



INDEPENDENT FISCAL OFFICE

April 16, 2021

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 recent request that asks the Independent Fiscal Office (IFO) to provide updates to prior requests that were published November 2017 and September 2019.¹ This letter uses the same data sources and methodologies used in those analyses to provide updated estimates. The updated tables are as follows.

Table 1 provides the latest IFO baseline for school district property taxes. This baseline was released by the office in February 2021.

Table 2 provides detail on the estimated costs of major programs that provide services to Pennsylvania seniors from FY 2018-19 to FY 2020-21. The major program costs include (1) the portion of Medicaid and long-term living appropriations administered by the Department of Human Services attributable to residents age 65 and older, (2) additional Lottery-funded programs administered by the Departments of Aging, Revenue and Transportation and (3) funding for Veterans Homes in the Department of Military and Veterans Affairs. The cost estimates are broken out by type of funding (state, federal or lottery funds). This analysis does not include any state or federal expenditures for non-Medicaid programs without age restrictions (e.g., public safety, state parks, food and nutrition assistance). These programs generally benefit seniors along with the overall population. Also excluded are state funds for the Public School Employees' Retirement System (PSERS) and state employee pension and retiree healthcare benefits.

The analysis estimates that total senior program spending for all funds was \$8.20 billion in FY 2018-19 and is projected to grow to \$10.19 billion in FY 2020-21. Federal funds in FY 2019-20 and FY 2020-21 reflect the temporary increase in the Federal Medical Assistance Percentage (FMAP) used to reimburse states for Medicaid program costs (effective January 1, 2020 until the termination of the national public health emergency declaration related to the COVID-19 pandemic). Likewise, federal funding for DMVA in these two fiscal years include COVID relief funds that total \$5.0 million and \$5.8 million, respectively. In the Lottery Fund, the transfer for the Property Tax Rent Rebate (PTRR) program that would have occurred in

¹ See http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response_Letter_9_23_2019.pdf, <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Response-Letter-9-30-2019.pdf> and <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SR2017-05.pdf>.

FY 2020-21 was shifted into FY 2019-20. These factors contribute to the increase in the federal share of senior program expenditures from 46.4% in FY 2018-19 to 54.2% in FY 2020-21 (projected).

Table 3 provides updates for estimates of General Fund revenues remitted by seniors by major tax type. For this purpose, the IFO did not consider indirect taxes that are levied on a business and passed through to shareholders, workers or consumers (e.g., corporate net income, insurance premiums and financial institutions), mid-sized or smaller tax types (e.g., realty transfer) and taxes not based on income or consumption (e.g., inheritance). The analysis also did not consider local earned income or sales taxes. Based on these criteria, Table 3 includes the following General Fund taxes: (1) state personal income tax, (2) state sales and use tax, (3) gross receipts taxes, (4) all tobacco product taxes and (5) liquor and malt beverage taxes. For all consumption taxes, the analysis assumes that taxes are passed through to final consumers via higher prices.

Because they are part of the larger request, the analysis also displays estimated school district property taxes remitted by senior homeowners, and those amounts are itemized separately in Table 3. Senior renters would also effectively remit property tax, but it is not clear how much of the property tax is passed through to renters. Moreover, the analysis did not assume that businesses pass property taxes through to final consumers, when in fact some portion would be effectively borne by senior consumers. Other major General Fund tax revenues are also displayed in Table 3 but are not apportioned to senior residents.

The analysis estimates that seniors remitted between \$4.6 to \$5.4 billion of General Fund revenues for these five revenue sources for FY 2018-19. For FY 2020-21, the projected range is \$4.8 to \$5.6 billion (excludes tax revenues shifted into the year). Those dollar amounts comprise 16.3% to 19.3% of taxes included in this analysis. The bottom of Table 3 lists other taxes not directly included in the analysis. Based on data from the American Community Survey (ACS) and Pennsylvania Department of Education, the analysis assumes that homeowners remit 57.5% of total school district property taxes. Of that amount, the analysis assumes that seniors remit 29% to 32%. If those assumptions hold, then senior homeowners remitted \$2.4 to \$2.7 billion of school district property taxes (excludes Act 1 allocations) for FY 2018-19 and the same amounts for FY 2020-21.²

It is noted that school district property tax effectively remitted by senior renters is excluded. To provide context regarding a potential order of magnitude for those payments, a hypothetical example is as follows: If owners of residential rental units remit 10% to 15% (\$1.5 to \$2.2 billion) of all school district property tax and if all property tax on rental units was passed through to renters, then Consumer Expenditure Survey (CEX) data suggest that senior renters might effectively pay one-fifth of that amount (\$290 to \$440 million) for FY 2020-21.

Table 4 provides Pennsylvania net migration data across seven age groups from 2013 to 2019. The data reflect both international and domestic net migration. For all years, net international migration was positive (inflows exceed outflows) while net domestic migration was negative. The data from Table 4 are computed as a residual based on published U.S. Census data. For example, total net migration for 2017 was computed as follows: 2017 population less 2016 population less 2017 births plus 2017 deaths. It is noted that these data are preliminary and will be revised after the Census Bureau has completed the 2020 Census.

² These amounts are prior to any deductions through the Property Tax Rent Rebate program. Data for 2018 show that 260,000 elderly homeowners claimed \$109.4 million of property tax rebates.

Table 5 provides a summary of state income tax treatment of retirement income for 2021. As shown by the table, Pennsylvania is one of 28 states with a personal income tax that do not tax Social Security income and one of three states that do not tax public and private pensions.

Table 6 provides updated estimates for potential revenue sources that could replace school district property taxes if they were eliminated. Language for this proposal was submitted to our office in 2019. Relevant notes for the estimates are as follows:

- As with the prior analysis, the estimates should be viewed as approximations only. They do not incorporate effective dates or a compliance phase-in. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.
- The estimates include the impact of changes in behavior and compliance at full implementation for each of the proposed tax rates.
- The additional sales and use tax (SUT) would be imposed at the local level, similar to the existing local SUT in Philadelphia and Allegheny counties. Unlike the state tax, which is imposed at the point of use, the local taxes are imposed at the point of sale and only apply to purchases originating in those counties. Local tax is not collected on sales shipped into those counties by out-of-state (or out-of-county) sellers. Imposing the tax with the same local situs could materially reduce collections (10% to 15%). The projections included in the enclosed table assume the new SUT (including that imposed on food and clothing) is imposed at the state level.
- The 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.
- The SUT estimates for clothing and food assume that the new 2% tax is only imposed on those items not subject to the current 6% tax.
- The additional personal income tax (PIT) would be collected at the local level, similar to the existing local earned income tax (EIT). The Department of Revenue devotes significant resources to ensuring compliance with PIT laws, including the matching of state returns with federal tax data. Since local collectors lack these resources, imposing the tax at the local level would likely produce reduced collections. The PIT estimates included in the enclosed table are calculated using the current state tax base and assume that the tax would be collected at the state level.
- Under current Pennsylvania law, employee contributions to qualified retirement accounts are subject to PIT, but qualified 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 and distributions would be taxable (consistent with federal tax law), Pennsylvania would immediately lose the PIT paid on new employee 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 to 40 years.

If you have any questions regarding the tables or estimates provided, 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,



Matthew J. Knittel
Director, Independent Fiscal Office

Attachments

Table 1
School District Property Tax Forecast

	Actual	Estimate		Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Current-Year	\$13,930	\$14,301	\$14,109	\$14,595	\$15,155	\$15,795	\$16,405	\$16,985
Act 1 Allocations ¹	533	534	535	535	535	535	535	535
Delinquent ²	<u>551</u>	<u>565</u>	<u>488</u>	<u>616</u>	<u>618</u>	<u>622</u>	<u>645</u>	<u>668</u>
Total	15,014	15,400	15,131	15,746	16,308	16,952	17,585	18,188

Note: Dollar amounts in millions.

1 Actuals through FY 2020-21. Estimated at \$535 million thereafter.

2 Reported by PDE for FY 2018-19. Estimated by IFO thereafter.

Table 2
Program Funding for Pennsylvania Seniors (\$000s)

	2018-19	2019-20	2020-21
	Actual	Actual	Enacted
Department of Aging:			
State ¹	\$25,771	\$2,056	\$2,108
Lottery ²	520,470	465,464	474,398
Federal ³	158,702	174,564	105,261
Department of Human Services:			
State ⁴	3,043,345	3,239,239	3,554,224
Lottery ⁵	372,355	337,513	352,466
Federal ⁶	3,581,971	4,537,251	5,334,755
Department of Revenue:			
Lottery ⁷	155,343	288,372	0
Department of Transportation:			
Lottery ⁸	165,429	170,907	170,907
Department of Military and Veterans Affairs:			
State ⁹	116,356	112,461	109,803
Federal ^{9,10}	62,614	78,153	86,768
Total State.....	3,185,472	3,353,756	3,666,135
Total Lottery.....	1,213,597	1,262,256	997,771
Total Federal.....	3,803,287	4,789,968	5,526,784
Total All Funds.....	8,202,356	9,405,980	10,190,690

- 1 Includes appropriations from the Tobacco Settlement Fund (TSF) and the Pharmaceutical Assistance Fund.
- 2 Includes funding to administer PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund and Grants to Senior Centers appropriations.
- 3 Includes appropriations from the TSF.
- 4 Includes General Fund and TSF funding for MA - Long-Term Care, MA - Community HealthChoices, MA - Capitation, MA - Fee-for-Service, Home and Community-Based Services, Long-Term Care Managed Care and Payment to Federal Government - Medicare Drug Program appropriations.
- 5 Includes MA - Long-Term Care, Home and Community-Based Services, MA - Community HealthChoices and MA - Transportation Services.
- 6 Includes MA - Long-Term Care, MA - Community HealthChoices, MA - Home and Community-Based Services and MA - Long-Term Care Managed Care.
- 7 Estimated Property Tax Rent Rebate (PTRR) funding attributable to recipients age 65 and older is based on Department of Revenue PTRR statistical report data. The transfer to the Lottery Fund for the PTRR program that would have occurred in FY 2020-21 was shifted into FY 2019-20.
- 8 Includes Transfer to Public Transportation Trust Fund and Older Pennsylvanians Shared Rides appropriations.
- 9 Veterans Homes funding attributable to residents age 65 and older.
- 10 FY 2019-20 and 2020-21 include COVID relief funds that total \$5.0 million and \$5.8 million, respectively.

Table 3
Pennsylvania Senior Share of Tax Revenues

Revenue Source	Share Age 65+		FY 2018-19			FY 2020-21 (Estimate)		
	Low	High	Total	Estimated	Senior	Total	Estimated	Senior
			Amount	Low	High	Amount	Low	High
State Personal Income	13.0%	16.0%	\$14,096	\$1,832	\$2,255	\$14,472	\$1,881	\$2,316
State Sales and Use	20.0	23.0	11,100	2,220	2,553	12,167	2,433	2,798
Gross Receipts	21.0	24.0	1,250	263	300	1,002	210	240
All Tobacco	15.0	18.0	1,249	187	225	1,066	160	192
Liquor and Malt Beverage	<u>19.0</u>	<u>22.0</u>	<u>405</u>	<u>77</u>	<u>89</u>	<u>435</u>	<u>83</u>	<u>96</u>
Total or Weighted Average	16.3	19.3	28,100	4,579	5,422	29,142	4,768	5,642
Other Major Taxes								
Homeowner SD Prop Tax	29.0%	32.0%	\$8,327	\$2,415	\$2,665	\$8,393	\$2,434	\$2,686
Corporate Net Income	n.a.	n.a.	3,398	n.a.	n.a.	3,400	n.a.	n.a.
Insurance Premiums	n.a.	n.a.	444	n.a.	n.a.	424	n.a.	n.a.
Bank Shares	n.a.	n.a.	380	n.a.	n.a.	382	n.a.	n.a.
Realty Transfer	n.a.	n.a.	534	n.a.	n.a.	585	n.a.	n.a.
Inheritance	n.a.	n.a.	1,054	n.a.	n.a.	1,128	n.a.	n.a.

Note: Millions of dollars. FY 2020-21 revenues adjusted for monies shifted into year due to delayed due dates. Only direct and consumption taxes included. Business taxes such as corporate net income, bank shares and insurance premiums were not included for the purpose of this analysis. Analysis assumes all sales-use and gross receipts taxes remitted by businesses are fully passed forward to consumers. Property taxes remitted by businesses are not included. School district property tax excludes Act 1 allocations and assumes 57.5% of tax is remitted by homeowners.

Source: Tax revenues from IFO Official Revenue Estimate and do not include amounts transferred to special funds. Data used to inform shares are from various sources including: federal tax data published by state (Internal Revenue Service), Consumer Expenditure Survey for northeast consumers and consumers age 65 or older (U.S. Bureau of Labor Statistics) and the American Community Survey (U.S. Census Bureau).

Table 4
Pennsylvania International and Domestic Net Migration

Age Group	Census Year Ending July 1						
	2013	2014	2015	2016	2017	2018	2019
0 to 17	7,775	8,707	8,434	7,817	12,161	13,550	9,825
18 to 24	-6,894	-7,656	-9,538	-9,282	-8,437	-6,501	-7,710
25 to 34	4,882	3,221	2,063	4,361	6,864	8,496	6,970
35 to 44	1,939	1,587	627	1,080	2,916	4,306	2,636
45 to 54	-1,100	-1,397	-2,414	-3,477	-2,592	-1,357	-1,306
55 to 64	-2,898	-3,287	-4,456	-5,861	-3,955	-3,049	-3,750
65+	<u>-6,233</u>	<u>-3,511</u>	<u>-6,652</u>	<u>-3,821</u>	<u>-3,795</u>	<u>-3,084</u>	<u>-3,152</u>
Total	-2,529	-2,336	-11,936	-9,183	3,162	12,361	3,513

Source: IFO computations based on U.S. Census Bureau data.

Table 5
State Income Tax Treatment of Retirement Income

State	Private Pensions	Gov't Pensions	Social Security
Alabama	limited exemption	exempt	exempt
Alaska	n.a.	n.a.	n.a.
Arizona	fully taxable	\$2,500	exempt
Arkansas	\$6,000	\$6,000	exempt
California	fully taxable	fully taxable	exempt
Colorado	\$20,000/\$24,000	\$20,000/\$24,000	\$20,000/\$24,000
Connecticut	limited exemption/42%	limited exemption/42%	income dependent
Delaware	\$2,000/\$12,500	\$2,000/\$12,500	exempt
District of Columbia	fully taxable	fully taxable	exempt
Florida	n.a.	n.a.	n.a.
Georgia	\$35,000/\$65,000	\$35,000/\$65,000	exempt
Hawaii	limited exemption	exempt	exempt
Idaho	fully taxable	\$34,332	exempt
Illinois	exempt	exempt	exempt
Indiana	fully taxable	limited exemption	exempt
Iowa	\$6,000	\$6,000	exempt
Kansas	fully taxable	exempt	income dependent
Kentucky	\$31,110	\$31,110/exempt	exempt
Louisiana	\$6,000	\$6,000/exempt	exempt
Maine	\$10,000	\$10,000	exempt
Maryland	\$33,100	\$33,100	exempt
Massachusetts	fully taxable	exempt	exempt
Michigan	limited exemption	limited exemption	exempt
Minnesota	fully taxable	limited exemption	income dependent
Mississippi	exempt	exempt	exempt
Missouri	\$6,000	\$38,437	income dependent
Montana	\$4,370	\$4,370	income dependent
Nebraska	fully taxable	limited exemption	income dependent
Nevada	n.a.	n.a.	n.a.
New Hampshire	n.a.	n.a.	n.a.
New Jersey	\$75,000	\$75,000	exempt
New Mexico	fully taxable	fully taxable	same as federal
New York	\$20,000	exempt	exempt
North Carolina	fully taxable	limited exemption	exempt
North Dakota	fully taxable	limited exemption	income dependent
Ohio	\$200 credit	limited exemption	exempt
Oklahoma	\$10,000	\$10,000	exempt
Oregon	limited exemption	limited exemption	exempt
Pennsylvania	exempt	exempt	exempt
Rhode Island	\$15,000	\$15,000	income dependent
South Carolina	\$3,000/\$10,000	\$3,000/\$10,000	exempt
South Dakota	n.a.	n.a.	n.a.
Tennessee	n.a.	n.a.	n.a.
Texas	n.a.	n.a.	n.a.
Utah	\$450 credit	\$450 credit	same as federal
Vermont	fully taxable	fully taxable	income dependent
Virginia	fully taxable	fully taxable	exempt
Washington	n.a.	n.a.	n.a.
West Virginia	fully taxable	limited exemption/\$2,000	income dependent
Wisconsin	\$5,000	limited exemption/\$5,000	exempt
Wyoming	n.a.	n.a.	n.a.

Note: Reflects tax year 2021 maximum allowable deductions for single filer or head of household aged 65 or older. States that have no personal income tax on wages are denoted as n.a. Where applicable, lower deduction limit reflects amount for residents under age 65.

Source: National Conference of State Legislatures, Bloomberg BNA State Tax and CCH Smart Charts as of Feb 2021.

Table 6
Options to Fund School District Property Tax Elimination

		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Additional SUT¹	1.50%	\$2,794	\$3,003	\$3,112	\$3,213	\$3,313	\$3,416	\$3,522
	2.00%	3,706	3,984	4,128	4,262	4,395	4,532	4,672
Food ²	2.00%	575	607	638	660	682	705	729
Clothing ³	2.00%	252	265	278	287	297	306	316
Additional PIT⁴	1.85%	8,019	8,107	8,428	8,844	9,235	9,638	10,056
Retirement Income⁵	4.92%	1,246	1,323	1,383	1,471	1,561	1,652	1,751
<i>State Share</i>	3.07%	778	825	863	918	974	1,031	1,092
<i>Local Share</i>	1.85%	469	497	520	553	587	621	658

Note: Millions of dollars. Estimates are long-term and assume an effective date prior to FY 2019-20.

1 New statewide SUT rates would be 7.5% or 8.0% respectively. The new rates for Philadelphia would be 9.5% or 10.0%. The new rates for Allegheny County would be 8.5% or 9.0%. Estimates are calculated using the current state SUT base. The existing local SUTs are point of sale taxes and are only imposed on sales originating in those counties. If the new tax is imposed with the same situs, tax collections will be materially lower (approximately 5% to 10%) because tax would not be collected on e-commerce purchases from out of state sellers. 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 and are not reduced for Department of Revenue administrative costs.

2 Excludes food purchased with Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children (WIC) benefits. Assumes foods already subject to the 6% state tax are excluded.

3 Assumes clothing and footwear already subject to the 6% state tax are excluded.

4 New PIT tax of 1.85% calculated using the existing state PIT base. The Department of Revenue devotes significant resources to ensuring taxpayer compliance, including the matching of state returns with federal tax data. Since local collectors lack these resources, actual collections would likely be lower than the provided estimates by an unknown amount.

5 Retirement income tax of 4.92% (3.07% state tax and 1.85% local) net of previously taxed employee contributions and excluding Social Security. Moving forward, assumes that all retirement income will be taxed upon distribution.