Pennsylvania Tax Shift Bill Moves to the Senate

By Tom Branham, Washington D.C.

The Pennsylvania Senate is debating proposed legislation that provides property tax relief in exchange for higher sales and personal income taxes. The measure is similar to another bill that was approved by the Pennsylvania House last fall but never came up for a vote by the full Senate.

HB 504

House Bill 504 would boost the sales tax by nearly 17 percent, from 6% to 7%, and from 7% to 8% in Allegheny County. At the same time, the income tax rate would increase by 20%, from 3.07% to 3.7%.

The biggest beneficiaries would be homeowners. The state would use the new pool of money, $4.3 billion in the first full year, for larger homestead exemptions on owner-occupied residences and to send dollars to school districts in exchange for them reducing their millage rates.

The Education Department would tally the new tax revenue and divvy it up among Pennsylvania’s 500 school districts, bringing the state’s share of funding to 50%. The same rules that now cap property tax increases would remain in effect, meaning school boards still could raise rates modestly but, if they chose to go higher, they’d require a state waiver or approval from voters.

SIMILAR TO THE GOVERNOR’S PLAN

HB 504 has striking similarities to the tax plan that Governor Tom Wolf announced in March. Analysts say one advantage of this bill is that the sales tax would have the same exemptions that it has today. It would not be extended to college tuition, nursing home care, legal and professional services or a long list of other items, as the governor proposed.
Another advantage is that all of the money from the sales and income tax increases would go toward property tax cuts, either through homestead exemptions or direct millage reductions. The governor’s plan would have kept some of the money to increase school funding.

**NO EASY ANSWERS**

Majority Leader Dave Reed said many people mistakenly believe elimination of property taxes is a simple matter.

“There’s an expectation among those in the public that there’s an easy fix; that there’s a pot of gold at the end of the rainbow,” Reed said. “That you can have schools, you can have textbooks, you can have teachers, and you don’t have to pay for it. That is just not the case.”

HB 504 is among the items under consideration in the Legislature’s most intense period of the year, leading up to the June 30 budget deadline.