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public education is funded.

Nov. 26, 2013

Pennsylvania property owners have long been clamoring for a change in the way public education is funded. State legislators are listening. But a complete overhaul of the school property tax system will take a while to accomplish.

Three pieces of proposed legislation that would eliminate or reform the current taxing structure are in various stages of discussion in Harrisburg. Local school officials and tax professionals say there are pros and cons to each proposal.

The two proposals receiving the most attention are Senate Bill 76 and House Bill 1189.

Senate Bill 76 had an identical twin in the House (HB 76) that was voted down on Oct. 1. The Senate version, which remains viable, essentially would eliminate the school property tax and replace it with an increased sales tax, use tax and income tax.

A long list of goods and services that are not currently subject to sales tax would become taxable to add even more revenue to the funding stream.

The state would collect the money and distribute it to school districts according to a formula that would give each district about the same amount of money they traditionally collected in property taxes, plus an annual cost-of-living increase.

The proposal also would allow districts that incurred debt on or before Dec. 31, 2012 to keep just enough property tax in place to pay off the debt.

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County, said the prospect of school property tax elimination is understandably appealing for property owners.

But he said it's important for citizens to remember that taxes may shift, but they never really go away.

“When we hear property tax elimination, the first thing that comes to mind is one less expense. However, this may not be case,” Marsiglio said. “When certain groups of taxpayers get relief, another group has to bear the burden. Regarding all three bills, the working man and women would pay more.”

Senate Bill 76 would increase the state income tax from 3.07 percent to 4.34 percent, and increase the sales tax from the current 6 percent to 7 percent.

Also, sales tax would be applied to goods and services that are not currently taxed, such as food items that are not on the WIC food list, candy and gum, personal hygiene products, storage, newspapers and magazines, bad debts, clothing and footwear priced at \$50 and higher, nonprescription drugs, caskets and burial vaults, flags, permanent hotel residences, retail liquor and malt beverages and coin-operated food and beverage vending machines.

Services not currently subject to sales tax that would become taxable include dry cleaning and laundry; personal care; funeral homes, crematories, and death-care services, and tickets to spectator sports, dance, music and performing arts, amusement and recreation industries, museums, historical sites, zoos and parks.

Air and truck transportation and ground transit would also become taxable in addition to professional and technical services such as legal, architectural, engineering, design, accounting, auditing and bookkeeping.

Basic TV, veterinary fees, insurance, waste management and remediation,

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With the current median value of a homestead in the Weatherly Area School District at about \$40,650, the average homeowner pays about \$1,644.70 in annual school property taxes.

Under SB 76, Marsiglio said that same resident would pay a total of about \$2,428.33 in increased income tax and expanded sales tax to fund public education each year.

“This is a \$783.63 increase per household,” Marsiglio said.

Complicated

Supporters of House Bill 1189 say it gives school districts multiple options for replacing property tax with an “elimination tax” consisting of earned income, business privilege and mercantile levies.

Cheri H. Freeh, a certified public accountant with Hutchinson, Gillahan & Freeh of Quakertown, who recently participated in a Pennsylvania NewsMedia Association conference on property tax reform, said HB 1189 would further complicate Pennsylvania's already complicated tax landscape by allowing each school district to design its own mix of taxes.

“Pennsylvania has around 3,000 taxing jurisdictions including school districts. The number of local tax jurisdictions and tax collectors in Pennsylvania exceeds the number of tax jurisdictions in the rest of the United States. And House Bill 1189 would create another fracture in Pennsylvania's local tax system,” Freeh said.

William R. Lazor, a CPA with Kronick Kalada Berdy & Co. of Kingston, said HB 1189 also would create an element of unpredictability to school funding because earned income tax receipts fluctuate in relation to unemployment.

“Right now, school districts can reasonably predict what their revenue will be. The

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living on investment income would pay nothing.

Conversely, working citizens who earn a large income would incur a large tax obligation.

Other winners would be certain businesses, such as beer distributors, which are currently exempt from business privilege taxes. If property tax goes away, those businesses would pay no school tax whatsoever, Freeh said.

The earnings of a corporation are also exempt from earned income tax, the CPA noted.

Hazleton Area School District Business Manager Tony Ryba said HB 1189 would give districts more flexibility in managing tax income than SB 76 would.

“With 76 we'd lose control over property tax but we'd get all that funding from the state. 1189 would give us a little more flexibility but we'd have to work with what we get,” Ryba said.

The patchwork of tax jurisdictions 1189 would create is an unappealing prospect, Ryba said.

“I'm all for uniformity,” he said.

Under the current tax system, Ryba said Hazleton's greatest difficulty is caused by the district's sprawl into three different counties with three different taxation formulas.

“The biggest problem for Hazleton Area is being in three different counties. But we've been able to make it work with what we have. We try to do as much as we can with what we have,” he said, noting that Hazleton Area has one of the lowest tax rates in Luzerne County.

“In some districts north of us, their tax rate is double ours,” he said.

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said.

Senate Bill 76 has 23 co-sponsors. A bill needs 26 votes to pass the Senate.

House Bill 1189 passed the House in early October by a 149-46 vote and awaits Senate action.

“I guess we have to wait to see what the Legislature does. We'll have to roll with the punches,” Ryba said.

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