



PA Senate Finance Committee Hearing
SB 1400
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Testimony by Alexandra D'Angola
Director of Governmental Affairs
PA Retailers' Association

Good morning, Chairman Brubaker, Chairman Wozniak, and Members of the Senate Finance Committee. I am Alexandra D'Angola, Director of Governmental Affairs for the Pennsylvania Retailers' Association (PRA), the statewide trade association representing retailers throughout the Commonwealth, and we respectfully oppose SB 1400. While our testimony is crafted quite narrowly from the retail industry's perspective, there is one question that all Pennsylvanians should be asking about this bill, because it affects all Pennsylvanians: If SB 1400 uses all revenue from the sales and use tax and personal income tax to replace school district property taxes by way of a new fund known as the Education Stabilization Fund, what happens to the approximate \$10 billion gap in the General Fund that comes from the sales and use tax? How will that be that resolved?

With that said, retailers understand and respect the need to address the critical issue of increasing school district property taxes. However, we believe that the sales and use tax (SUT) is not a stable or predictable revenue source for school district funding. The Association also believes that an increase and expansion of the sales and use tax will negatively affect retail businesses, and low-income wage earners in Pennsylvania.

Using the sales tax rather than the school district property tax as a means of funding school districts is unstable, as evidenced by states that made the switch. For example, Michigan shifted school funding

from a school district property tax to the sales and use tax in 1994, but in 2007, prior to the recession, Michigan schools were cutting programs and laying off teachers at an alarming rate due to sales tax revenue failing to meet projections¹. Again this year, Michigan State Representatives are calling for restorations from last year's budget cuts and additional funding for the public school system. Terry Spradlin, associate director of the Center for Evaluation and Education Policy at Indiana University has said of the problem in Michigan, "The property tax is a much more consistent source of funding, no doubt. ...Sales taxes are cyclical."²

Property taxes are not only more stable, but they are also predictable. By eliminating school district property taxes that are collected and dispersed locally, SB 1400 creates the Education Stabilization Fund (ESF) that will replace school district property taxes with the revenue from the personal income tax (PIT) and sales and use tax. Under SB 1400, school districts will receive funds solely from the state. The bill offers a distribution formula for these funds for the first fiscal year after the bill is enacted; however, there is no distribution formula for the subsequent years. The sponsor leaves the responsibility of crafting a distribution formula to the General Assembly, giving it only one year to do so until the money is merely collected and held in the ESF. What happens to school districts if the General Assembly does not establish a disbursement formula for the ESF, or if there is a

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<http://www.thenewsherald.com/articles/2012/05/07/news/doc4fa82fe164215839166749.txt?viewmode=fullstory>

² <http://www.post-trib.com/news/623936,salestax.article>

budget impasse in the future? With all funding for schools coming from Harrisburg, not only would schools not receive their ESF disbursements, they could be waiting for their General Fund appropriations as well. School funding becomes not only unstable; it is also unpredictable.

Retailers fear that an increase to the SUT will negatively affect people's purchasing patterns, both in how much they spend and where they spend it. Retailers have informed us that they would likely respond to lower sales by reducing expenses, primarily payroll, i.e. jobs, wages, and employee benefits. This has been demonstrated in states that have increased the sales tax rate. In a 2010 study by Alberta Charney, Ph.D., at the University of Arizona on the effects of a 1% increase in the sales tax, it was found that consumers would likely spend less on goods and services as well as save less money, negatively affecting their ability to save adequately for purchasing homes, college funds, and retirement.³ It also found that the direct impact on retailers would be a reduction of 4,283 jobs and \$180.5 million in labor income. Similar results were found in a 2010 study by Art Hall, director of the Center for Applied Economics at the University of Kansas. His model simulated the economic impact of a 1% sales tax increase over the following six years on the state. The results demonstrated a loss of \$2 billion in personal income and a net

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http://ebr.eller.arizona.edu/research/articles/2010/sales_tax_increase_vs_expenditure_cuts.asp

loss of 19,486 jobs by 2015.⁴

SB 1400 also includes a provision that would cap the sales tax vendors' allowance, which is currently about \$71 million per year that retailers are reimbursed for the cost of collecting and remitting the SUT to the Commonwealth. Pennsylvania businesses incur an extensive and varied number of costs to calculate, record, collect and remit various taxes and fees from customers; to develop intricate systems to gather data to prepare and file reports; to prepare sales tax manuals; to train personnel and supervise performance; and to undergo internal and Department of Revenue audits. For many businesses, these costs total hundreds of thousands of dollars if not millions. SB 1400 proposes a cap of \$300 per year per filer, which is detrimental not only to the retail industry, but anyone who currently collects and remits sales and use tax, as well as anyone who will begin collecting it under the SUT expansion on goods and services in the bill. The current one percent that retailers keep does not even cover the total cost of collecting and remitting sales tax. Retailers have to actually pay out of pocket to act as a tax collector on behalf of the Commonwealth, which they are mandated to do. Such a hit to their bottom lines will likely lead to decreases in salaries, benefits, and jobs.

An increase to the sales tax results in fewer sales and lost jobs, hurting both retailers and consumers. This begs the question, is it

⁴ <http://kansas.watchdog.org/3488/studies-agree-a-sales-tax-increase-kills-jobs/>

worth the risk? In a still-fragile economy after the greatest recession in our lifetime, the risk seems great, especially when you consider the Commonwealth's low-wage earners. The sales tax is already a regressive tax, and considering that most low-income wage earners do not own homes, they will not receive the benefit of school district property tax relief but will undoubtedly experience the burden of both an increased and expanded sales tax. This is evidenced in a 2010 study by John Wong, director of the Hugo Wall Center for Urban Studies at Wichita State University. Under his tax increase scenario, he found that low-income earners in Kansas would lose a higher percentage of their income to the tax increase than higher wage earners at rates of 2.43 % and .4% respectively.⁵

Pennsylvania's state and local tax burden is estimated at 10.1% of income, which is ranked 10th highest nationally and is higher than the national average of 9.8%.⁶ And states with high tax burdens are experiencing major population loss, including Pennsylvania as demonstrated by the 2010 census. According to the Tax Foundation, from 2000 to 2009 New York lost 3.4 million people with combined annual earnings of \$119 billion.⁷ 600,000 of those people relocated to Florida, taking with them nearly \$20 billion in income. Seeing the drastic budget deficits New York has been experiencing the past few years, higher tax rates do not solve the problem of funding basic education but can instead exacerbate it. Under SB 1400, that loss of personal income tax and discretionary sales tax revenues would be

⁵ <http://kansas.watchdog.org/3488/studies-agree-a-sales-tax-increase-kills-jobs/>

⁶ <http://taxfoundation.org/state-tax-climate/pennsylvania>

⁷ <http://taxfoundation.org/blog/are-new-yorkers-fleeing-higher-taxes>

significant to school funding. Again, is increasing the PIT and SUT as well as expanding sales tax worth the risk? The retail industry does not think so.

In closing, although we understand and respect the need to address increasing school district property taxes, as an industry that supports 1 in 4 jobs in the Commonwealth⁸, we respectfully ask you to consider the harmful implications of increasing and expanding the sales and use tax. The sales and use tax is not a stable source of funding for schools. And in a recovering economy, an increase and expansion of the sales tax will lead to decreases in sales, loss of jobs, and hurt Pennsylvania's low-income wage earners. Thank you for your consideration of our position and for your continued support of the retail industry.

⁸ <http://www.retailmeansjobs.com/data/PA/0>