

# Legislative Information Packet

for the

## School Property Tax Elimination Act

prepared by the

Property Tax Elimination Working Group

Robert Kistler  
Ron Snell  
Henry Rothrock  
Mike Fogarty  
Bob Stilwell  
Ryan Pertrusio

[www.noprop.tax](http://www.noprop.tax)

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More information: [www.noprop.tax](http://www.noprop.tax)

#### Property Tax Elimination Working Group:

Ron Snell	snell1737@verizon.net	(670) 478-7018
Robert Kistler	skiortee@aol.com	(610) 379-5090
Henry Rothrock	htr2775@yahoo.com	(814) 503-0592
Bob Stilwell	bob.stilwell@verizon.net	(301) 515-7655
Ryan Pertusio	rpertusio@gmail.com	
Mike Fogarty	fogclan@aol.com	(610) 383-0817

### **The Legislative Challenge:**

The Commonwealth Court Order of February 7, 2023 stated that:

The Education Clause, article III, section 14 of the Pennsylvania Constitution, requires that **every student receive a meaningful opportunity to succeed** academically, socially, and civically, which requires that all students have access to a comprehensive, effective, and contemporary system of public education. **Education is a fundamental right guaranteed by the Pennsylvania Constitution** to all school-age children residing in the Commonwealth

**The respondents (Pennsylvania Department of Education, Governor, State Legislature, Secretary of Education, and the State Board of Education) have not fulfilled their obligations to all children under the Education Clause in violation of the rights of the Petitioners and students attending low wealth districts ;**

Article III, section 32 of the Pennsylvania Constitution imposes upon the Respondents **an obligation to provide a system of public education that does not discriminate against students based on the level of income and value of taxable property in their school districts**. Students who reside in school districts with low property values and incomes are deprived of the same opportunities and resources as students who reside in school districts with high property values and incomes;

The disparity ... is not justified by any compelling government interest nor is it rationally related to any legitimate government objective; and as a result of these disparities, Petitioners and students attending low wealth districts are being deprived of equal protection of law.

### ***The Current School Funding Problem***

- Statewide, school property taxes collected amount to approximately \$15B
- Such an amount cannot be replaced from the present state budget
- Available state school funding is dispensed inequitably in a failed attempt to help poor districts
- Currently, shrinking districts tend to receive increasing state percentages while growing districts receive less
- A broad-based tax replacement is needed to fix this problem
  - Only increases in the PIT and the SUT could generate sufficient funds
  - It would also shift the burden to be more fair and equitable
- Commonwealth Court hinted at court-defined remedy if legislature/executive inaction

## ***Solution***

The School Property Tax Elimination Act, former House Bill 13 (2021-22), is designed to specifically solve this problem. HB13 replaces ALL school property tax with increases in personal income (school district) and sales/use taxes (county level).

Why HB13 (2021-22) is an ideal solution to the inequitable school funding court ruling:

- Immediate infusion of roughly \$15B as the funding shifts from property taxes to Income and Sales Tax.
  - Real estate property taxes are collected in advance. When HB13 (2021-22) is implemented, funding distributions will occur as determined by the PDE. The funding sources of HB13 (2021-22) are SUT and PIT. Since PIT and SUT are collected real time, the School District Property Tax Elimination Fund is funded with very little delay in collection, monthly is feasible.
- Removes restrictions on school districts' maximum fund balance
- \$1B toward emergency fund and appeals for districts that may be negatively impacted
  - Assistance for districts in financial trouble
  - Mandatory training for school business officials
  - Appeals board includes PSEA/AFT, PASBO, and PSBA representatives
- The current Funding Model and the Inequity it Self-propagates violate the State Constitution
  - The court highlighted excessive reliance on real property taxes.
    - The current funding model cannot fix this.
    - School funding via HB13 (2021-22) solves this problem permanently.
- The Court Order Demands Equity and Fairness in a Solution
  - HB13 (2021-22) accomplishes this as well as prevents a recurrence.
  - Local control is optimized.
- HB13 (2021-22) provides the funds necessary to meet all school districts' current debt service requirements

# House Bill 13: "The School Property Tax Elimination Act"

## Benefits for Owners, Renters, Small Business

- 🏠 Eliminates school property tax
- ⬇️ Rent reduction
- 📉 Lower mortgage escrow payments
- 🏠 Lower closing costs
- 🔧 No penalty for prop improvement
- 🏢 Attract businesses and jobs
- 👤 Zero lost homes

## Benefits for Schools

- 💰 Rainy day savings cap removed
- 👛 Local funds, local control
- 💵 Creates \$500M+ emergency fund
- 🛡️ No grief over property taxes
- 📋 Curbs unfunded mandates

## Funding

**\$16B in Sales/Income taxes**  
replaces \$16B in school property taxes

### SALES & USE TAX (SUT)

- + Additional 2% rate (to 8%)
- + Food/Clothing at 2% rate
- 🍌 No tax on WIC/SNAP purchases
- 📍 Stays local (county)

### INCOME TAX (PIT)

- + Addtl 1.85% rate (to 4.92%)
- + Non-SS Retirement as income
- ✅ No tax on Social Security
- ✅ No tax on your contributions
- ✅ No tax on military pensions
- 📍 Stays local (school district)

**Funds increase with economy**  
**without raising rates**

## Economic Factors

School Property Taxes:

- ➖ Are regressive
- 📈 Grow faster than inflation
- 👴 Unfairly burden seniors

Economy/Demographics:

- 👶 Ages 0-64 shrinking/leaving PA
- 👴 65+ population & costs growing
- 🏠 Prop taxes stifle economy

## Unsustainable Options

- ❌ Keep the school property tax
- ❌ Dump costs on working families
- ❌ "Relief" instead of Elimination



**Estimate your own tax impact:**

<https://NoProp.Tax/calc>

## Fairness:

School property taxes are **regressive**, **NOT** based on **ability to pay**, and rates must be **increased each year**.

Sales/Income taxes are **fair**: If you **make/spend more**, you contribute **more** to school funding

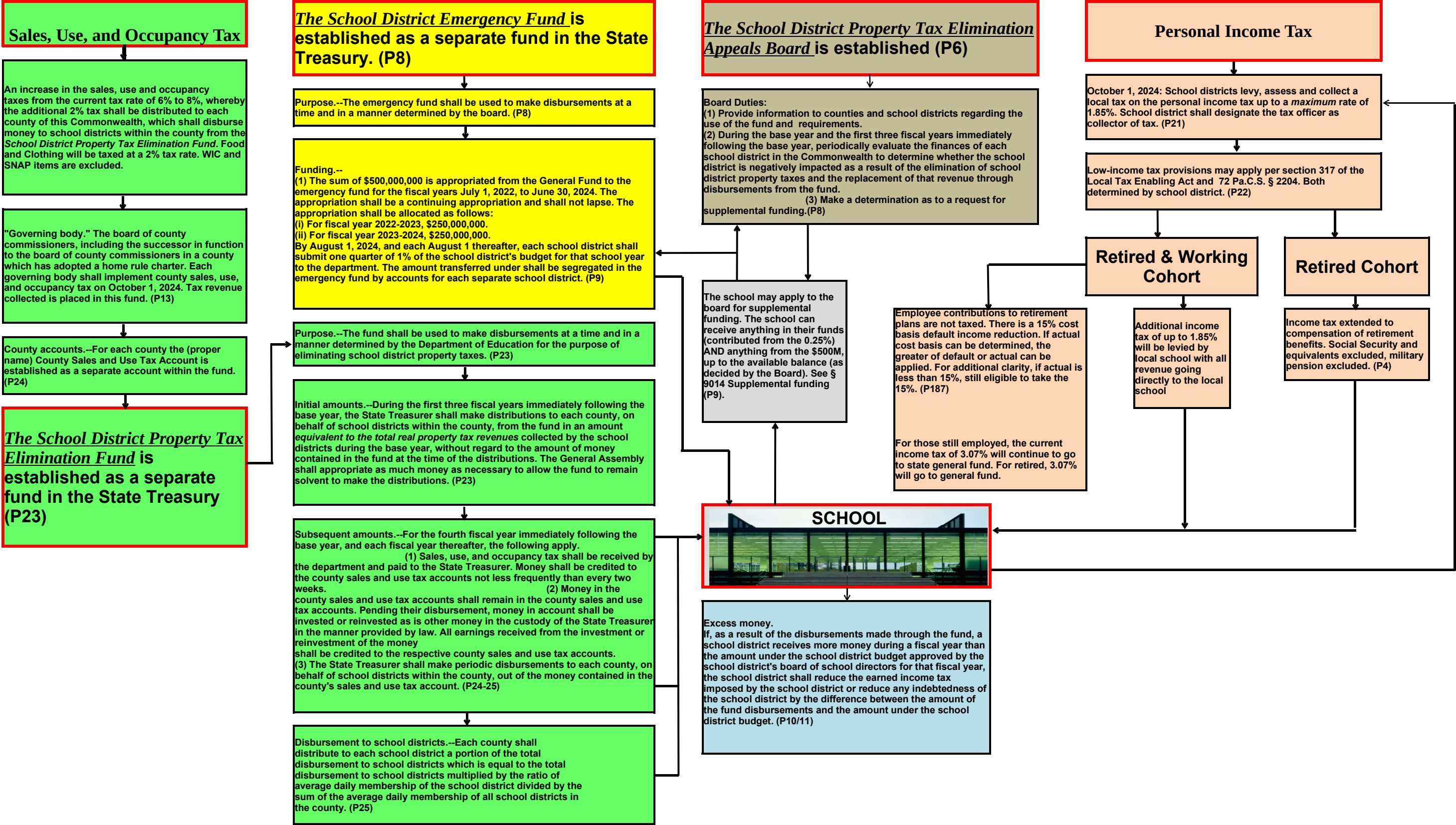
PA's **most vulnerable** are **protected** with Income Tax Forgiveness and HB13 exclusions (like SS and SNAP)



**Seniors as a whole save 50%, a majority save significantly, and those on Social Security alone save the most.**







# Former House Bill 13 (2021-22)– Bill Reference Sheet

This document serves to condense 300+ pages into an easily referenced document. It highlights the material additions/changes implemented by former HB13 (21-22).

Dates shown assume bill passes the General Assembly in calendar year 2024

## Section 1: The introduction and details of the School Property Tax Elimination Act

Page 1-4	Title/Explains the rationale for the bill
§ 9002 Page 5	Definitions (notable ones listed) <ul style="list-style-type: none"><li>• “Base year”: 1<sup>st</sup> fiscal year of SD after June 30, 2026</li><li>• 2 funds specified:<ul style="list-style-type: none"><li>• School District Property Tax Elimination Fund</li><li>• School District Emergency Fund</li></ul></li></ul>
§ 9011 Page 6	<ul style="list-style-type: none"><li>• Prohibits levy/assess/collection of property taxes for schools on beginning fiscal year after <b>Dec 31, 2026</b>, other than delinquent tax collection</li><li>• Penalty: A school reinstating property tax will not get \$ from the fund, nor impose an income tax</li></ul>
§ 9012 Page 6	Description of the members and responsibilities of the School District Property Tax Elimination Appeals Board Duties of the board: <ul style="list-style-type: none"><li>• Inform SD about fund and requirements</li><li>• Base year plus first 3 fiscal years after base year, evaluate if negatively impacted</li><li>• Make a determination on requests for supplemental funding</li></ul>
§ 9013 Page 8	SD Emergency Fund <ul style="list-style-type: none"><li>• Separate fund</li><li>• Used to make disbursements for supplemental funding</li><li>• \$500k (funded \$250k in year 2024-2025, funded \$250k in year 2025-2026)</li><li>• <b>Aug 1, 2026</b> (and thereafter): 0.25% of each SD budget should go to the fund.</li><li>• <b>Sept 1, 2026</b> (and thereafter): Dept of Edu transfers collected amount to the emergency fund</li><li>• SD may not receive more funding than contained in the emergency fund, or each SD’s individual amount (of the 0.25%)</li></ul>
§ 9014 Page 9	Supplemental Funding (from Emergency Fund) <ul style="list-style-type: none"><li>• For School Districts negatively impacted by elimination of property taxes</li><li>• Board must review the request made by SD and determine amount of funding</li><li>• Reciprocity: If no reciprocity agreement, money from General Fund gets paid to the SD</li></ul>
§ 9015 Page 10	Excess Money: <ul style="list-style-type: none"><li>• If SD receives supplemental funding that pushes it over their approved budget:<ul style="list-style-type: none"><li>○ SD must reduce Income Tax</li><li>○ or give the difference back</li></ul></li></ul>
§ 9016 Page 11	Not intended to alter the Basic Education Funding allocation
§ 9017 Page 11	Rent Reduction: <ul style="list-style-type: none"><li>• Landlord should reduce rent equal to amount of property taxes</li><li>• Except, if the last 5 years of property tax increases were not passed on to each tenant</li><li>• Amount per tenant should be based on square footage or other ‘reasonable’</li></ul>

	<p>criteria to make the reduction proportional to tenants</p> <ul style="list-style-type: none"> <li>• Timing: 1<sup>st</sup> date of rent after property tax is eliminated. Lasts through the lease end</li> <li>• Month-to-Month leases would only be reduced for the 1<sup>st</sup> month.</li> <li>• Rent reduction received is not a taxable</li> </ul>
§ 9018 Page 12	<p>Training:</p> <ul style="list-style-type: none"> <li>• Budget and Financial Management for SD officials may be administered by the Board or institution of higher education who has expertise</li> </ul>
§ 90A02 Page 13	<p>Introduction, Definitions. Notable items:</p> <ul style="list-style-type: none"> <li>• County Sales and use Tax Account: Separate account established for each county</li> <li>• Requires each county and SD to levy/assess/collect taxes</li> </ul>
§ 90A11 Page 15	<p>Subjects of Taxation:</p> <ul style="list-style-type: none"> <li>• Each county should collect taxes</li> <li>• Each SD should collect taxes within the limits of the School District</li> <li>• Ensures that these new local taxes to fund schools don't interfere with taxes collected under the "Local Tax Enabling Act" of Dec 31, 1965</li> </ul>
§ 90A12 Page 16	Taxes continue each calendar/fiscal year unless the rate of tax is increased or repealed
§ 90A22 Page 16	<p><b>Oct 1, 2026:</b> Sales, Use, and Occupancy Tax imposed at 2%, deposited into the School District Prop Tax Elimination Fund</p> <ul style="list-style-type: none"> <li>• Clothing (except sale of used clothing by 501c)</li> <li>• Food and beverages</li> <li>• Candy/gum</li> </ul>
§ 90A23-24 Page 18,19	Determines the location in which a tax is collected for. (Example: Premium Cable, it should be collected based on the service address of the customer)
§ 90A25 Page 20	Administrative/Collection costs by the Dept of Revenue can be kept
§ 90A26 Page 20	Public notice must be given
§ 90A31 – 32 Page 21	<b>Oct 1, 2026:</b> School District can impose a maximum Income Tax at 1.85%.
§ 90A33 Page 21	School Districts have the same powers for collection under the Local Tax Enabling Act
§ 90A35 Page 22	Public Notice must be given
§ 90A41 Page 22	References how credits are handled. Uses section 317 of the Local Tax Enabling Act
§ 90A42 Page 22	Low-income tax provisions: Poverty provisions should be considered by school districts
§ 90A51 Page 23	<p>SD Property Tax Elimination Fund</p> <ul style="list-style-type: none"> <li>• Separate fund in the State Treasury</li> <li>• Dept of Edu makes disbursements to school districts</li> <li>• Fund sources: Money collected, Money appropriated/transferred, Interest, Grants/gifts/donations</li> </ul>
§ 90A52 Page 23	<p>Payments to Counties:</p> <ul style="list-style-type: none"> <li>• First 3 years following base year: SD is funded the amount equivalent to Prop Tax collected in the base year</li> <li>• Fund must be kept solvent by the Gen Assembly</li> <li>• Each county "County Sales and use Tax Account" has a separate account in the fund</li> <li>• 4<sup>th</sup> year, Taxes collected go to the county accounts at least every 2 weeks</li> </ul>



	<ul style="list-style-type: none"> <li>• Money must stay in the fund. Can be invested, but interest goes to each account</li> <li>• Treasurer makes disbursements to each county from the Sales and use tax account</li> </ul>
§ 90A53 Page 25	Payments by Counties: <ul style="list-style-type: none"> <li>• Each county should distribute a portion to school districts:               <ul style="list-style-type: none"> <li>○ Total disbursement x (avg Daily Membership / Daily membership of all SD in county)</li> <li>○ If spanning more than 1 county, multiply by a factor of square milage for each SD</li> </ul> </li> </ul>

## Section 2: Title 72 / Act II and III consolidation

Most of this section is not changing. It's consolidation of Title 72 "Act II" and "Act III" with formatting changes to fit a new format. ONLY items that have materially changed are listed below:

PAGE/SECTION/LINE	WHAT CHANGED
§ 1321 (17) Page 89	Permits the 2% clothing tax from being exempted ("Except as provided for under subparagraph (ii)")
§ 1321 (19) Page 89	Permits the 2% food/beverage tax from being exempted ("Except as provided for under subparagraph (ii)")
§ 1358 Page 123	Added: <b>Oct 1, 2021</b> : 2% tax on remote sellers goes to counties
§ 2102 Definitions "Compensation" (2)(ii) Page 186	Compensation expanded to include retirement, and excludes SS, SS 'in lieu of', Military, and contributions as part of distributions
§ 2102 Definitions "Compensation" (3)(iii) Page 187	Removed the exception for retirement income
§ 2102 Definitions "Compensation" (3)(iii.1) Page 187	After <b>December 31, 2026</b> : Compensation does not include contributions made to retirement plans
§ 2102 Definitions "Poverty Income" (3) Page 193	Clarified "Poverty Income" verbiage so that SS/SS-in-lieu-of/Military/Contributions are not counted as poverty income
§ 2102 Definitions "Social Security substitute pension" Page 195	Defined what "Social Security substitute pension" is

## Section 3: Repeals

Section 3 (2) (i) Page 310	Section of "The Fiscal Code" repealed	Section 1730-E. Department of Revenue. (a) Income.--For the purposes of section 1303 of the act of June 27, 2006 (1st Sp.Sess., P.L.1873, No.1), known as the Taxpayer Relief Act, the definition of "income" shall exclude, for a person who receives pension benefits as a beneficiary through the Federal Civil Service Retirement System that accrued during a period of employment for which the beneficiary was not required to make contributions under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et seq.), an amount determined by the
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	Unreserved Fund Balances”	
Section 3 (5) through (8) Page 310,311	Repeals Article II (Sales) and III (Income) and replaces it with consolidated Article II Subpart A (Sales) and B (Income)	
Section 3 (9) (i) Page 311	Blanket statement that covers “any other law” that permits levy/assess/collection of property tax	
Section 3 (9) (ii) Page 311	Ensures 1 <sup>st</sup> class cities that created their own charters (like SD of Phila) don’t have any conflicting language with HB13	<a href="https://legis.pa.gov/legislation/acts/act_detail.aspx?act=2023-0001">First Class City Public Education Home Rule Act (state.pa.us)</a>
Section 3 (9) (iii) Page 311	Blanket statement for any other items in the Taxpayer Relief Act	
Section 3 (10) Page 311	Blanket statement that repeals “all acts and parts of acts” that conflict	

## Section 4-7: Notes / Effective Dates

Section 4 (1) Page 311	Ensures continuity of Title 72 during transition from ‘repealed’ to new consolidated state
Section 4 (2) Page 312	No material changes, despite tons of consolidation, with exceptions below
Section 4 (3) Page 312	Calls out exceptions where material changes were made. Nothing new that hasn’t already been identified above.
Section 5 (1) Page 312	Article III (Personal Income Tax) was merged into Article II (Sales Tax), and this section ensures continuity during transition from ‘repealed’ to new ‘consolidated’ state
Section 5 (2) Page 313	No material changes, despite tons of consolidation, with exceptions below
Section 5 (3) Page 313	Calls our exceptions where material changes were made. Nothing new that hasn’t been identified already
Section 6 (1) Page 313	Repeals begin for prohibition of Prohibit levy/assessment/collection of property taxes by SD beginning <b>Jan 1, 2025</b> if schools use Jan-Dec fiscal year
Section 6 (2) Page 313	Repeals begin for prohibition of levy/assessment/collection of property taxes by SD beginning <b>Jul 1, 2025</b> if schools use Jul-Jun fiscal year
Section 7 Page 313	<p><b>Oct 1, 2024:</b></p> <ul style="list-style-type: none"> <li>Statutes are consolidated into ‘Part II’ of 72 Pa.C.S (Sales/Income tax)</li> <li>Section 3(6) (Act II for sales tax) repealed</li> <li>Section 3(8) (Act III for income tax) repealed</li> </ul> <p><b>Jan 1, 2025:</b></p> <ul style="list-style-type: none"> <li>Section 3 (all other repeals) go into effect</li> </ul> <p><b>Immediately:</b></p> <ul style="list-style-type: none"> <li>“the remainder of this act shall take effect immediately”</li> </ul>

[Pa. bill for school funding offers a bold and comprehensive solution to a major problem | Letter - lehighvalleylive.com](#) (Published June 23, 2023)

The discussion surrounding school funding in Pennsylvania has long revolved around the need for increased financial resources. An [analysis-based](#) state data suggests that implementing House Bill 13 during the 2015-16 school year could have provided as much as an additional \$5.1 billion for schools, surpassing all revenue increase proposals.

While this analysis was not conducted by the state, data used in this good faith estimate is readily available. Additional analyses are welcome and highly encouraged for verification, particularly by a savvy legislator who grasps the potential impact. Private citizens cannot request analysis by the Pennsylvania Independent Fiscal Office.

There are a couple key takeaways from this estimate.

The analysis shows the staggering potential financial impact of House Bill 13, which eliminates funding through property taxes. By redirecting funds that would have been collected as property tax revenue, this legislation could have significantly bolstered school budgets. The proposed increase surpasses all current revenue plans, providing an opportunity to address the persistent underfunding plaguing Pennsylvania's education system.

Existing funding proposals only perpetuate the shortcomings of the current system. Incremental changes and short-term fixes have proven insufficient. In contrast, House Bill 13 offers a bold and comprehensive solution that tackles the problem head-on.

By advocating for the elimination of the current funding structure, the bill breaks free from the limitations imposed by the status quo. It recognizes the urgent need for change and seizes the opportunity to transform Pennsylvania's educational landscape. This legislation represents a departure from myopic thinking and a commitment to long-term, sustainable improvement.

Respectfully,

Robert Kistler  
1090 Mahoning Dr W  
Lehighton, PA. 18235  
610379-5090  
[skiortee@aol.com](mailto:skiortee@aol.com)

## Supporting Information

**Table 1** is data used (sources cited) for this analysis. The Potential School Property Tax Replacement Revenue is an IFO generated table.

Estimated HB13 Impact on School District Property Taxes							
Primary HB13 Revenue Generators - Increase SUT to 8% and PIT to 4.92%							
School Fiscal Year	15-16	16-17	17-18	18-19	19-20	20-21	21-22
School District Revenue - RE Taxes (PA AFR Data)	\$12,614,952,889	\$13,052,096,839	\$13,510,873,698	\$13,929,896,489	\$14,285,757,568	\$14,576,408,407	\$14,998,408,154
SUT Annual Revenue (PA IFO Data)	\$9,795,200,000	\$10,005,200,000	\$10,381,400,000	\$11,099,600,000	\$10,817,800,000	\$12,834,900,000	\$13,914,300,000
Each 1% SUT Revenue	\$1,632,533,333	\$1,667,533,333	\$1,730,233,333	\$1,849,933,333	\$1,802,966,667	\$2,139,150,000	\$2,319,050,000
2% SUT Revenue Increase to Base (HB13)	\$3,265,066,667	\$3,335,066,667	\$3,460,466,667	\$3,699,866,667	\$3,605,933,333	\$4,278,300,000	\$4,638,100,000
PIT Annual Revenue (PA IFO Data)	\$12,506,000,000	\$12,664,400,000	\$13,399,000,000	\$14,095,500,000	\$12,835,000,000	\$16,283,400,000	\$18,125,700,000
Each 1% PIT Revenue	\$4,073,615,835	\$4,125,211,726	\$4,364,495,114	\$4,591,368,078	\$4,180,781,759	\$5,304,039,088	\$5,904,136,808
1.85% PIT Revenue Increase to Base (HB13)	\$7,536,188,925	\$7,631,641,694	\$8,074,315,961	\$8,494,030,945	\$7,734,446,254	\$9,812,472,313	\$10,922,653,094
Subtotal HB13 Revenue - SUT & PIT ONLY	\$10,801,255,592	\$10,966,708,360	\$11,534,782,628	\$12,193,897,611	\$11,340,379,587	\$14,090,772,313	\$15,560,753,094
HB13 SUT/PIT Revenue Compared to School District Revenue - RE Taxes	(\$1,813,697,297)	(\$2,085,388,478)	(\$1,976,091,070)	(\$1,735,998,878)	(\$2,945,377,980)	(\$485,636,095)	\$562,344,940
Additional HB13 Revenue Generator - Clothing and Food (WIC and SNAP)							
2% SUT on Food	\$506,085,333	\$516,935,333	\$536,372,333	\$573,479,333	\$558,919,667	\$663,136,500	\$718,905,500
2% SUT on Clothing	\$222,024,533	\$226,784,533	\$235,311,733	\$251,590,933	\$245,203,467	\$290,924,400	\$315,390,800
Subtotal HB13 Revenue - SUT/PIT Base Clothing, Food	\$11,529,365,458	\$11,710,428,227	\$12,306,466,694	\$13,018,967,878	\$12,144,502,721	\$15,044,833,213	\$16,595,049,394
HB13 SUT/PIT Base Clothing, Food Compared to School District Revenue - RE Taxes	(\$1,085,587,430)	(\$1,341,668,612)	(\$1,204,407,003)	(\$910,928,611)	(\$2,141,254,847)	\$468,424,805	\$1,596,641,240
Additional HB13 Revenue Generator - Retirement Tax							
RIT	\$1,220,862,606	\$1,236,325,954	\$1,308,039,186	\$1,376,033,013	\$1,252,980,293	\$1,589,620,515	\$1,769,469,801
HB13 Revenue Total - 2% Base, Clothing, Food SUT/PIT, RIT Revenue (HB13)	\$12,750,228,064	\$12,946,754,182	\$13,614,505,880	\$14,395,000,891	\$13,397,483,014	\$16,634,453,727	\$18,364,519,196
HB13 School Property Tax Replacement Impact	\$135,275,175	(\$105,342,657)	\$103,632,182	\$465,104,402	(\$888,274,554)	\$2,058,045,320	\$3,366,111,041
<b>Cumulative HB13 School Property Tax Replacement Impact</b>							<b>\$5,134,550,911</b>

Note: IFO PIT and SUT presented in \$M, converted to \$B so direct compare to RE taxes

Source SUT/PIT Revenue

<http://www.ifo.state.pa.us/releases/type/1/Revenue-&Economic-Update/>

Source School District Revenue (Re (Taxes)

<https://www.education.pa.gov/Teachers%20-%20Administrators/School%20Finances/Finances/AFR%20Data%20Summary/Pages/AFR-Data-Detailed-.aspx>

**Table 1**

Potential School Property Tax Replacement Revenues				
	22-23	23-24	24-25	25-26
Raise SUT by 1.5 ppt (7.5%)	\$3.21	\$3.32	\$3.43	\$3.54
Raise SUT by 2.0 ppt (to 8.0%)	\$4.26	\$4.40	\$4.55	\$4.69
2.0% SUT on Food (exclude SNAP-WIC)	0.66	0.68	0.70	0.73
2.0% SUT on Clothing	0.29	0.30	0.31	0.32
Raise PIT from 3.07% to 4.92%	9.17	9.57	10.00	10.43
Tax Retirement Income at 4.92% (see notes)	1.49	1.58	1.67	1.78
<b>TOTAL</b>	<b>15.86</b>	<b>16.53</b>	<b>17.22</b>	<b>17.93</b>

Note: Billions of dollars. SUT is sales and use tax. PIT is personal income tax. Retirement income excludes Social Security. Estimates assume other Retirement Income of \$4M used as a distribution such as 10,000 DC persons, IRA withdrawals and annuities. Assumes that income previously used on the budget to offset from gross income are replaced a second time.  
Source: Independent Tax Office

Clothing Multiplication Factor determined from above table  
0.29/4.26 **0.068**

Food Multiplication Factor determined from above table  
0.66/4.26 **0.155**

21-22 numbers in ball park with above 22-23 numbers and would be expected to be higher since SUT and PIT revenues higher than were projected when above table created by IFO.

RIT Multiplication Factor determined from above table  
1.49/9.17 **0.162**

**Hold harmless drives distortion in school funding (Published by the Morning Call on July 16, 2023)**

Hold harmless policy ensures that schools cannot experience a decrease in funding compared to any previous year. The fault of this policy is its inability to consider change in district enrollment. [Since 1992, 313 school districts have lost students.](#)

An analysis of [PDE AFR revenue data](#) raised through local school district tax funding as a percentage of all funding sources ranges from 10% in one school district to a mind boggling 85% in another school district. This distortion is primarily driven by hold harmless policy.

The inequitable funding [court](#) order emphasized that funding already relies too heavily on school property taxes. Utilizing property taxes to help approach level-up funding is not possible without burdening many with draconian tax increases and perpetuating the very funding policy that compelled the court to rule Pennsylvania school funding unconstitutional. With property taxes seemingly off the table, how will the legislature address the issue? It will be interesting to watch the myriad of proposals that will range from the laughable to misguided to [excessively](#) costly.

The legislature created its own predicament by neglecting the issue of "hold harmless." Realistically, they have no alternative but to scrap the current funding system and transition to a tax shift such as [HB13](#).

Respectfully,

Robert Kistler  
1090 Mahoning Dr W  
Lehigh, PA. 18235  
610379-5090  
[skiortee@aol.com](mailto:skiortee@aol.com)

**Supporting Information**

Please reference the following excel and [tableau](#) generated heat maps. The maps were created using data from the [PDE AFE Revenue website](#) using 2019-2020 data, the most recent data available when tableau maps generated. No significant funding changes have been implemented that would appreciably impact this data.

Revenue data from all school funding sources was entered into an excel spreadsheet. **Table 2** is presented to show how data is formatted. This data was then loaded into tableau. I sorted the data to show a few of the school districts where taxpayers contribute the least and the most local school property taxes as a percentage of all funding sources.

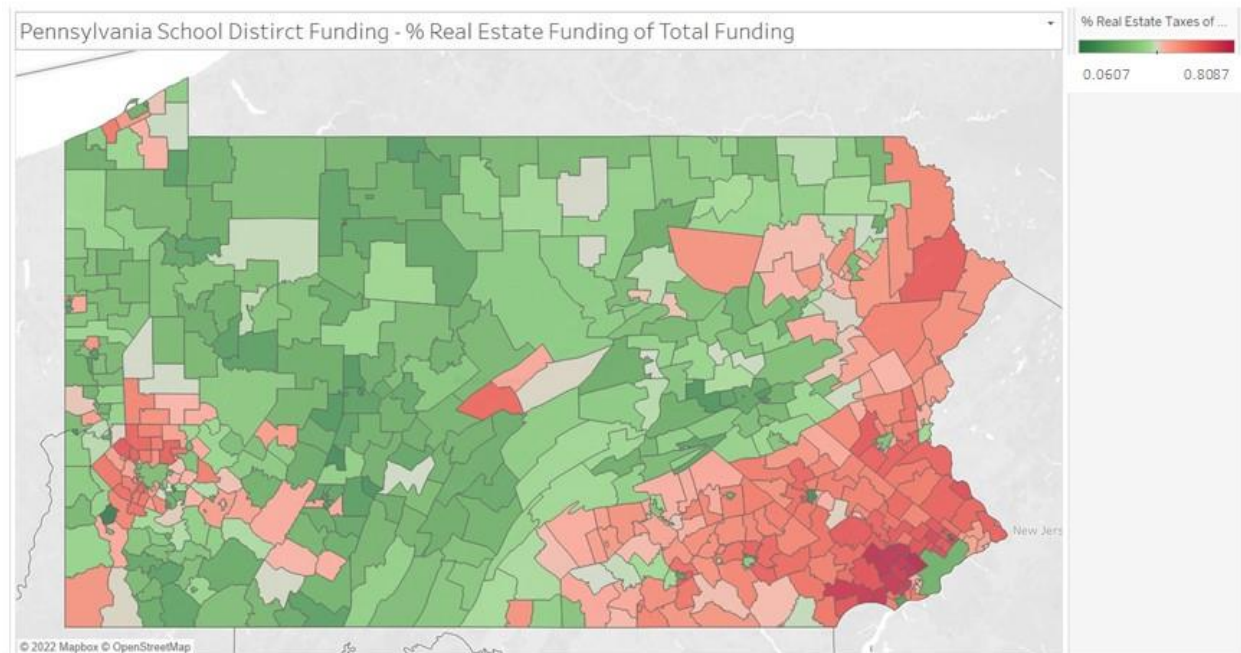
**Map 1-5** are tableau generated heat maps that show the percent of each funding source as a percent of all funding sources.

**Map 6** is a heat map (source cited on map) that show Pennsylvania migration trend and correlates very well with tableau heat maps.



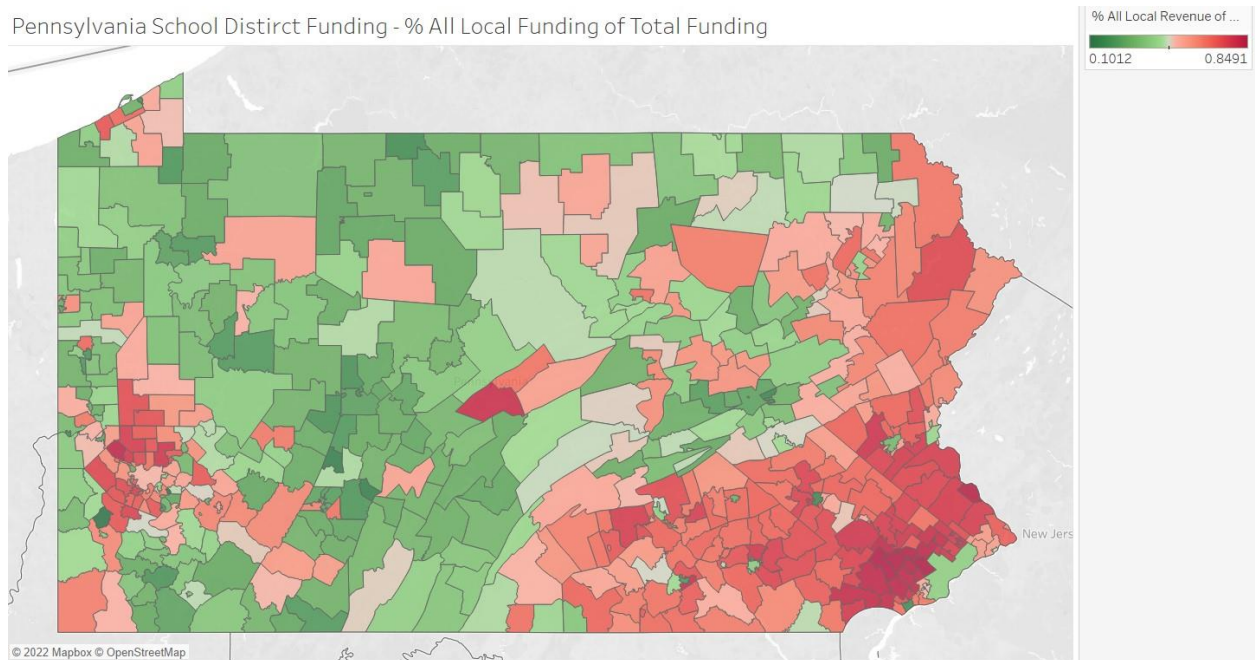
SCHOOL_DIS	% Real Estate Taxes of Total Revenue (E/P)	% All Local Revenue of Total Revenue	% State Revenue of Total Revenue	% Federal Revenue of Total Revenue	% Other Revenue of Total Revenue
Duquesne City SD	6.07%	10.12%	84.85%	4.72%	0.31%
Reading SD	6.88%	16.92%	75.90%	6.84%	0.33%
Blacklick Valley SD	7.20%	13.71%	49.79%	2.32%	34.18%
Portage Area SD	8.62%	13.78%	50.21%	1.50%	34.51%
Midland Borough SD	9.38%	18.40%	74.61%	4.13%	2.87%
SCHOOL_DIS	% Real Estate Taxes of Total Revenue (E/P)	% All Local Revenue of Total Revenue	% State Revenue of Total Revenue	% Federal Revenue of Total Revenue	% Other Revenue of Total Revenue
Lower Merion SD	80.87%	84.91%	14.55%	0.54%	0.00%
Great Valley SD	78.33%	84.49%	14.98%	0.53%	0.00%
Upper Merion Area SD	77.58%	83.66%	14.40%	0.89%	1.05%
Tredyffrin-Easttown SD	77.57%	84.17%	15.08%	0.74%	0.00%
Haverford Township SD	77.44%	81.81%	17.55%	0.65%	0.00%

**TABLE 2**



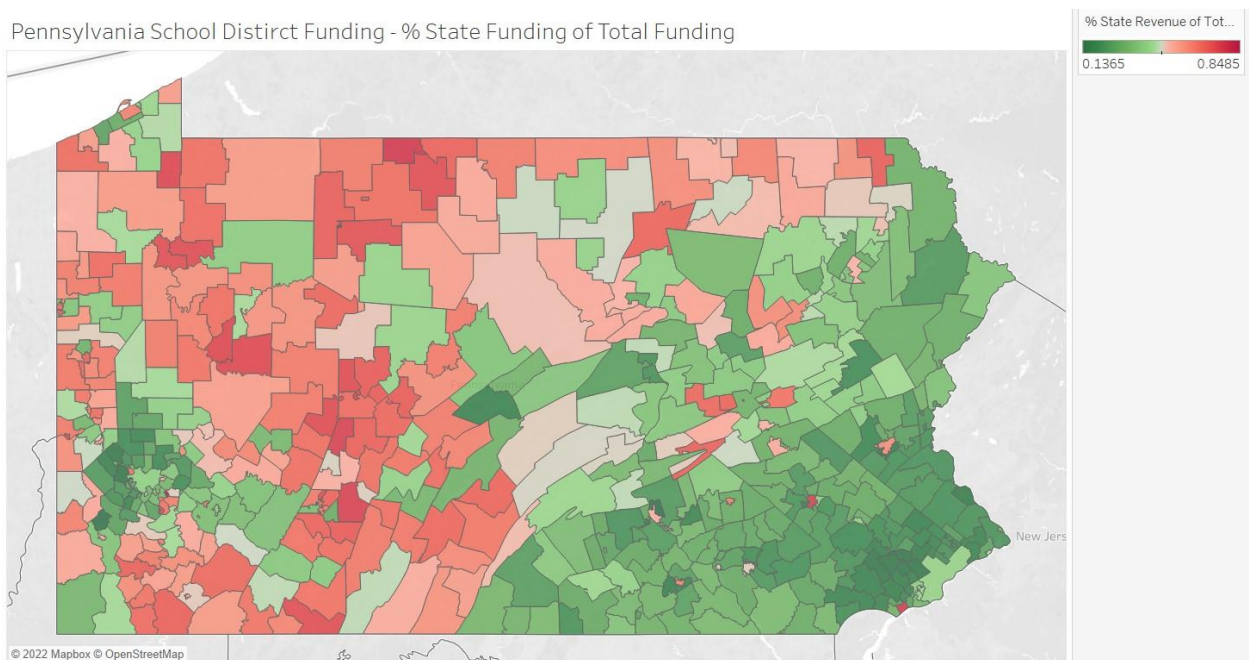
**MAP 1 - % School Property Taxes (RE) as a % of ALL Funding Sources**  
**Range 6.07% - 80.67%**

Pennsylvania School District Funding - % All Local Funding of Total Funding



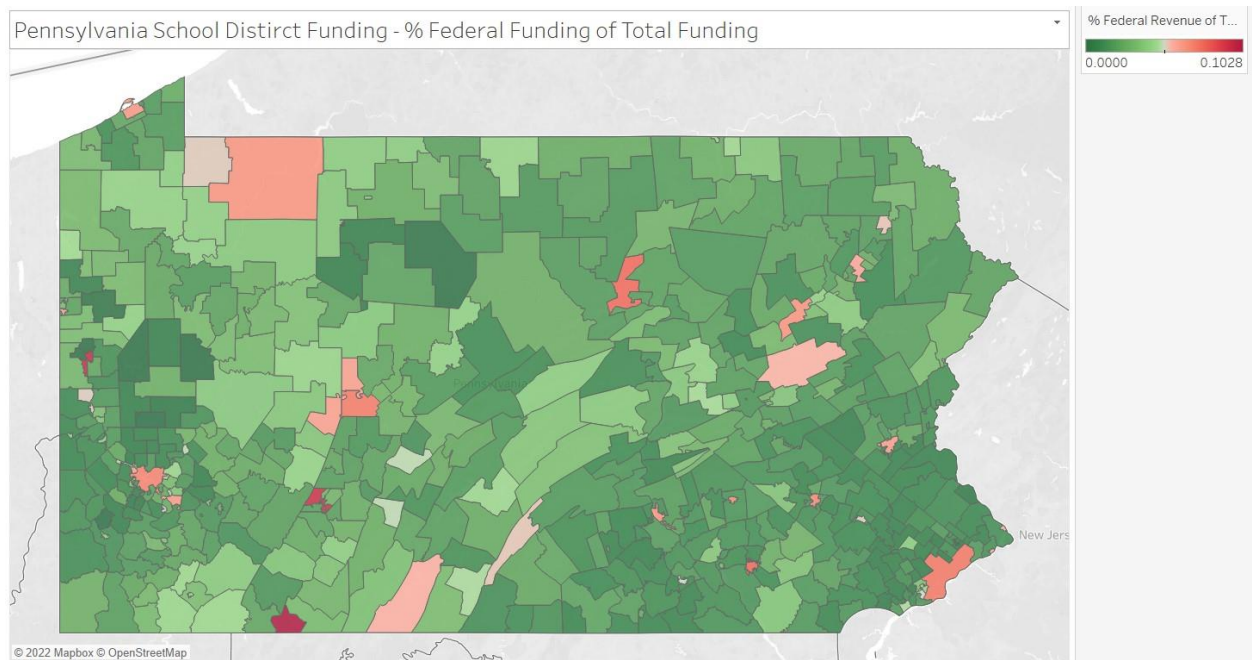
**MAP 2 - % All Local School Property Taxes (RE) as a % of ALL Funding Sources**  
**Range 10.12% - 84.91%**

Pennsylvania School District Funding - % State Funding of Total Funding

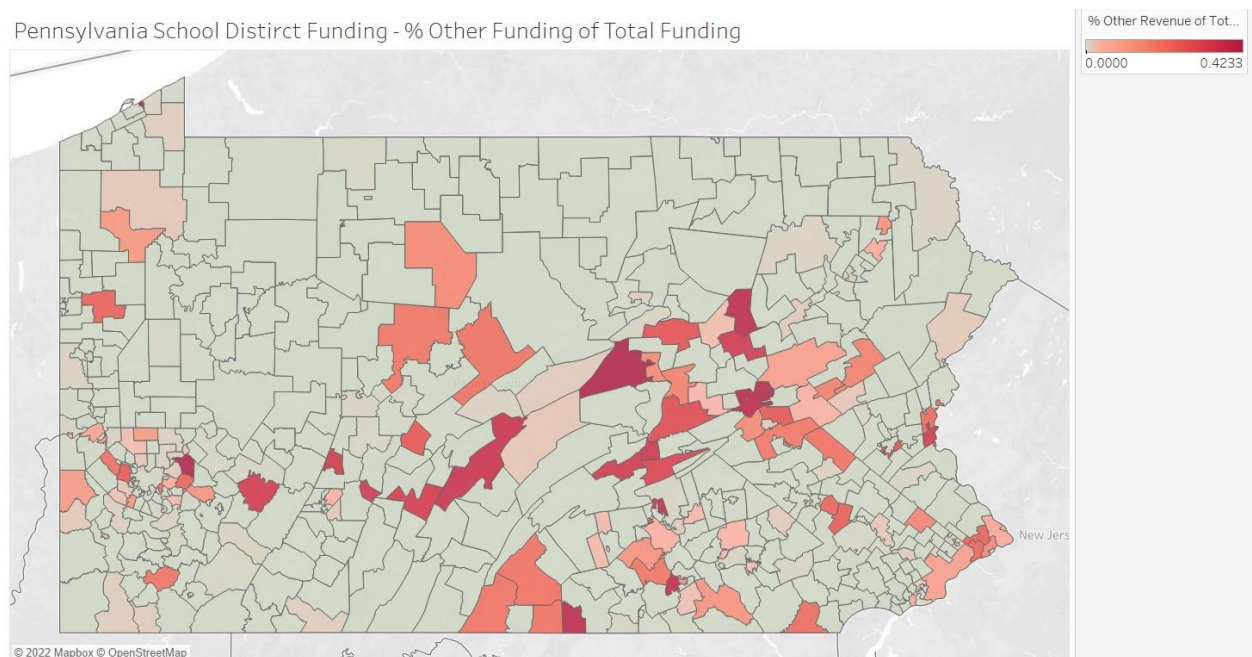


**MAP 3 - % State Funding (RE) as a % of ALL Funding Sources**  
**Range 13.65% - 84.85%**





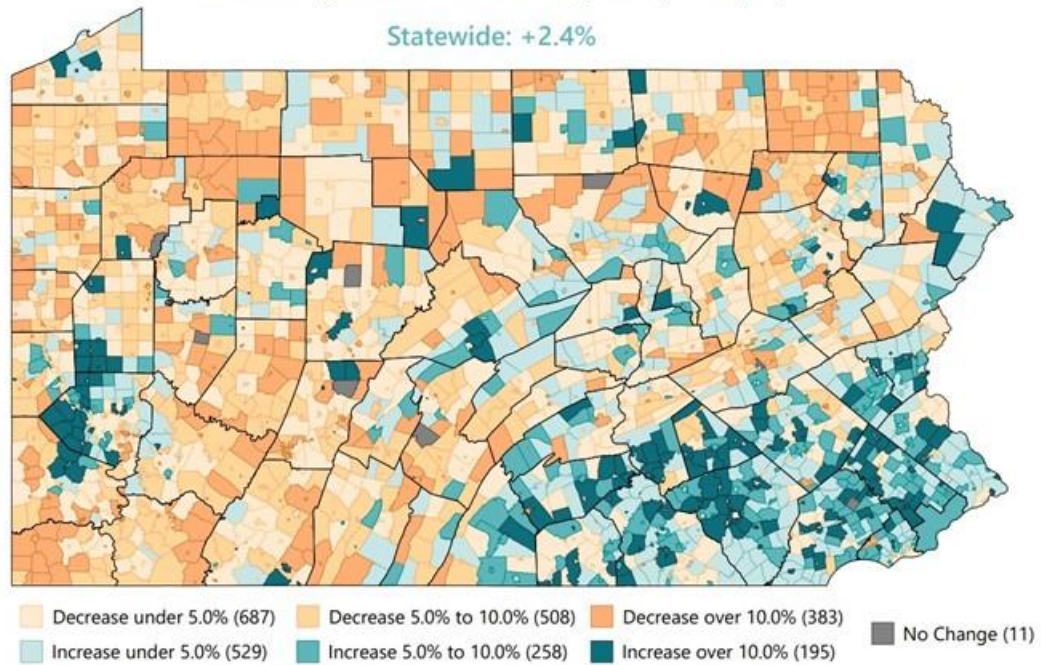
**MAP 4 - % Federal Funding as a % of ALL Funding Sources**  
Range 0.00% - 10.28%



**MAP 5 - % Federal Other Funding as a % of ALL Funding Sources**  
Range 0.00% - 42.33%

## Census 2020: Percent Change since 2010

Percent Change in P.L. 94-171 Redistricting Data by Municipality



[https://pasdc.hbg.psu.edu/sdc/pasdc\\_files/mapsofthemonth/SubCtyPctChg\\_10-20.pdf](https://pasdc.hbg.psu.edu/sdc/pasdc_files/mapsofthemonth/SubCtyPctChg_10-20.pdf)

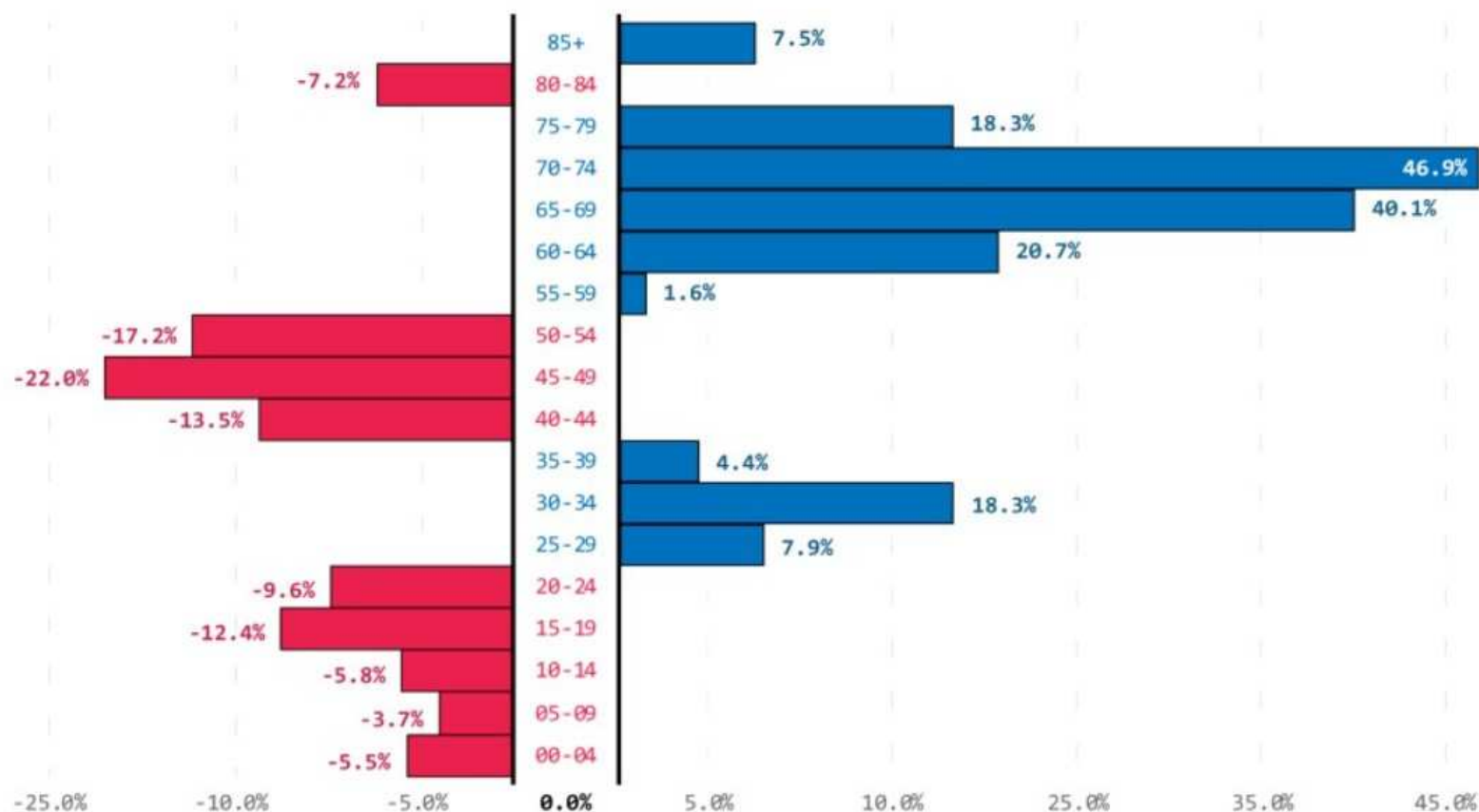
### MAP 6 – Pennsylvania Migration Trend 2010 – 2020

PASDC - Pennsylvania State Data Center

## Trends in Pennsylvania's Population by Age



Pennsylvania's older population cohorts continued to grow from 2010 to 2020 [Figure 1]. The population age 65 to 69 and age 70 to 74 were the fastest growing cohorts (40.1% and 46.9%, respectively). Outside of its older population, Pennsylvania also experienced notable growth in its young adult population in the age 25 to 29 and age 30 to 34 cohorts (7.9% and 18.3%, respectively).



**Figure 1.** Percent change in Pennsylvania's population by age cohort from 2010 to 2020.

## **JUST THE FACTS! YOU MAY BE IN DANGER OF LOSING YOUR HOME!**

### **SCHOOL PROPERTY TAX ELIMINATION ACT -HB13.**

For nearly two decades legislators have stated that property taxes are one of their most consistent complaints from constituents.

Under HB13, 100% of School Property Tax replacement funding comes from increasing Sales and Use Tax (SUT) and Personal Income Tax (PIT).

1. Renters make up 40% of Pennsylvania residents. HB13 includes a tenant rent reduction equal to their portion of the landlord's School District Property Tax (estimated at 10-13% reduction in rent based on statewide averages)
2. Current school debt will be paid for by HB13
3. All money collected will flow directly to local School Districts, eliminating possible misuse by Harrisburg
4. HB13 does not expand the existing set of goods and services taxed, but does add food (WIC & SNAP purchases excluded), and clothing at a local 2% rate
5. The statewide cost of caring for seniors increases annually, creating a two-fold problem:
  - (1) Young people leaving Pennsylvania for better employment opportunities and lower taxes, and
  - (2) the over-65 population is increasing while working-age population is decreasing.

Asking the working-age population to shoulder the entire tax burden is not fair. Rep. Ryan looked for a way to balance the cost of funding schools fairly across all age cohorts while reducing overall cost in a constitutionally valid way. It exempts Social Security (and equivalent) incomes from income tax.

By doing so, seniors would pay a more reasonable share, based on state demographics, toward eliminating school property taxes. Seniors who make up 20% of the population will pay 20% of the total tax burden. (SUT/PIT), while ages 0-64 make up the rest, a significant majority of the revenue. Currently, seniors pay 32% of homestead School District Property Taxes.

There is no easy or perfect way to replace \$ 16B of taxes without asking everyone to pitch in a fair share. HB 13 corrects the existing unfairness so that 80% of state funding comes from those under the age of 65, which makes up 80% of Pennsylvania's population.

### **WHERE WILL THE MONEY COME FROM?**

HB13 would utilize the Sales and Use Tax (SUT) and personal income tax (PIT) to replace school property taxes. The SUT would increase from 6 to 8%; clothing and food would be subject to a 2% SUT (except WIC & SNAP ITEMS). Personal income tax (PIT) would be raised from 3.07% to 4.92%. Currently PIT is applicable to only those working. Under HB13 the PIT would be expanded to include SOME retirement income. These revenue sources are sufficient to fully fund schools.

### **WON'T THE INCOME AND SALES TAXES NEED ANNUAL RATE INCREASES LIKE PROPERTY TAX DOES NOW?**

Historically, the revenue from both SUT and PIT increases due to annual wage gains and increased cost of products and services. These natural increases have funded our state budget for years with no increases needed. SUT rate has not risen in more than 50 years. PIT has risen only 0.77% in 50 years; the last increase was in 2004. It is important to remember that raising either the PIT or the SUT would still require statewide legislative action. That is much harder to do than raising School Property Taxes!



#### WILL THE LOCAL MONEY GO TO HARRISBURG?

Revenue associated with the tax increases will be implemented and collected locally rather than at the state level. By implementing the tax increases at the local level all revenue collected is sent directly to the LOCAL SCHOOL DISTRICTS! There is NO redistribution of funding by money first going to Harrisburg, then to the School Districts.

For more information, please visit the volunteer groups below that support fully funding schools through HB13 School Property Tax Elimination Act along with a newly released website that includes a PERSONAL IMPACT ESTIMATOR.

Respectfully submitted,

Robert Kistler-Bipartisans for School District Property Tax Shift (FB)

Ron Snell-MARCH ON HARRISBURG! (FB)

Henry Rothrock & Robert Kistler PTCC-PENNSYLVANIA TAXPAYERS CYBER COALITION (FB)

Henry Rothrock [www.PTCC-us.org](http://www.PTCC-us.org) (website)

Ryan Pertusio [www.NoProp.tax](http://www.NoProp.tax) (website)



## 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.<sup>1</sup> 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

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<sup>1</sup> 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_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.<sup>2</sup>

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.

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<sup>2</sup> 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 <sup>1</sup>	533	534	535	535	535	535	535	535
Delinquent <sup>2</sup>	<u>551</u>	<u>565</u>	<u>488</u>	<u>616</u>	<u>618</u>	<u>622</u>	<u>645</u>	<u>668</u>
<b>Total</b>	<b>15,014</b>	<b>15,400</b>	<b>15,131</b>	<b>15,746</b>	<b>16,308</b>	<b>16,952</b>	<b>17,585</b>	<b>18,188</b>

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 Actual	2019-20 Actual	2020-21 Enacted
Department of Aging:			
State <sup>1</sup> .....	\$25,771	\$2,056	\$2,108
Lottery <sup>2</sup> .....	520,470	465,464	474,398
Federal <sup>3</sup> .....	158,702	174,564	105,261
Department of Human Services:			
State <sup>4</sup> .....	3,043,345	3,239,239	3,554,224
Lottery <sup>5</sup> .....	372,355	337,513	352,466
Federal <sup>6</sup> .....	3,581,971	4,537,251	5,334,755
Department of Revenue:			
Lottery <sup>7</sup> .....	155,343	288,372	0
Department of Transportation:			
Lottery <sup>8</sup> .....	165,429	170,907	170,907
Department of Military and Veterans Affairs:			
State <sup>9</sup> .....	116,356	112,461	109,803
Federal <sup>9,10</sup> .....	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
<b>Total All Funds.....</b>	<b>8,202,356</b>	<b>9,405,980</b>	<b>10,190,690</b>

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 Amount	Estimated Low	Estimated Senior High	Total Amount	Estimated Low	Estimated Senior 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>
<b>Total or Weighted Average</b>	<b>16.3</b>	<b>19.3</b>	<b>28,100</b>	<b>4,579</b>	<b>5,422</b>	<b>29,142</b>	<b>4,768</b>	<b>5,642</b>
<u>Other Major Taxes</u>								
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>
<b>Total</b>	<b>-2,529</b>	<b>-2,336</b>	<b>-11,936</b>	<b>-9,183</b>	<b>3,162</b>	<b>12,361</b>	<b>3,513</b>

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
<b>Pennsylvania</b>	<b>exempt</b>	<b>exempt</b>	<b>exempt</b>
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
<b>Additional SUT<sup>1</sup></b>	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 <sup>2</sup>	2.00%	575	607	638	660	682	705	729
Clothing <sup>3</sup>	2.00%	252	265	278	287	297	306	316
<b>Additional PIT<sup>4</sup></b>	1.85%	8,019	8,107	8,428	8,844	9,235	9,638	10,056
<b>Retirement Income<sup>5</sup></b>	4.92%	1,246	1,323	1,383	1,471	1,561	1,652	1,751
State Share	3.07%	778	825	863	918	974	1,031	1,092
Local Share	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.



## INDEPENDENT FISCAL OFFICE

May 16, 2022

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

Dear Representative Ryan:

On April 12, 2022, the Independent Fiscal Office (IFO) provided updated estimates for potential property tax replacement revenues proposed under House Bill 13. This letter responds to your April 20 request for additional information related to those estimates.

### **Estimates Adjusted for Effective Dates**

The IFO projects that an October 1 effective date for the proposed sales and use tax (SUT) changes would yield roughly 70% of the full-year revenue estimate. For fiscal year (FY) 2022-23, the full-year SUT estimate is \$5.2 billion (\$4.3 billion for the rate increase, \$0.7 billion for the new 2% tax on clothing and \$0.3 billion for the new 2% tax on food). Assuming an effective date of October 1, 2022, roughly \$3.7 billion (\$5.2 billion \* 70%) in additional revenue would be collected in FY 2022-23. The same percentage can be applied to other full-year SUT estimates based on the anticipated year of implementation.

For personal income tax (PIT), the IFO assumes an effective date of January 1, because a mid-year PIT increase would be difficult to implement, particularly for the new tax on retirement income (and associated new exemption for contributions to retirement accounts). Adjusting for a January 1 effective date, the IFO estimates that roughly 40% of the full-year PIT impact would be received in the first fiscal year. For FY 2022-23, the full-year PIT estimate is \$11.1 billion (\$9.6 billion for the rate increase and \$1.5 billion for the state and local tax on retirement income). Assuming an effective date of January 1, 2023, roughly \$4.5 billion (\$11.1 billion \* 40%) would be received in FY 2022-23. Again, this same percentage can be applied to other fiscal year estimates based on the anticipated date of implementation.

These estimates should be viewed as approximations and include the impact of changes in behavior and compliance at full implementation for each of the proposed tax increases. In the short term, taxpayers may have a stronger reaction to the tax increase. In addition, the estimates are not reduced for administrative costs, which would likely be significant under this proposal.

Rachel Carson State Office Building, 400 Market Street, Harrisburg PA 17105  
[www.ifo.state.pa.us](http://www.ifo.state.pa.us) | (717) 230-8293 | [contact@ifo.state.pa.us](mailto:contact@ifo.state.pa.us)

### **School District Cash Balances**

According to annual financial reports filed with the Pennsylvania Department of Education, the total school district unassigned fund balance for fiscal year ending 2020 was \$1.975 billion. For fiscal year ending 2021, the unassigned fund balance increased to \$2.207 billion. Both years include school districts reporting negative unassigned fund balances.

If you have any questions regarding this information, 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