

Testimony of Senator Mike Folmer

Senate Finance Committee

10:00 a.m., Thursday, July 26th
Hearing Room 1, North Office Building

THANK YOU for the opportunity to offer my support to Senator Argall and his efforts to eliminate school property taxes through passage of Senate Bill 1400.

Eliminating school property taxes is a key part of my “Promise to Pennsylvania”. If your Districts are like mine, people say school property taxes are their biggest headache and they want elimination of these taxes to be a top priority.

However, reaching this much needed and long overdue goal has proven to be elusive because of what it takes to eliminate these onerous taxes.

Total elimination of school property taxes requires over \$10 Billion in replacement revenues. There are four other taxes that can be used as replacement revenue sources to eliminate local property taxes:

- Personal Income Tax (PIT)
- Earned Income Tax (EIT)
- Sales & Use Tax
- Some new tax

To eliminate school property taxes, SB 1400 proposes a combination of changes in the Sales Tax and changes in the Personal Income Tax. The Sales Tax would be broadened and expanded to 7 percent and the PIT would be increased 0.94% – raising the net PIT rate from 3.07% to 4.01%.

Using the Sales Tax to replace property taxes works because:

- People have some control over paying this (consumption) tax
- More people pay the Sales Tax than those who pay property taxes
- The Sales Tax is paid with each purchase; property taxes are big bills

There are two ways the Sales Tax can be used to replace property taxes:

- Expand the base to include items not presently taxed
- Increase the rate from the current 6% to a higher rate
 - Each 1% increase in the Sales Tax nets approximately \$1.7 Billion in additional revenues

Like any state tax policy, shifting from school property taxes to sales and personal income taxes will result in winners and losers. To calculate if you would benefit from SB 1400, you need to compare what you now pay in property taxes to what you would need to spend under an expanded Sales Tax and higher PIT.

Increasing the Sales Tax to 7% and expanding its base would mean you would need to spend \$14,285.71 in newly taxable items for each \$1,000 you now pay in school property taxes before you would be a net “loser”.

Attached to my testimony is a chart showing the amounts you would need to pay under an expanded 7% Sales Tax to not realize savings through elimination of school property taxes. Anyone who is currently paying school property taxes would be hard pressed to say they are better off under the *status quo*.

During the course of the day, you'll surely hear criticisms of SB 1400; some will say it's “unfair” and others will say it's “regressive” and will hurt poorer taxpayers.

In reply, I ask one question: is there any tax more unfair or more regressive than the property tax? This unfairness is exacerbated by the fact that – unlike counties and municipalities – school districts do not serve properties, they serve people.

Other than generating money, what's the rational public policy for taxing properties at high levels for services that do not impact properties?

In drafting the Declaration of Independence, Thomas Jefferson took the sentiments of English philosopher John Locke, who previously wrote all individuals are born with certain “inalienable” natural rights. Among these fundamental natural rights, Locke said, are “life, liberty, and property.”

Jefferson turned these words into: “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.”

Article XIV of the United States Constitution prohibits any state from depriving “any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.”

Article I, Section 1 of Pennsylvania's Constitution, “Inherent Rights of Mankind”, states: “All men are born equally free and independent, and have certain inherent and indefeasible rights, among which are those of enjoying and defending life and liberty, of acquiring, possessing and protecting property and reputation, and of pursuing their own happiness.”

My question to you is: how can these fundamental property rights – guaranteed by the founding principles of our great Republic – be fulfilled if people are simply renting their properties from school boards rather than owning their properties?

Renting properties is the net effect of the current school property tax system. This is why we need to pass SB 1400: to reach the much needed, long overdue goal of eliminating school property taxes.

Thank you for the opportunity to offer comments in support of SB 1400.

Property Taxes vs. Sales Taxes

If your property taxes are now	You would need to pay this in Sales Tax*
\$1,000	\$14,285.71
\$2,000	\$28,571.42
\$3,000	\$42,857.13
\$4,000	\$57,142.84
\$5,000	\$71,428.55
\$6,000	\$85,714.26
\$7,000	\$99,999.97
\$8,000	\$114,285.68
\$9,000	\$128,571.39
\$10,000	\$142,857.10
	*before you are a net SB 1400 “loser”

To calculate, divide your property tax bill by 7%.