



Special Session House Bill 39

CONFERENCE COMMITTEE REPORT

PENNSYLVANIA TAXPAYER RELIEF ACT

Summary

Overview

The Pennsylvania Taxpayer Relief Act will more than double the size of the Property Tax and Rent Rebate (PTRR) Program, increasing payments by \$200 million and adding 422,062 new participants.

The plan also will provide property tax reductions in 2007 if local voters approve increases in school district earned income taxes (EIT) or authorize the school district to levy a personal income tax (PIT).

It also makes the backend referendum spending controls mandatory for school districts, allows additional referenda to authorize further property tax reductions beginning in 2009 and prohibits the 111 school districts that opted-in to Act 72 of 2004 from levying the 0.1% earned income tax.

Act 72 will be repealed.

Expansion of Property Tax and Rent Rebate Program (PTRR)

- **Program Expansion.** The expansion will increase the number of eligible claimants from the current level of 338,956 claimants to a new level of 761,018 claimants. The total amount of payments will increase by \$200 million, more than doubling the size of the current program. The expansion payments will be made in 2007 for taxes paid in 2006.
- **Income Eligibility Limits.** The income eligibility requirements for homeowners will be increased to \$35,000. The current limit is \$15,000. For renters, the income eligibility requirements will remain at \$15,000. However, the amount of payments to renters will increase.
- **Base Payment Schedule.** The PTRR payment schedule will be streamlined to provide the following payments, based on an eligible claimant's income:

| | Homeowners | Renters |
|---------------------|------------|---------|
| \$0 – \$8,000 | \$650 | \$650 |
| \$8,001 – \$15,000 | \$500 | \$500 |
| \$15,001 – \$18,000 | \$300 | |
| \$18,001 – \$35,000 | \$250 | |

- **Gaming and Lottery Funds.** \$200 million from gaming license fees will be used to offset the cost of the expansion of the PTRR program. FY 2009-2010 gaming revenues will be used to offset the cost of the expansion of the PTRR program. Any Lottery Fund monies used to pay for all or part of the cost of the PTRR expansion in FY 2007-2008 and FY 2008-2009 will be repaid with gaming funds within five years.
- **Annual Report.** The Department of Revenue will be required to provide the General Assembly with an annual report on the PTRR program, including claimants and payments by school district, county and income level.

Primary Election Referendum – 2007

- **Property Tax Reductions Authorized by Referendum.** In the 2007 primary election, each school district, will propose a referendum question asking voters to authorize an increase in the EIT or authorize a PIT in order to provide property tax reductions through the homestead and farmstead exclusion. School districts may only levy a PIT after state regulations governing local collections have been approved.
- **Minimum Property Tax Reductions.** The referendum question must propose to increase the EIT rate or levy a PIT to provide a property tax reduction of at least 50% of the maximum homestead and farmstead exclusion. However, a school district will not be required to propose to increase the rate by more than the equivalent of a 1.0% increase in the EIT.
- **Local Tax Study Commission.** Prior to a school district proposing a referendum question to authorize an increase in the local income tax, the school district will appoint a local tax study commission to make a recommendation.

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Mandatory Backend Referendum/Spending Controls – Beginning 2006

- School Districts that Opted-In to Act 72. School districts that opted-in to Act 72 will be governed by backend referendum requirements, beginning in 2006.
- School Districts that Did Not Opt-In to Act 72. For 2006 only, school districts that did not opt-in to Act 72 will be prohibited from increasing their tax rates above the annual inflationary percentage and will not be able to place referendum questions before the voters to approve further increases. The deadlines for these school districts to submit preliminary budgets to the Department of Education and to apply for backend referendum exceptions will be extended to May and June. These school districts may petition a court of common pleas for an additional tax increase if the school district proves that it can not otherwise balance its budget. Beginning in 2007, these school districts will be governed by the same backend referendum requirements that apply to school districts that opted-in to Act 72.
- Backend Referendum Exceptions. The backend referendum exception for school construction will be expanded to provide an exception for school construction indebtedness incurred before the effective date of the new act by a school district that did not opt-in to Act 72 and the exceptions for special education cost increases and PSERS cost increases will be expanded to include cost increases above the index.
- Expanded Backend Referendum Exceptions. School districts that opted-in to Act 72 will qualify for any expanded backend referendum exceptions.
- Resolution to Forego Preliminary Budget Process. Beginning in 2007, school districts may adopt a resolution stating that they will not increase their tax rates above the annual inflationary percentage. If they adopt such a resolution, they will not be required to complete early preliminary budgets.

Prohibit School Districts From Levying 0.1% EIT

- Act 72 Requirement. School districts that opted-in to Act 72 were required to adopt resolutions authorizing a 0.1% EIT to be levied in the year in which gaming revenues were available for property tax reductions.
- Levy of Tax Prohibited. The 111 school districts that adopted such resolutions will be prohibited from levying the 0.1% EIT.

Additional Referenda – Municipal Election Years

- Additional Property Tax Reductions Authorized by Referendum. Beginning with the municipal election of 2009, each school district, except Philadelphia, may propose a referendum question asking voters to authorize an increase in the EIT or PIT.

Gaming Revenues Add Relief Unless a District Opt-Out

- Participation. School districts will receive property tax reduction payments from gaming revenues.
- Opt-Out Provision. When gaming revenues are available for property tax reduction payments, a school district may adopt a resolution to opt-out of gaming revenues. Voters may reverse the school district's decision to opt-out by approving a referendum question at the next general or municipal election.

Property Tax Reduction Payments and Reserve Fund

- Property Tax Reduction Formula. The Act 72 formula will be used to distribute gaming revenues for property tax reduction payments. It distributes funds based on a school district's tax capacity, tax effort and tax burden.
- Initial Distribution Amount. The amount of gaming revenues required for an initial property tax reduction payment will be set at \$400 million. Under Act 72, it was set at \$500 million.
- Property Tax Reserve Fund. The amount required to be deposited in the Property Tax Reserve Fund will be set at 25% of the amount of property tax reduction payments for that year up to a maximum of \$150 million. Under Act 72, it was set at \$400 million.

Property Tax Installment Payments

- Installment Payment Option. Beginning in 2007, all school districts, except Philadelphia and Pittsburgh, will be required to offer homestead and farmstead property owners the option to pay their property taxes in installments. School districts will be required to notify homestead and farmstead property owners of this option as part of their property tax bills. A taxpayer who elects this option and who is delinquent by more than ten days on two or more installment payments will be ineligible for the installment option in the following year.

School Cost Study

- Task Force on School Costs. A state-level task force will be appointed to examine school costs and issue recommendations.

Repeal of Act 72

- Act 72 of 2004 is repealed.