



INDEPENDENT FISCAL OFFICE

May 13, 2019

The Honorable Francis X. Ryan
Pennsylvania House of Representatives
149A East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Representative Ryan:

Thank you for your letter that requests the Independent Fiscal Office (IFO) to provide estimates related to House Bill 13. The IFO provides the enclosed table in response to that request. Please note the following:

- The projections are useful to determine the appropriate mix of taxes and rates necessary to offset revenue from school district property tax, but should be viewed as approximations only. Implementation language and proposed effective dates would be required to produce more precise projections.
- The estimates include the impact of changes in behavior and compliance at each of the proposed tax rates.
- The sales and use tax (SUT) estimates assume that any increase in the SUT rate would coincide with a revenue neutral adjustment to the SUT transfers for public transportation. In other words, public transportation would not receive a funding windfall from an increase in the tax rate.
- Under current Pennsylvania law, employee contributions to qualified retirement accounts are subject to personal income tax (PIT), but distributions from those accounts (including employer contributions and earnings) are exempt from tax. If Pennsylvania were to impose PIT on retirement income (excluding Social Security), employee contributions already subject to tax under prior law would be deductible. Assuming that under the proposal, contributions to retirement accounts would now be exempt (except Roth IRAs) and distributions would be taxable (consistent with federal tax law), Pennsylvania would immediately lose the PIT paid on new contributions (tax is now delayed until retirement). These transition issues are incorporated into the Retirement Income forecast (see table) and will resolve slowly over the next 30-40 years.
- The value of the Retirement Exemption reflects the “pick-up” (to the estimates under Retirement Income) if Pennsylvania adopted a hybrid approach to the imposition of tax on retirement income. That is, contributions would not qualify for exemption and distributions (net of contributions) would be subject to tax upon distribution at retirement.

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- It is assumed that approximately 54 percent of current-year property taxes are paid by homestead property owners. This figure is based on the findings of a survey of county assessment offices coordinated by the County Commissioners Association on behalf of the IFO in 2017.¹
- Based on various data sources, it is assumed that approximately 16.5 percent of current-year property taxes are generated by residential rental properties. Due to the lack of detailed available data, a reasonable confidence interval could be +/- 3.0 percentage points.

If you have any questions regarding the table or estimates provided, please do not hesitate to contact my office. Per the policy of the IFO, this letter will be posted to the office website three days after transmittal to your office.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

Enclosure

cc: The Honorable Bryan Cutler, Majority Leader
The Honorable Donna Oberlander, Chairman ~ Policy Committee
The Honorable Mike Peifer, Chairman ~ Finance Committee
Jacob Smeltz, Chief of Staff ~ Majority Leader
Jeremy Kiehl, Director of Legislative Affairs ~ Majority Leader

¹ Additional details regarding the homestead share of property taxes are available in Table 3 of the November 6, 2017 letter to Representative Francis X. Ryan. See <http://www.ifo.state.pa.us/Resources/Documents/SR2017-05.pdf>.

Options to Fund School District Property Tax Elimination

		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Additional PIT¹	0.50%	2,046	2,166	2,261	2,380	2,464	2,571	2,674
	1.00%	4,081	4,319	4,509	4,747	4,913	5,128	5,333
	1.50%	6,094	6,450	6,734	7,089	7,338	7,658	7,965
	1.85%	7,504	7,942	8,292	8,729	9,035	9,429	9,807
Additional EIT²	0.50%	1,278	1,329	1,380	1,437	1,495	1,555	1,615
	1.00%	2,554	2,654	2,756	2,870	2,986	3,106	3,227
	1.50%	3,825	3,976	4,128	4,299	4,474	4,653	4,834
Additional SUT³	1.00%	1,731	1,841	1,913	1,969	2,026	2,085	2,145
	2.00%	3,426	3,644	3,787	3,897	4,011	4,128	4,246
Retirement Income⁴	3.07%	734	784	836	890	946	1,005	1,066
	3.57%	852	910	970	1,033	1,099	1,167	1,237
	4.07%	970	1,036	1,104	1,176	1,250	1,329	1,408
	4.57%	1,087	1,160	1,237	1,317	1,401	1,489	1,578
	4.95%	1,175	1,254	1,337	1,424	1,514	1,609	1,705
Retirement Exemption⁵	3.07%	433	435	437	439	440	442	444
	3.57%	503	505	507	509	511	514	516
	4.07%	573	575	577	580	582	585	587
	4.57%	642	644	647	649	652	655	658
	4.95%	694	696	699	702	705	708	711
PTRR Payments ⁶		263	259	255	251	248	244	240
Act 1 Property Tax Subsidies ⁷		533	533	530	530	530	530	530
School District Property Tax ⁸		14,546	14,877	15,285	15,700	16,195	16,730	17,315
Homesteads Only ⁹		7,855	8,034	8,254	8,478	8,745	9,034	9,350
Homesteads and Renters ¹⁰		10,255	10,488	10,776	11,069	11,417	11,795	12,207
FY 2018-19 Tax Freeze ¹¹		-	-	408	823	1,318	1,853	2,438

Note: in millions of dollars. Estimates are long-term and assume an effective date prior to FY 2017-18.

¹ New PIT rates would be 3.57%, 4.07%, 4.57 or 4.95% respectively.

² New earned income tax (EIT) rates depend on the existing rate levied by the school district.

³ New SUT rates would be 7.0% or 8.0% respectively. The new rates for Philadelphia would be 9.0% or 10.0%. The new rates for Allegheny county would be 8.0% or 9.0%. Estimates assume that all transfers from SUT are adjusted to a revenue neutral rate, i.e., special funds do not receive a windfall from the increased tax rate.

⁴ Retirement income net of previously taxed employee contributions and excluding Social Security. Moving forward, assumes that all retirement income will be taxed upon distribution.

⁵ Represents the value of the new exemption for retirement contributions at the proposed tax rates. If retirement income is taxed at distribution, new contributions will no longer be subject to tax (except Roth IRAs).

⁶ Projected property tax rent rebate (PTRR) payments could be utilized to offset school district property tax and driven out similar to the Act 1 subsidies. FY 2017-18 are actuals consistent with the Governor's Executive Budget, later years are estimated by the IFO.

⁷ Act 1 payments (subsidies) are no longer required if school district property taxes are eliminated. Actuals through FY 2018-19, later years estimated at \$530 million.

⁸ Includes all school district property taxes (residential, commercial, etc.). All years estimated by the IFO.

⁹ Homestead school district property tax only. The IFO assumes homesteads generate 54 percent of school district property taxes.

¹⁰ Homestead school district property tax and school district property taxes levied on residential rental properties. The IFO assumes that residential rental properties generate 16.5 percent of school district property taxes.

¹¹ Assumes school district property taxes are frozen at FY 2018-19 levels for all types of properties (residential, commercial, etc.).