

What Tax Study Commission Members Need To Know
September 19, 2006
WEBCAST QUESTIONS

1. **What if the industry sectors used in the SAWW do not reflect employment of local taxpayers or industries in the district?** The Act 1 index does not distinguish between areas of the Commonwealth. The Index is based on the SAWW or Statewide Average Weekly Wage. This is a Statewide measure and is not regionalized. The other half of the index is the Employment Cost Index for Elementary and Secondary Education which is national employment data.

2. **Does the PIT also include capital gains?** PIT includes eight (8) classes of income that are taxable. These include; compensation; interest; dividends; net profits from operation of a business, profession, or farm; net gains or income from disposition of tangible or intangible property; net gains or income from rents, royalties, patents and copyrights; net gains or income derived through estates or trusts; and gambling or lottery winnings with the exception of PA State Lottery winnings won on or after July 21, 1983. According to the PA Department of Revenue, some capital gains on mutual fund investment are taxable under the PIT.

3. **What happens if the taxpayers vote down the ballot question?** The school district is limited to increasing taxes up to the index plus any exceptions authorized by PDE or the Court of Common Pleas in your county. . Any new or altered tax sought in the referendum question could not be levied unless approved by majority vote in the school district.

4. **Can the Tax Study Commission recommend no EIT, or should the EIT recommendation be “0?”** The statute does not limit the TSC’s recommendations, but the school board is charged with recommending one (1) of three (3) referendum questions addressing an additional EIT, imposing a PIT, or converting an existing EIT to a PIT. There is no option to eliminate a current EIT without imposing an alternate tax, nor is there the opportunity to recommend a 0% EIT. We do not advocate that tax study commissions issue recommendations that can not be adopted by the school board.

5. **What is the effect on commercial or industrial property, if any?** The homestead/farmstead exclusion applications only apply to a domicile, therefore, commercial property or industrial property would not qualify for the exclusion. If a district adopts a procedure where it does not distinguish between homestead/farmstead approved properties and non-approved properties, then the commercial/industrial properties may be able to utilize the installment payment process for the payment of real property taxes. New or increased taxes are income based which would be paid by individuals except for certain sole proprietorships or partnerships. In essence, new taxes and tax relief are for individuals and homeowners.

6. **How does the State know the age of a property owner?** Through information obtained from the 2000 Census.
7. **Can we look into “Clean & Green” abuses – properties which no longer qualify for the discount?** This issue is not in purview of the tax study commission under Act 1.
8. **What is required for the committee to publish the public meetings of the TSC and public hearings?** The “Sunshine Act” requires publication of notice of the place, date, and time of a meeting in a newspaper of general circulation in the political subdivision where the meeting will be held no less than three (3) days in advance of the meeting. Tax study commissions must adhere to the requirements of the Sunshine Law.
9. **The referendum questions do not seem to take into consideration a district that does not currently levy an EIT. How does a district approach this issue?** The Referendum Handbook from The Governor’s Center for Local Government Services states that, “in cases where specific wording for the question is provided by the authorizing law, that wording must be rigidly adhered to; any variation from the statutory form of the question will render the election invalid.” Referendum question 1 is the most suited question to address this issue. An example question might read: “Do you favor imposing an additional 1% earned income tax? The revenue generated from the increased tax rate will be used to reduce taxes on qualified residential properties by \$ XXXX. The current earned income tax is 0%.”
10. **How are IU and Vo-Tech/CTC budgets accommodated?** Act 1 addresses the adoption of the preliminary budget proposal by the school district. The deadline for the adoption of a district preliminary budget is February 14, 2007. IU’s and Vo-Tech/CTC’s would also have to adjust their preliminary budget process in order to provide school district’s with such expenditure information.
11. **The PA Dept of Revenue has not yet established regulations regarding PIT and is not anticipated to do so in time for the May 2007 primary election. Is it reasonable then to consider a PIT for this May referendum when the regulations have not nor are anticipated to be ready to allow our levy/collection?** While Act 1 does indicate that the PA Department of Revenue must adopt PIT regulations, the Department has already posted draft regulations for the collection of the PIT and comments to this draft were received until September 6, 2006. We anticipate that the regulations will be submitted by the Department of Revenue for adoption in time to allow tax study commissions to consider the PIT as an option.
12. **Where can we find income levels by age bracket? What website?** Access the following website – National Center for Educational Statistics: School Demographic System which is also accessible from the PASBO TSC Act 1 Link:

<http://nces.ed.gov/surveys/sdds/selectgeo.asp>

Select “**school district**” for geography type and then follow prompts. You can access a varied list of data available by clicking on “**List of Tables.**” Specifically, table P55 provides income levels by age bracket.

13. If a school district (and voters) elects to use a PIT, is the current EIT eliminated?

Yes, the current EIT would be eliminated. Act 1 specifically addresses this issue. If a Board of School Directors imposes a PIT tax approved by the voters, the board “shall have no authority to impose an earned income and net profits tax...”

14. How do school districts located in two (2) counties with two (2) different millage rates determine the median assessment and how do they determine the dollar value of the exclusion? Please access the PASBO web site through the TSC Act 1 link and click on “Minimum and Maximum Exclusion and Variable EIT Rate Calculator – Multi-County.”

15. Can we legally include people who are on welfare or are renting property for the PIT? Act 1 does not address individuals who fall within these classifications. PIT is based on the same criteria as the State Income Tax. If an individual pays the State Income Tax, they would be required to pay the local PIT.

16. If a school district prepares a budget based on anticipated slots/gaming revenues and the revenue is less than what was anticipated, what recourse is open to the district? We recommend that districts do not use gaming fund revenues in the calculations for the 2007-2008 fiscal year budget preparation. Act 1 also provides that on April 15th the Budget Secretary will certify the amount available in the Property Tax Relief Fund & on April 20th the Secretary will notify PDE whether it is authorized to provide districts with property tax reduction allocations so districts will have that information to include in their budgets for the following fiscal year.

17. If taxes are shifted by means of EIT or PIT, could property taxes still be raised in future years subject to the Index? Yes, property taxes could rise equal to the percentage increase of the index and any exceptions that are approved.

18. Is it correct that the proposed EIT or PIT rate that is proposed by the Tax Study Commission be rounded to the nearest 0.1%? Yes, Act 1 provides for the rounding of the EIT or PIT rate to the nearest 0.1%.

19. If the EIT/PIT isn't raised to the maximum amount allowed now, can it be raised again at a later date? Yes, a future referendum question can be placed on the ballot in the fall election of any odd-numbered year. This question may seek a revision to the

amount of the current tax or a conversion from the current tax. A TSC must be established each time a referendum question is placed on the ballot.

- 20. How long is the choice afforded by the front end referendum in effect?** The voter decision made at the May 15, 2007 Primary Election will remain in effect for a minimum of two (2) years. At that time, the district can place another referendum question on the ballot in the fall election of any odd-numbered year seeking a revision to or a conversion from the current tax.
- 21. What are the programs that gaming funds will be used for prior to their use for homestead/farmstead relief?** Gaming funds will be distributed in the following areas: compulsive gambling treatment, volunteer fire company grant programs, local law enforcement grants, forest reserves municipal financial relief, and property tax relief.
- 22. If a referendum question is rejected in the May 2007 primary, when is the next time a referendum question may be asked to increase the current EIT or to convert to a PIT?** A district may place a referendum question on the ballot in the fall election of any odd-numbered year.
- 23. If a district adopts a PIT, will the district have access to State and Federal tax returns?** No, districts will not have access to State and Federal tax returns, but Act 1, in addressing the PA Department of Revenue, provides that “the Department of Revenue may permit the proper officer or an authorized agent of a school district imposing a personal income tax ... to inspect the tax returns of any taxpayer of the school district or may furnish to the officer or an authorized agent an abstract of the return of income of any current or former resident of the school district, or supply information concerning any item of income contained in any tax return.”
- 24. When the State begins to distribute funds from gaming revenue, does it affect the minimum and maximum exclusion calculation?** No, it does not affect the min/max exclusion calculation. The gaming funds distributed will further reduce real property tax.
- 25. Upon submittal and approval of the homestead/farmstead exclusion application, how long does an approved application remain valid with the County Assessment Office?** The County Tax Assessment Office may only require a property owner to submit a new application every three (3) years. Each County Assessment Office may establish its own policy concerning how long property approvals will last beyond the initial three (3) year requirement.

26. Will the district have audit rights to verify EIT or PIT? No, districts will not have specific audit rights. There is no provision within Act 1 providing this right to districts. Please see the answer to Question 23.

27. How do county reassessments impact the TSC's decisions? If a county does a countywide reassessment, a Board of School Directors of a district within that county shall reduce its tax rate, if necessary, in the first year of that reassessment so that the percentage increase in taxes levied for that fiscal year, based on the tax duplicate for the preceding year, is less than or equal to the index for that preceding year.

28. How can a district avoid the early budget timeline? A district can maintain the budget timeline as established under section 6-687 of the Public School Code, if the Board of School Directors adopts a resolution no later than 110 days (January 25, 2007) prior to the election date immediately preceding the next fiscal year indicating that the district will not raise the rate of any tax by more than the index or seek exceptions. The impact of this resolution is that the district will not be required to adopt a preliminary budget within the Act 1 timeline.