BILL SUMMARY

		DATE:	4/11/15
COMMITTEE:	Finance	**BILL NO.:**	HB 860
PRIME SPONSOR:	Saylor	**PRINTER'S NO.:**	1160
PREPARED BY:	Tammy Fox, Esq.	**PHONE NO.:**	0-6172

A. SYNOPSIS:

Establishes the School Property Tax Reform Act.

B. BILL SUMMARY:

HB 860 creates a freestanding act that increases the personal income tax (PIT) rate and the sales and use tax (SUT) rate in order to reduce school property tax millage rates and increase the homestead exclusion received by homeowners.

School Property Tax Millage Rate Reductions:

HB 860 imposes an additional PIT rate of 0.63% for tax years beginning after December 31, 2015. The funds generated by the imposition of this tax shall be deposited in a restricted account entitled, "The School District Millage Rate Reduction Fund." The additional PIT imposed by HB 860 is subject to all of the provisions of Article III of the Tax Reform Code.

In order to ensure the General Fund is not negatively impacted by the increase in the PIT rate, an amount equal to the refund reimbursement factor multiplied by the amount of refunds issued under Article III of the Tax Reform Code shall be transferred to the General Fund. The refund reimbursement factor is a fraction equal to the rate of tax imposed by HB 860 divided by the sum of the rate imposed by HB 860 plus the rate imposed under Article III of the Tax Reform Code.

The Department of Education (PDE) is required to calculate the millage rate reduction allocation for each school district. The millage rate reduction allocation formula is based on equalized mills. In order to determine a school district's equalized millage rate, the school district's total local tax revenue collected by the school district is divided by the total market value of property in the school district.

HB 860 provides maximum and minimum amounts to ensure that sufficient funds are available for distribution to all 500 school districts. The maximum amount of millage rate reduction a school district may receive is 30% of the school district's overall property taxes levied; the minimum amount of millage rate reduction is 20%.

In the first year of implementation, the formula calculates the allocation amount of each school district based on 201-2013 data. In the second year of implementation (which is the first full year of implementation), the formula calculates the allocation amount based on 2013-2014 data. In all subsequent years, each school district's allocation from the previous year will be increased based on the natural growth of PIT collection from the previous fiscal year.

Beginning with the third year of implementation, any increase a school district received in PIT allocations from the previous year must be utilized to offset the Act 1 index or for additional millage rate reductions.

If PIT collections decline from the previous year, funds will be transferred from the Homestead/Farmstead exclusion fund. This ensures a school district will not see a decrease in revenue that it would then have to make up with a millage rate increase.

In the first fiscal year a school district receives a millage rate reduction allocation, HB 860 prohibits a board of school directors from adopting a budget that includes a tax on real property that would generate revenue that is greater than:

- the sum of the maximum amount of revenue which could be raised by the allowable increase under the Act 1 index and the amount permitted under referendum exceptions, minus;
- the school district's millage rate reduction allocation.

In the second fiscal year a school district receives a millage rate reduction allocation and each fiscal year thereafter, a board of school directors is prohibited from adopting a budget that includes a tax on real property that would generate revenue that is greater than:

- the sum of the maximum amount of revenue which could be generated by the allowable increase under the Act 1 index and the amount permitted under the referendum exceptions, minus;
- the increase in the school district's millage rate reduction allocation from the previous year.

Each school district may adopt a budget that increases revenues above the limitations provided for in HB 860 if the increase is approved by the electorate.

PDE is required to notify each school district of its millage rate reduction allocation by May 1 of each year. Beginning with FY 2016-17, PDE must distribute to each school district its millage rate reduction allocation in two equal payments. The first payment shall be made on the fourth Thursday of August and the second payment shall be made on the fourth Thursday of October.

<u>Homestead/Farmstead Exclusions:</u>

HB 860 imposes an additional SUT rate of 1% beginning January 1, 2016. The funds generated by the imposition of this tax shall be deposited into a restricted account entitled, "School District Homestead and Farmstead Relief Fund."

The SUT imposed by HB 860 is subject to all of the provisions of Article II of the Tax Reform Code.

PDE is required to calculate the homestead/farmstead exclusion allocation for each school district. The homestead/farmstead exclusion allocation formula is based on average daily membership (ADM) and equalized mills.

HB 860 provides maximum and minimum amounts to ensure that sufficient funds are available for distribution to all 500 school districts. The maximum amount of homestead/farmstead exclusion a school district may receive is 25% of the school district's overall residential property taxes levied; the minimum amount of homestead/farmstead exclusion is 15%.

When the homestead/farmstead exclusion allocation is fully implemented, the formula will re-calculate the variables based on the most recent data available.

PDE must notify each school district of its homestead/farmstead allocation by May 1 of each year. Beginning with FY 2016-17, PDE must distribute to each school district its homestead/farmstead allocation in two equal payments. The first payment shall be made on the fourth Thursday of August and the second payment shall be made on the fourth Thursday of October.

If a school district receives a homestead/farmstead allocation, it shall be used to fund exclusions from homestead/farmsteads. If the school district receives revenues from the homestead/farmstead allocation that are greater than the amount necessary to fund the maximum amount of homestead/farmstead exclusions provided for in Section 8586 of Title 53, the school district must utilize the excess revenues to reduce the property tax rate on all properties.

Certifications:

No later than April 15, 2016 and each April 15 thereafter, the Secretary of the Budget of the Commonwealth must certify the following:

- Total amount of revenue in the School District Millage Rate Reduction Fund
- Total amount in the School District Homestead and Farmstead Relief Fund

For certification on or before April 15, 2015, the Secretary must take into account when certifying revenues, the amount which has been deposited into the fund prior to the date of certification and the amount that is reasonably projected to be deposited into the fund during the six months following the certification. For certification each April 15 thereafter, the Secretary must take into account the revenue which has been deposited into the fund during the six months prior to the certification date and the amount that is reasonably projected to be deposited into the fund during the six months following the certification. Additionally, the Secretary is only permitted to certify an amount that is sustainable in subsequent years.

If the actual revenue deposited into each of the funds during the six months following the certification date exceeds projections, any revenue in excess of the projections shall remain in the fund and may be included in the certification for the subsequent fiscal year.

The Secretary may not certify an amount in the School District Millage Rate Reduction Fund that is less than the amount certified in the previous fiscal year.

By April 20, 2016 and each April 20 thereafter, the Secretary must notify PDE as to whether PDE is authorized to provide school districts with millage rate reduction and homestead/farmstead exclusion allocations, as well as the amounts that have been certified.

Disclosure of Relief:

Any school district that receives a property tax reduction allocation, homestead/farmstead exclusion allocation or millage rate reduction allocation must itemize the total homestead/farmstead exclusion and millage rate reductions on tax bills sent to taxpayers.

At a minimum, the tax bill must show the tax liability which was due for the previous year, the amount of the applicable exclusion and the amount of reduced tax liability due to rate reductions.

The bill must be easily understandable. For a taxpayer that is a homestead/farmstead owner, the bill must include notice that the property is receiving a homestead/farmstead exclusion and millage rate reduction. If the taxpayer is not a homestead/farmstead owner, the tax bill must include notice that the tax bill includes a millage rate reduction.

Information Collection and Verification:

PDE must develop an information collection policy that will allow PDE to confirm that millage rate reduction and homestead/farmstead exclusion allocations are being used for the purposes enumerated in HB 860, and that property tax reduction allocation are being utilized as enumerated in the Taxpayer Relief Act.

PDE may require a school district to provide information on a uniform form, as is required under the Taxpayer Relief Act.

PDE must also establish procedures in order to routinely analyze the information collected. This analysis shall be utilized to determine if a school district is not using the millage rate reduction allocation, homestead/farmstead exclusion allocation or property tax reduction allocation for the required purposes.

Effective Date: Immediately.

C. CURRENT LAW:

The current Personal Income Tax Rate is 3.07%.

The current Sales and Use Tax rate is 6% (statewide), 7% in Allegheny County and 8% in Philadelphia.

The Taxpayer Relief Act currently provides for homestead/farmstead exclusions.

The maximum amount of homestead/farmstead exclusion which may be provided by a school district is currently 50% of the median assessed value in that school district.

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