



## INDEPENDENT FISCAL OFFICE

April 5, 2023

The Honorable Rosemary M. Brown  
Pennsylvania Senate  
187 Main Capitol Building  
Harrisburg, PA 17120

Dear Senator Brown:

This letter responds to your request that the Independent Fiscal Office (IFO) provide estimates for a proposed two-tier property tax rebate for senior homeowners (age 65 and over) in certain income ranges. The specified income ranges and rebate amounts are as follows:

- Tier 1 – Up to a \$5,000 rebate for those with \$60,000 or less in household income.
- Tier 2 – Up to a \$2,500 rebate for those with \$60,001 to \$150,000 in household income.

The table on the next page uses data from the 2021 American Community Survey to display estimates for (1) the number of Pennsylvania homeowners that would receive a rebate based on the specified income groups, (2) the total amount of rebates that would be distributed to those homeowners, (3) the average rebate amount and (4) the average property tax paid for each group.<sup>1</sup> The estimated rebate amounts are \$1.56 billion for the first tier and \$720 million for the second tier. A total of 1.02 million senior households would be impacted by the proposal. The table also provides data for subsets of households not impacted by the proposal: senior homeowners above the income thresholds and all homeowners under age 65. These figures are provided for context.

The analysis assumes that 95% of eligible homeowners would apply for the proposed property tax rebate program. Prior research by the IFO finds that utilization rates for these programs are generally less than 100%. For example, in 2021, roughly two-thirds of eligible homeowners claimed rebates under the Property Tax Rent Rebate (PTRR) Program, which provides rebates to certain homeowners based on income, age and other homeowner characteristics. The significant increase in the assumed utilization rate is due to the much higher level of relief provided under the proposal.

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<sup>1</sup> The IFO adjusted the household income amounts reported in the American Community Survey (ACS) data to account for the underreporting of retirement income. Multiple studies have found that respondents underreport retirement income in the ACS and Current Population Survey (CPS). See Bee, Adam and Joshua Mitchell, "Do Older Americans Have More Income Than We Think?" U.S. Census Bureau, SESHD Working Paper #2017-39 (July 2017) and O'Hara, Amy, Adam Bee and Joshua Mitchell, "Preliminary Research for Replacing or Supplementing the Income Question on the American Community Survey with Administrative Records," U.S. Census Bureau: Social, Economics and Housing Statistics Division, memo to ACS Research Evaluation and Advisory Group (March 2016).

<b>Proposed Property Tax Rebates for Senior Homeowners (2021)</b>				
<b>Homeowner Group<sup>1</sup></b>	<b>Homeowners (000s)</b>	<b>Total Rebates<sup>2</sup></b>	<b>Average Rebate</b>	<b>Average Prop. Tax</b>
<u>Impacted by Proposal</u>				
\$60,000 or less (\$5,000 max rebate)	665	\$1,555	\$2,340	\$2,600
\$60,001 to \$150,000 (\$2,500 max rebate)	<u>360</u>	<u>\$720</u>	<u>\$2,000</u>	<u>\$3,270</u>
<b>Total</b>	<b>1,025</b>	<b>\$2,275</b>	<b>\$2,220</b>	<b>\$2,980</b>
<u>Other Groups</u>				
Senior - Income over \$150,000	135	--	--	\$5,620
Homeowners under age 65	2,449	--	--	\$3,810
<p>1 Income includes retirement income such as Social Security, pensions and IRA withdrawals. Half of Social Security income is removed consistent with the calculation of household income for the PTRR Program.</p> <p>2 Millions of dollars.</p> <p>Source: 2021 American Community Survey 1-Year Public Use Microdata (PUMS), U.S. Census Bureau. Computations and adjustments by the IFO.</p>				

Your request also asks the IFO to compute the change in the personal income tax (PIT) or sales and use tax (SUT) rates necessary to fund the proposal. For this purpose, the analysis assumes that the rebates for FY 2022-23 would be \$1.63 billion for the first tier and \$756 million for the second tier, or a total of \$2.39 billion, which allows growth from the 2021 data shown in the table. The estimated rebates for FY 2022-23 and future years will depend on the growth in (1) the age 65 and older homeowner population with less than \$150,000 of income and (2) statewide property taxes.<sup>2</sup> For FY 2022-23, the necessary tax rate increases to fund the proposal are as follows:

- An SUT rate increase of 1.0 percentage points (total state rate of 7.0%) is necessary to fund the proposal (both tiers). The estimate assumes that all current law transfers of SUT to other funds would be adjusted to a revenue neutral rate (i.e., the special funds would not receive a windfall from the higher tax rate).
- A PIT rate increase of 0.5 percentage points (total state rate of 3.57%) could also fund the proposal.
- Alternatively, a combined SUT rate increase of 0.5 percentage points and a PIT rate increase of 0.25 percentage points would provide sufficient funding.

To calculate the net amount necessary to fund this proposal, eligible homeowners already receiving other forms of property tax relief must be accounted for. For 2022, the IFO estimates that homeowners age 65 or older received \$100 million from the PTRR Program.<sup>3</sup> If the PTRR Program was replaced by the proposal, then this amount could be subtracted from the FY 2022-23 estimate (\$2.39 billion).

<sup>2</sup> The IFO projects that through 2028, the number of residents age 65 or older will grow by an average rate of 2.1% per annum and school district property taxes will grow by 4.0% per annum.

<sup>3</sup> The latest year of publicly available data is for 2020. The 2022 estimate is based on the historical decline in rebates.

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If you have any questions regarding this analysis, please do not hesitate to contact my office (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel". The signature is written in a cursive style with a large initial 'M' and a distinct 'K'.

Matthew J. Knittel  
Director, Independent Fiscal Office