursements from the Education Operating Fund (EOF) will occur during this period for those districts in need of additional funds and to address the issues of financial equity. This will be based on growth of the EOF and levels of economic activity.
 3. The need of growing districts will be specifically addressed as they will receive income increases linked to enrollment changes.
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Much of the increase in cost is as a result of construction. Would not strengthening the Taj Mahal act help reduce spending that does not seem to lead to learning?

- Most of the crushing property tax burden borne by our taxpayers and the cause of the high cost of public education is borne by salaries, Federal Special Education mandates, and similar programs. However, the tremendous increase in property taxes in the past 5 years or so has increasingly been because of construction. In fact, the current long-term debt held by our 501 school districts is now over \$24 Billion! Some legislators have been saying for the past four years 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 SPTEA 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 *School Property Tax Elimination Act of 2007* deals very specifically with the issue of construction debt and the entire issue of spending in a simple and easy to understand fashion.

Shouldn't the focus be on spending? Isn't the taxpayer protection or taxpayer bill of rights the more effective and, politically, the more feasible approach?

- If you favor TABOR and taxpayer protection, then you must embrace the *School Property Tax Elimination Act of 2007* because it incorporates a common element of control - 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. Please try the PCTA's interactive tax calculator (<http://mysite.verizon.net/drbsr/PTCCWeb/pfpfcalc.htm>) that will allow you to figure the impact that the passage of the *School Property Tax Elimination Act of 2007* will have on your family. It is dramatic. No other suggestion for tax reform has been developed and tested as has been the *School Property Tax Elimination Act of 2007*. No other plan has ever produced a factual interactive calculator such as this one that can allow folks to figure out for themselves the impact of *School Property Tax Elimination Act of 2007*.

Property taxes have been voted in by voters of your own local community and it would seem that the place to address the issue is at local School Board and in those elections. What is the objection to this strategy?

- 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 referendum 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 over 100 school districts who 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 for public education. Therefore, the solution is NOT local.

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

- 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.

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.

- 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 *School Property Tax Elimination Act of 2007*, spending increases are not suspended but are realistically reduced. In part, the SPTEA in a disciplined but realistic and predictable fashion slows the spending beneath the economic growth rate of the SUT and forces the financial discipline on the school boards by only allowing them a certain amount of revenue in which to operate - but does provide the revenue sufficient to meet their needs. It also introduces the concept of voter approval for new projects, plus a known advanced technology system for conducting ongoing Performance Analysis of all the programs within the school to identify waste and success.

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

- Initially, there is no change in state government size affected by this legislation, although because the *School Property Tax Elimination Act of 2007* slows the growth of spending and combined with the performance analysis, the size of local government will be reduced. It should also be noted that the implementation of this SPTEA will produce savings in the hundreds of millions of dollars per year through the consolidation of certain financial functions.

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