Extracts from the Independent Fiscal Office analysis of HB 1776/SB 1400

A financial analysis of the 2011-2012 version of the Property Tax Independence Act that was released on September 25, 2012, by the Pennsylvania Independent Fiscal Office indicated that, with minor revenue adjustments, the plan is financially viable. Those adjustments have been made for the 2013-2014 introduction.

The IFO analysis projects that if the legislation is delayed and is not enacted until 2017 school property taxes will increase and it will take an additional half-billion dollars from the state level to make the plan viable. (Page 3) The report also projects that school property taxes will increase more than $4 billion from the current replacement level of $10.063 billion to $14.188 billion by 2017.

Beyond the purely financial aspects of the plan, the IFO drew these conclusions:

- The report projects that in year five after enactment HB 1776 will save $1.152 billion annually in the replacement revenue compared to the growth of property taxes if that system remained in place (Page 4, fourth line from the bottom). Property taxes historically rise at greater than three times the level of inflation (which, by the way, is unsustainable in the long term); HB 1776 limits the growth of the replacement funding to the rate of inflation.

- The elimination of school property taxes increases the disposable income of property taxpayers. The analysis assumes that 70% of the property tax cut goes to individuals. It further assumes that homeowners spend 90% of the increase in disposable income, stimulating Pennsylvania's economy. (Pages 17-18)

- The analysis indicates that HB 1776 will cause home values to increase, on average, by more than 10% statewide, restoring a big chunk of the equity that was lost to homeowners during the 2008 housing downturn. (Page 23)

- (Regarding business entities) … the income flows through to individuals as higher disposable income. For pass through entities, the analysis assumes that owners and shareholders spend 90 percent of the increase and 70 percent is spent on taxable goods and services, yielding another secondary effect of $34 million in increased sales taxes for FY 2013-14. (Page 18)

- Working age homeowners realize a tax cut. The analysis finds that the increase in federal income tax (through lower itemized deductions), state income tax, and sales tax is more than offset by the reduction in property taxes. (Page 21)

- Retired homeowners realize a significant reduction in taxes. The analysis finds that the property tax reduction easily offsets any increase from the higher sales tax. (Page 21)

- Benefits would also accrue to home builders, home developers, and other land owners who convert current land holdings into new housing plots. Employment would increase in the construction sector as well. (Page 23)

- The elimination of property taxes would significantly reduce the property tax share and would clearly increase the attractiveness of the Commonwealth for business location and expansion. (Page 25)