

Local School Tax Reform

A Proposal to Reduce
Property and Nuisance Taxes

General Assembly of the Commonwealth of Pennsylvania
JOINT STATE GOVERNMENT COMMISSION
Harrisburg, Pennsylvania
April 1980

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Public School Financing

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GENERAL ASSEMBLY OF THE COMMONWEALTH OF PENNSYLVANIA
JOINT STATE GOVERNMENT COMMISSION

ROOM 108 - FINANCE BUILDING
HARRISBURG 17120

April 7, 1980

TO THE MEMBERS OF THE GENERAL ASSEMBLY:

This report presents the comprehensive findings and recommendations of the Task Force on Public School Financing, under the capable leadership of Representative Benjamin H. Wilson. The study was authorized by 1979 House Resolution Serial No. 1, adopted on March 6, 1979.

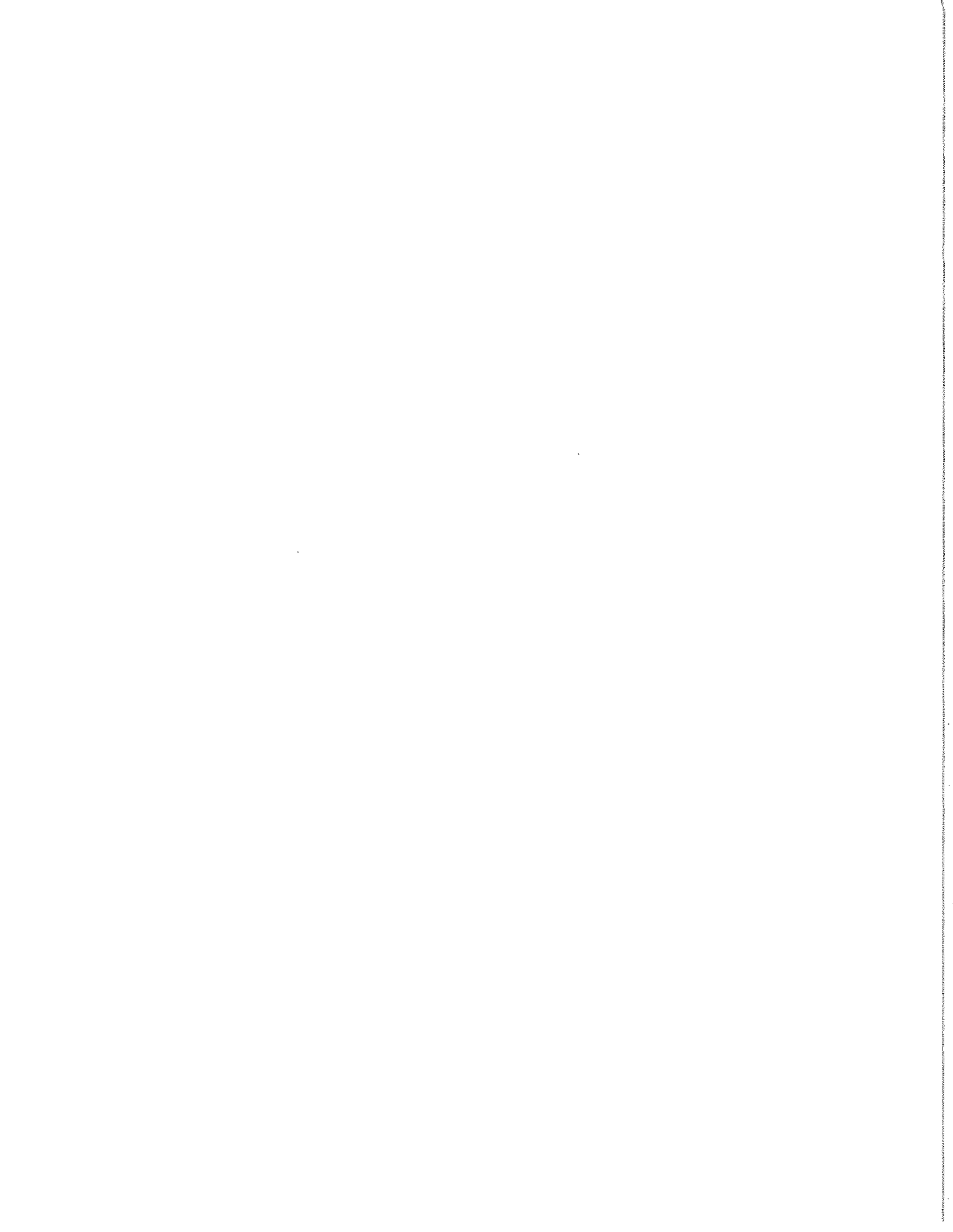
The proposed revision of Pennsylvania's system of local taxation for public school support is implemented in three bills which have been introduced in both houses of the General Assembly by members of the task force. A substantial majority of the task force members approved the elements of the proposed tax system, although acceptance was not unanimous in every case.

The Commission expresses appreciation to Dean S. Hartman of the Pennsylvania Department of Education and Roger H. Downing of the Institute for Research on Land and Water Resources of The Pennsylvania State University for the extensive statistical data provided during the course of the study. The Commission also recognizes with gratitude the valuable suggestions of the representatives of the taxpaying public, business, education and labor who testified before the task force.

Respectfully submitted,

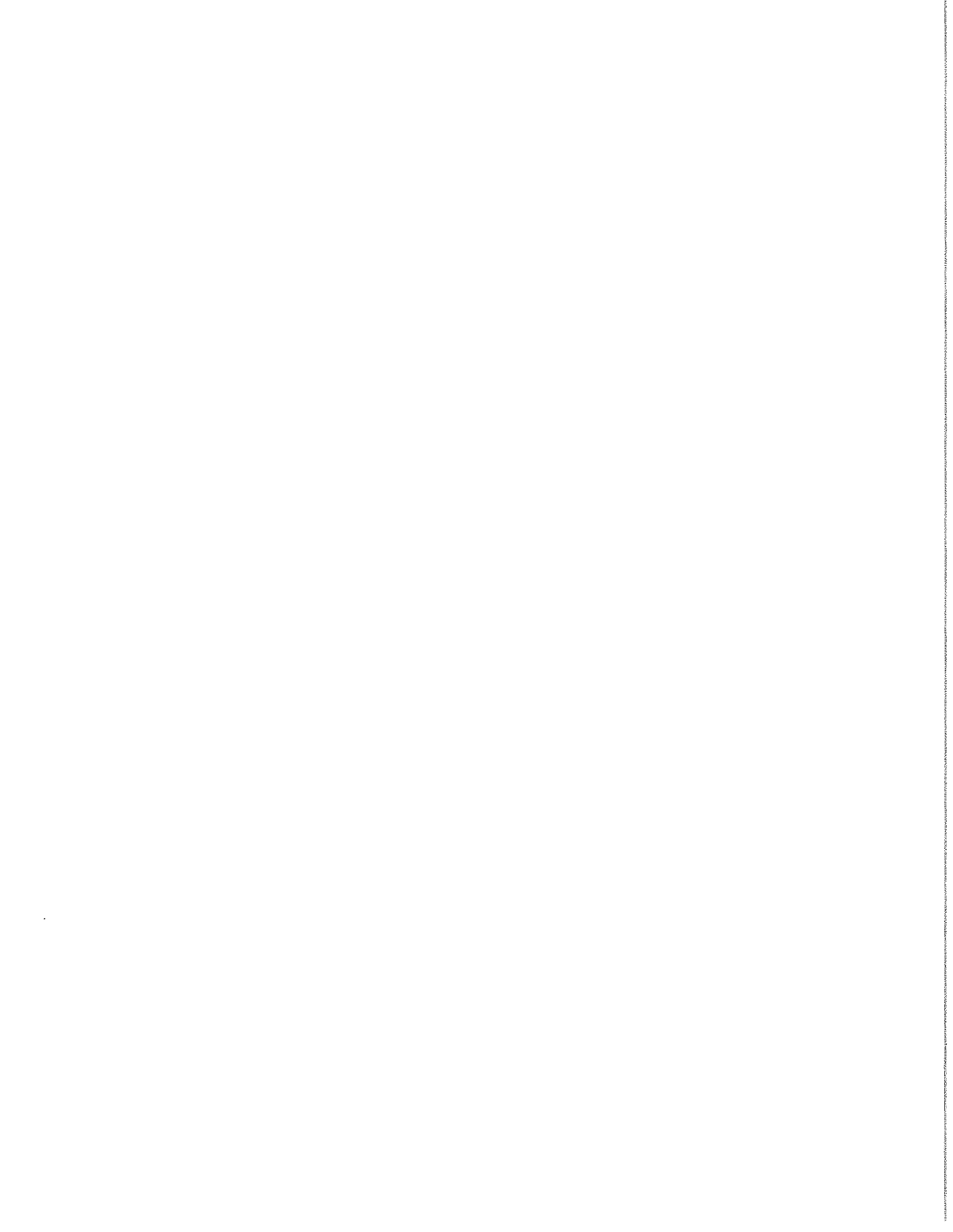
A handwritten signature in cursive script that reads "Fred J. Shupnik".

Fred J. Shupnik
Chairman



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Summary of Recommendations

The Task Force on Public School Financing recommends the enactment of legislation which would:

- Substantially reduce local school real property taxes.
- Eliminate the earned income and "nuisance" taxes for school districts use.
- Authorize local levies on personal income and business use or occupancy of real property as the primary sources of replacement revenues.

School District Tax Reductions

Specifically, the task force proposals reduce over a three-year transition period the amount of real property taxes a school district may collect to 50 percent of total school taxes and eliminate for school district use 12 taxes currently authorized, including the earned income tax and the occupation, per capita and other "nuisance" levies. Three taxes retained, with limitations, for school district use are the levies on amusements, real estate transfer and residential construction.

The task force legislation exempts from the property tax reduction a few school districts in which the personal income tax base is inordinately small in comparison with residential property values and requires that landlords notify tenants of property tax reductions on rental units and reflect the reductions in subsequent leases.

Replacement Taxes

To compensate for the tax revenue reductions, the legislation gives school districts the authority to levy (1) a local personal income tax--limited to 2 percent--on the same base as the State income tax and (2) a tax on the user or occupier of commercial, industrial and agricultural property, with the base consisting of the assessed value of the portion of the property used or occupied for business purposes.

The proposed tax system is designed to raise revenue in the same proportions from households and businesses as under current practice. Special local income tax-forgiveness provisions and tax rebates are authorized for low-income and elderly homeowners. The legislation places limitations on all replacement taxes so that a school district realizes no more in revenue from such sources during the transition period than the amount of its annual budgeted tax reductions.

The task force recommendations, which are itemized in italics and reviewed in chapter III, require amendments to three statutes--the Public School Code of 1949, The Local Tax Enabling Act and Article XI-A of the Tax Reform Code of 1971 (public utility realty tax). Chapter IV summarizes the proposed amendments.

The following chart shows the total revenues involved in the mandatory tax reductions and authorized replacements at the end of the transition period based upon 1979-1980 budgeted data.

PROPOSED TAX REDUCTIONS AND REPLACEMENTS

<u>Reductions on households</u>	<u>Replacements on households</u>
Residential property taxes \$420 million	
Earned income and nuisance taxes 300 million	Local tax on personal income \$720 million
<u>720 million</u>	
<u>Reductions on business</u>	<u>Replacements on business</u>
Business property taxes 200 million	Business use or occupancy tax 200 million
-----	-----
Total reductions <u>920 million</u>	Total replacements <u>920 million</u>

I. Introduction

Public interest in decreasing the reliance of school districts on the local real property tax has burgeoned during the past decade as the burden of the tax has increased and its inequities become more apparent. In Pennsylvania, the real property tax accounts for about 77 percent of local school tax revenues.

The taxpayer resents a heavy school property tax because he can see little correlation between the amount of his tax and his ability to pay or between the value of his real property and his benefits from the public school system. No other tax places so great or inequitable a burden on major segments of the population. The low-income and elderly populations, young homeowners and others whose assets are concentrated in real property find the tax particularly onerous.

Despite the inflation-spurred growth of property values and school budgets in recent years, reassessment of taxable real property continues to be infrequent. As a result, school directors of necessity enact frequent millage-rate increases in the face of mounting taxpayer opposition.

Heavy reliance on the local property tax for public school support came under court attack in the 1970s, forcing other states to overhaul their school financing systems, primarily by replacing part of the tax with personal income or other broad-based State-collected taxes.

Adding to the complexity and inequity of Pennsylvania's school tax system are an earned income tax and an array of nuisance taxes made available to municipalities and school districts under The Local Tax Enabling Act (Act No. 511 of 1965). The school districts utilize these taxes to varying

degrees. Citizens object most strongly to the assessed occupation tax as being unfairly administered and, in some school districts, as imposing a heavy burden.

Legislative History of School Tax Reform

Recognizing the inadequacies of the property tax and the inequities in Pennsylvania's school financing system, Senator John Stauffer in 1973 introduced innovative legislation proposing, in stages, to phase out the property tax for public school financing, to increase State funding from an average of 50 to 80 percent of reimbursable public school costs, to substitute personal income for market value in State-aid ratios and to establish the State income tax as the principal revenue source to finance education.

These measures, refined in successive sessions of the General Assembly, have commanded increasing attention. In the 1977-1978 Session, Senator Henry C. Messinger, then Majority Leader, joined Senator Stauffer as a prime sponsor. Currently, the proposed funding revisions are incorporated in 1979 Senate Bills 709, 710 and 711.

Much legislative interest has been directed toward eliminating the various Act No. 511 taxes as well as the per capita tax under the school code. Proposals to eliminate the most targeted levy--the assessed occupation tax--often provide for an increase in the current limit on the Act No. 511 earned income tax or a local personal income tax to replace revenue losses.

Compounding the difficulties in devising tax systems in the Commonwealth is the uniformity requirement of Article VIII, section 1, of the Pa. Constitution, which stipulates that "All taxes shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws." The Legislature has considered but not approved resolutions proposing constitutional amendments to permit a graduated income tax or differential property tax rates based on property-use classifications.

Task Force on Public School Financing

In response to the increasing public dissatisfaction with the property and Act No. 511 taxes and the growing

interest in school tax reform, House Resolution Serial No. 1 was introduced on January 22, 1979 by Representatives Benjamin H. Wilson, Samuel E. Hayes Jr., Matthew J. Ryan, Leonard Q. Gruppo, Edmund J. Sieminski, Fred C. Noye, John S. Davies, James L. Wright Jr., Marvin D. Weidner and Walter F. DeVerter.

Unanimously adopted on March 6, 1979, the resolution calls upon the Joint State Government Commission

to appoint a task force to conduct a thorough study of alternative methods of financing public schools in Pennsylvania directed toward the development of an equitable and efficient system of public school financing adequate to the contemporary needs of Pennsylvania school districts.

The resolution directs the Commission to report to the General Assembly the findings and recommendations of the task force along with appropriate legislation.

Representative Wilson, chairman of the task force, scheduled the first meeting in June 1979 to review data prepared by the Commission staff showing trends and projections in Pennsylvania public school financing and to discuss proposals for change that had been previously advanced. Representative Wilson suggested that much of the past resistance to change would be overcome if school districts had limited options to levy both the property tax and a personal income tax and if the income tax were collected at the local rather than at the State level.

The task force considered the personal income tax superior to the property tax as the principal basis for public school financing for several reasons: coupled with tax-forgiveness features for the poor and the elderly, the income tax would reflect ability to pay; since the income tax is highly responsive to economic growth, the need for frequent rate increases would be avoided; and a local income tax utilizing the same base as the State tax could be equitably and efficiently administered.

In addition, the task force was concerned that its recommendations would:

- Provide a system that raises the same amount of revenues in the same overall proportions from households and businesses as under current practice.

- Provide school tax relief to the elderly, low-income homeowners and others who find the property tax unusually burdensome.
- Eliminate as many low-yield nuisance taxes for school purposes as possible.
- Establish limits for each of the major replacement taxes to assure balance and fiscal responsibility in each school district.
- Allow school districts flexibility in their tax options to suit their individual needs.

The task force met in September and October to discuss elements of a proposed tax system developed by the Commission staff under the task force direction as well as the preliminary draft of implementing legislation. Facilitating the study were computerized data showing the fiscal impact of the revised tax structure on each school district in the State.

At a public hearing on December 6, the following leaders of various segments of the taxpaying public, labor, business and education testified on the proposed system:

HARRY BOYER
President
Pennsylvania AFL-CIO

HONORABLE GORHAM L. BLACK JR.
Secretary of Aging

JAMES R. MOORE
Executive Vice President
Pennsylvania Recreational Vehicle and
Camping Association
Pennsylvania Manufactured Housing
Association

ALBERT F. UNGER
Director of Governmental Relations
Pennsylvania School Boards Association

CAROLE PRUSS
Tax Director
League of Women Voters of Pennsylvania

CHARLES E. WISMER JR.
Master
Pennsylvania State Grange

JOHN YOCKEY
Director of Administration
Philadelphia School District

JOHN T. LORD
Chairman of Taxation Committee
Pennsylvania Chamber of Commerce

BERNARD HANKIN
President
Pennsylvania Builders Association

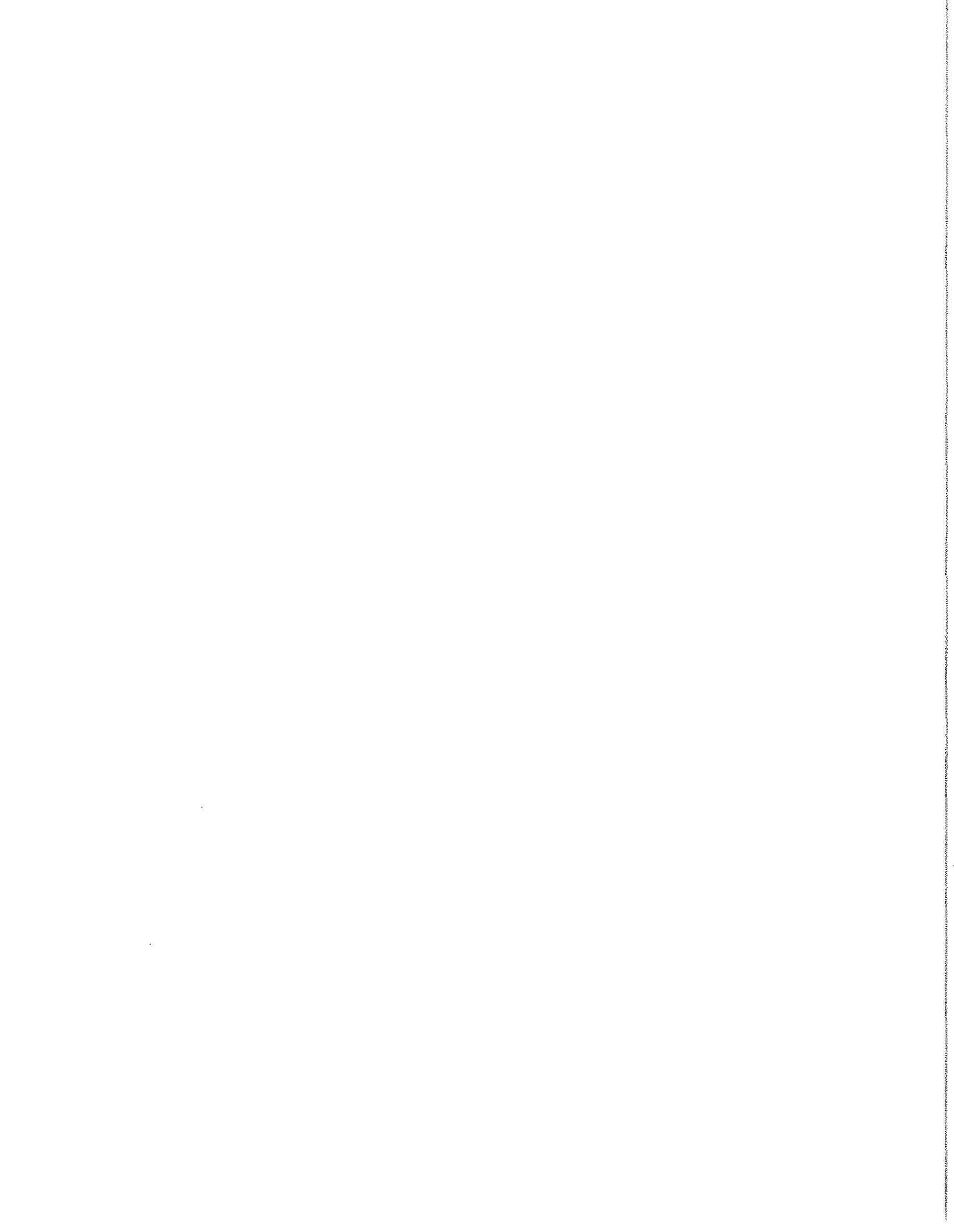
WILLIAM HUGHES
Director of Research
Pennsylvania State Education Association

FREDERICK C. BROWN
Director of Governmental Relations
Pennsylvania Association of Realtors

ROBERT E. FEIR
Assistant Executive Director
Central Susquehanna Intermediate Unit

While most witnesses expressed support for the proposed residential property tax reduction and the use of the personal income tax as a replacement levy, some voiced opposition to use of the corporate net income tax as the principal levy to replace business property tax reductions.

At a meeting on January 16, the task force directed the staff to study the feasibility of developing a system under which the proposed property tax relief would apply only to residential property, leaving business property taxes untouched. After consideration of constitutional precedents, the task force members, on March 20, agreed to recommend a local use or occupancy tax on the assessed value of business real property as a replacement for business property tax reductions.



II. Existing School Tax System

Taxes and Revenues

Local taxes contribute about 54 percent of the more than \$4 billion in total revenues of Pennsylvania's 505 school districts. The Commonwealth provides about 40 percent of the total revenues, although the proportion of each district's costs covered by State reimbursement ranges from approximately 6 to 80 percent under complex subsidy formulas. The remaining school district revenues (approximately 6 percent) are derived from federal sources.¹

The property tax provides 77 percent of the \$2.2 billion in local school tax revenues, while the 14 taxes utilized under The Local Tax Enabling Act (Act No. 511 of 1965) account for nearly 15 percent statewide. Table 1 shows the budgeted income from each local school tax source in 1979-1980 and the percentage of local tax revenues.

As shown in table 2, owners of single-family residential property pay over 60 percent of the school property taxes (\$1.07 billion) and owners of business property pay approximately one-third.

1. Unless otherwise indicated, the sources of school funding and taxation data in this chapter are annual publications of the Pa. Department of Education.

Table 1
 BUDGETED LOCAL SCHOOL TAX REVENUES BY SOURCE
 1979-1980

Source	Budgeted revenues (in millions)	Percentage
Real property taxes	\$1,738	77.4
Act No. 511 taxes	323	14.4
Other ¹	168	7.5
Per capita tax (school code)	<u>17</u>	<u>.7</u>
TOTAL	2,246	100.0

1. Pennsylvania public utility realty tax distribution, special Philadelphia and Pittsburgh school taxes and delinquent taxes.

SOURCE: Pa. Department of Education, Division of Education Statistics, Bureau of Information Systems.

Table 2
 SCHOOL PROPERTY TAX REVENUES BY PROPERTY CLASSIFICATION
 (based on 1978 assessed valuation and 1979-1980 budgeted tax data)

Property classification	Estimated revenues (in millions)	Percentage
Residential	\$1,072	61.7
Lots	26	1.5
Commercial (including rental property)	396	22.8
Industrial	144	8.3
Agricultural (including farm residences)	70	4.0
Land (forest and farmland)	23	1.3
Mineral (primarily coal)	<u>7</u>	<u>.4</u>
TOTAL	1,738	100.0

SOURCE: Pa. State Tax Equalization Board and Pa. Department of Education, Division of Education Statistics, Bureau of Information Systems.

Table 3 demonstrates that of the \$323 million in Act No. 511 school tax collections budgeted for the fiscal year ending in 1980, 97 percent were garnered by 4 major levies--the earned income, occupation, real estate transfer and per capita taxes. The earned income tax revenues are the most significant, accounting for about \$197 million (over 60 percent) of the Act No. 511 collections. Relatively few school districts levy the other 10 taxes, which account for only 3 percent of the revenues collected under the act. From 1967-1968 through 1979-1980, the school tax collections under Act No. 511 increased by 171 percent--an average annual compound increase of 8 percent.

In addition to the local property tax and the Act No. 511 taxes, two other taxes contribute to local school revenues to a far lesser degree. The public utility realty tax--a levy on public utility property collected by the State and distributed to each local unit of government on the basis of its

Table 3
ACT NO. 511 SCHOOL TAX REVENUES
1979-1980
(budgeted)

Type of tax	Amount	Percentage of total	Number of districts
Earned income	\$196,821,002	61.0	447
Occupation	48,483,533	15.0	190
Occupation privilege	9,367,737	2.9	212
Real estate transfer	38,285,342	11.9	452
Per capita	19,036,911	5.9	388
Mercantile	6,091,215	1.9	42
Amusement	1,718,022	0.5	44
Trailer	4,680	0.0	4
Mechanical devices	4,340	0.0	4
Other	3,028,634	0.9	29
TOTAL	322,841,416	100.0	502

SOURCE: Pa. Department of Education, Division of Education Statistics, Calculator, October 1979.

total tax effort--accounts for \$18 million of the budgeted 1979-1980 school tax revenues, or .8 percent of the total. The \$5 per capita tax authorized by the school code accounts for a similar amount--\$17 million or .7 percent of the total.

Analysis of Equity and Efficiency

Criticisms of the existing local school tax system in Pennsylvania most frequently center on:

- The heavy and inequitable burden of the property tax on particular segments of the population.
- The frequent property tax millage-rate increases.
- The inequities and inefficiencies and, in some districts, the burden of the Act No. 511 taxes.

Review of pertinent data shows these criticisms to be justified.

Relative Magnitude of Residential and Business Property Taxes--In comparison with levels which prevail in many other states, local property taxes in Pennsylvania appear to be relatively low. For example, U.S. Census of Governments data for 1976 show that total property tax revenues for Pennsylvania local governments amount to \$171 per capita, or about two-thirds of the comparable amount for the nation as a whole (\$256 per capita).

The aggregate per capita amount for Pennsylvania, however, is misleading if interpreted to indicate that residential property taxes are equally lower. While residential property in Pennsylvania is treated much like residential property elsewhere, industrial and commercial real property is treated differently, since only the bare building is subject to the property tax in Pennsylvania while in many other states certain equipment is often included in taxable values and both industrial and commercial property are subject to personal property taxes. Throughout much of the nation, the local property tax is based upon a much more comprehensive definition of commercial and industrial property than is the case in the Commonwealth.

The data in table 4, derived from the 1977 Census of Governments, demonstrate that residential property in Pennsylvania constitutes a much larger portion of total

Table 4

ASSESSED VALUE AND PER CAPITA PROPERTY TAX DATA
PENNSYLVANIA AND UNITED STATES, 1976

	United States	Pennsylvania	Ratio: Pa. to U.S.
Gross assessed value, property subject to local general property tax	\$1,229.1 billion	\$25.2 billion	
Gross assessed value of residential (nonfarm)	\$587.4 billion	\$16.9 billion	
Ratio: residential to total	.478	.670	
Per capita total property tax revenues of local governments	\$256	\$171	.668
Estimated per capita residential property taxes of local governments	\$122	\$114	.934
Estimated per capita nonresidential property taxes of local governments	\$134	\$57	.425

SOURCE: U.S. Bureau of the Census, 1977 Census of Governments, Taxable Property Values and Assessment/Sales Price Ratios, Vol. 2.

taxable value than in the nation as a whole; about 67 percent of taxable value in Pennsylvania is residential property while in the nation only 48 percent of total value is residential property. Consequently, estimated residential property taxes per capita in this State amount to \$114, or about 93 percent of the national average of \$122. Nonresidential property taxes, therefore, equal \$57 per capita in Pennsylvania, well less than half of the national average of \$134.

Property Tax Incidence--For most low-income households in Pennsylvania, the property tax imposes the heaviest burden of any State or local levy. While school property tax collections in 1977-1978 represent 2.6 percent of total State personal income, in the 41 school districts shown in table 5, collections exceed 3.5 percent of personal income. It should be noted that the data relate total property taxes derived

Table 5

SCHOOL DISTRICTS WITH REAL PROPERTY TAXES
GREATER THAN 3.5 PERCENT OF PERSONAL INCOME
1979-1980

County and district	Real property taxes as percentage of personal income	County and district	Real property taxes as percentage of personal income
Allegheny		Mercer	
Cornell	5.33	Farrell Area	4.00
West Jefferson Hills	4.81	Monroe	
Steel Valley	4.16	Pocono Mountain	5.18
Allegheny Valley	3.70	East Stroudsburg Area	4.77
Clairton City	3.69	Pleasant Valley	3.60
Duquesne City	3.56	Montgomery	
Beaver		Colonial	4.55
Aliquippa Borough	3.84	Upper Merion Area	4.52
Midland Borough	5.95	Wissahickon	4.27
Berks		Abington	4.23
Twin Valley	3.74	Upper Dublin	3.89
Bucks		Hatboro Horsham	3.86
Pennsbury	4.81	Upper Moreland	
Bensalem Township	4.55	Township	3.66
Bristol Township	4.38	North Penn	3.63
Centennial	4.03	Methacton	3.61
Neshaminy	3.99	Pottsgrove	3.51
Council Rock	3.55	Northhampton	
Carbon		Wilson Area	3.71
Jim Thorpe Area	4.59	Pike	
Chester		Delaware Valley	5.15
Great Valley	3.57	Sullivan	
Delaware		Sullivan County	3.70
Chichester	4.18	Wayne	
Interboro	4.17	Wallenpaupack Area	8.16
Garnet Valley	4.15	Wayne Highlands	3.99
Erie		Western Wayne	3.74
Iroquois	4.23		

SOURCE: "1979-1980 School Tax Simulation Study," Institute for Research on Land and Water Resources, The Pennsylvania State University.

from both residential property and business property to personal income. Hence, some of the variation among districts in the ratio of property taxes to personal income arises from varying proportions of residential and business property in each district. Property taxes exceed 5 percent of income in 5 districts and are below 1 percent in 20 districts. The property tax burden in a district is largely determined by the level of expenditures net of reimbursement by the State and the degree of reliance on Act No. 511 taxes, particularly the earned income tax and the tax based on assessed occupational values.

A recent analysis of the incidence of the school property tax by Theodore R. Alter documents the regressive nature of the tax and the higher burden on farm households than on nonfarm households.² The study illustrates that the burden of the property tax tapers off steadily as income increases. While the property tax accounts for more than 5.5 percent of personal income for taxpayers with incomes less than \$5,000, it represents less than 2 percent of personal income for the \$15,000 and above income class. The property taxes of farmers are uniformly heavy for all income levels, exceeding 7 percent of personal income for those with incomes under \$10,000 and 6.75 percent for incomes over \$10,000. The tables showing property tax incidence by income groups for all taxpayers and for farm and nonfarm taxpayers are reproduced in the appendix.

Conspicuous in the property tax system is the lack of up-to-date, fair and uniform real property assessments. For the past decade comprehensive legislation proposing to improve the system has been introduced in each session of the General Assembly; the current legislation is incorporated in Senate Bill 361, under the prime sponsorship of Senator Quentin R. Orlando.

Property Tax Base--Table 6 illustrates the inadequate response to economic change of the property tax base--assessed value of real property--and the need for frequent millage-rate increases to compensate for this inelasticity. While Pennsylvania school property tax revenues increased 80 percent

2. Alternatives to Property Tax for Financing Pennsylvania's Public Schools (Department of Agricultural Economics and Rural Sociology, The Pennsylvania State University: University Park, September 1979), pp. 24-25.

Table 6

PENNSYLVANIA PERSONAL INCOME, PUBLIC SCHOOL REAL
PROPERTY TAX REVENUES, TOTAL ASSESSED AND
MARKET PROPERTY VALUES AND MILLAGE RATES
1971 TO 1978

School year ending	Personal income (billions)	School property tax receipts (millions)	Assessed value (billions)	Mills on assessed value	Market value (billions)	Mills on market value
1971	\$47.69	\$871.11	\$20.11	43.3	\$47.93	18.1
1972	50.68	960.14	--	--	--	--
1973	55.43	1,004.33	--	--	--	--
1974	60.96	1,093.71	--	--	--	--
1975	66.62	1,187.54	--	--	--	--
1976	72.42	1,300.62	--	--	--	--
1977	79.10	1,452.09	--	--	--	--
1978	86.32	1,571.23	26.52	59.3	79.32	19.8
Percentage increase						
1971-1978	81.0	80.4	31.9	36.9	65.5	9.4

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business (1977 and 1978); Pa. Department of Education, Statistical Report of the Secretary of Education for the School Year Ending June 30, 1977, and data supplied by Division of Education Statistics; Pa. State Tax Equalization Board, Market Values of Taxable Real Property (1970 and 1977).

from 1970-1971 to 1977-1978 and the market value of real property increased 65 percent, the assessed value increased only 32 percent. The millage rate on assessed property value for the State as a whole climbed nearly 37 percent. It is noteworthy that the percentage growth in personal income equalled that of school property tax revenues, evidence of the elasticity of personal income as a school tax source.

Occupation Tax--Of the nuisance taxes under Act No. 511, most taxpayers consider the assessed value occupation tax as the most unfair. Although the revenues from occupation taxes

Table 7

SCHOOL DISTRICTS WITH ASSESSED OCCUPATION TAXES EQUAL TO OR
GREATER THAN .5 PERCENT OF PERSONAL INCOME
1979-1980

County and district	Occupation tax as percentage of personal income	County and district	Occupation tax as percentage of personal income
Beaver		Lycoming*	
Riverside Beaver County	.68	South Williamsport Area	.75
Bradford*		Jersey Shore Area	.71
Athens Area	.64	Montoursville Area	.67
Sayre Area	.63	Loyalsock Township	.66
Bucks		Montgomery Area	.59
Pennridge	.77	Williamsport Area	.54
Quakertown Community	.67	Mifflin	
Central Bucks	.51	Mifflin County	.69
Centre*		Montour	
Penns Valley Area	.78	Danville Area	.56
Bellefonte Area	.53	Northumberland	
Clarion		Shikellamy	.52
Keystone	.51	Perry	
Cumberland*		Newport	.58
West Shore	.62	Greenwood	.54
East Pennsboro Area	.53	Snyder	
Cumberland Valley	.50	Selinsgrove Area	.66
Dauphin		Midd-West	.53
Upper Dauphin Area	.65	Union	
Halifax Area	.58	Mifflinburg Area	.63
Lower Dauphin	.56		
Millersburg Area	.52		

*Counties with assessed occupation taxes in all three levels of government, 1976.

SOURCE: "1979-1980 School Tax Simulation Study" and an unpublished study by Roger H. Downing, Institute for Research on Land and Water Resources, The Pennsylvania State University.

total less than \$58 million for all districts--about 2.5 percent of total local school tax revenues--taxpayers in 30 school districts pay school assessed value occupation taxes equal to or greater than .5 percent of personal income (table 7). Some districts realize approximately 20 percent of their local school tax revenues from the levy.

There is often little or no correlation between the occupational assessment and individual income, and rates for the same occupation may vary widely in school districts encompassing parts of more than one county.

As an example of the inequity of the occupation tax as it is administered, the following 1978 data for a school district in Cumberland County were obtained from an unpublished study of incomes and occupational assessments undertaken at the Pennsylvania State University.³ For an occupation classification which includes managers, public administrators, school teachers and salesmen, the assessed value is \$500 and taxes are levied at a rate of 35 percent, or \$175 annually. The actual incomes for the sample of seven persons with this occupational assessment ranged from a low of \$11,000 to a high of \$65,000 annually.

3. Unpublished study by Roger H. Downing, Research Assistant, Institute for Research on Land and Water Resources, The Pennsylvania State University.

III. Proposed School Tax System

Principal Elements

Existing Taxes--Recognizing the inequities and inefficiencies of the existing system of public school financing with its heavy reliance on real property and nuisance taxes, the task force proposes to:

- Reduce over a three-year transition period the amount of real property taxes a school district may levy to 50 percent of total tax revenues.
- Retain for school district use only three taxes currently levied under Act No. 511--the levies on amusements, real estate transfer and residential construction.

Existing taxes not included in the proposed school tax system are the \$5 per capita tax levied under the Public School Code of 1949 and the earned income, occupation, per capita, mercantile, business privilege, parking, trailer, business and professional, lease-rental, mechanical devices and golf taxes levied under The Local Tax Enabling Act (Act No. 511 of 1965).

While totally eliminating the authority of school districts to tax under Act No. 511, the legislation proposed by the task force does not affect the power of municipalities to levy taxes under the act. In amendments to the Public School Code of 1949, the proposed legislation requires school districts to limit the property tax, authorizes the use of the three retained taxes currently levied under Act No. 511 and eliminates the authority to levy the per capita tax.

Replacement Taxes--To replace the revenues lost through the proposed tax reductions, the task force recommends:

--Authorize school districts to levy local taxes on

1. personal income, utilizing the same base as the State income tax, and
2. the assessed value of the portion of commercial, industrial and agricultural real property used or occupied for business purposes.

The task force selected the personal income tax as the principal replacement tax because a levy on income reflects ability to pay, provides increased revenue during inflationary periods without the necessity of frequent rate increases (see table 6, p. 16) and can be efficiently administered at the local level.

While the members of the task force were primarily interested in reducing the property tax on residential property, they found it necessary to address business property taxation as well. Under the provisions of the uniformity clause of the Pa. Constitution as interpreted by the Pennsylvania Supreme Court in Madway v. Board for the Assessment and Revision of Taxes, 427 Pa 138, 143 (1967), "real estate as a subject for taxation may not validly be divided into different classes." In light of this decision, a forthright attempt to differentiate between residential and business real property taxes would most likely undergo a court challenge. However, an alternative approach--which would bring about much the same result--was selected.

Since 1970 the City of Philadelphia has levied a business use or occupancy tax which is very similar to a local property tax and has already withstood a challenge of its constitutionality. This tax is levied on the user or occupier of commercial and industrial property rather than on the owner, although collection of the tax is placed upon the landlord. The tax base consists of the assessed value of the portion of the property actually used or occupied for business purposes. The tax does not apply to residential property or property which is exempt from real estate taxes (see Pa. Constitution, Article VIII, sections 2 and 4).

In Wanamaker v. Philadelphia School District, 441 Pa 567 (1971), the Pennsylvania Supreme Court upheld this tax and found the levy a valid privilege tax on the use of real estate for business purposes and in no sense violative of the uniformity provision.

In only one major respect does the task force proposal differ from the existing Philadelphia tax: an unconstitutional application of the tax is addressed by providing alternative formulas to allocate the tax base--assessed value--among multiple occupiers. (See Philadelphia School District v. Damico, Inc., 15 Commonwealth Ct 558 (1974).)

The task force also studied an alternative proposal to provide replacement revenues for business property tax reductions--a 2 percent increase in the corporate net income tax, a 1 percent increase in the excise tax on mutual thrift institutions and an optional local business activities tax, limited to 4 mills, on unincorporated businesses.

Under the alternative proposal, the Secretary of Education would annually distribute the proceeds from the special corporate net income and mutual thrift institutions taxes to the respective school districts on the basis of business property tax losses incurred because of the property tax limitations. The base of the business activities tax would be the sum of compensation to employees, interest, depreciation claimed for federal tax purposes and net income.

The task force rejected this alternative business tax system primarily because of the State-level collection and distribution features and the concern that the replacement taxes would have a differentially adverse impact on business.

Tax Limitations--Great care was taken in balancing the levies included in the proposed system in order to raise revenues in the same proportions from households and businesses as under current practice, to avoid a heavy or inequitable burden on any category of taxpayers and to provide flexibility to each school district.

The task force, therefore, recommends the following maximums for each retained and replacement levy for the transition period and thereafter.

Local school tax options	Proposed maximums		
	1981-1982	1982-1983	1983-1984 and thereafter
Real property	80% of total budgeted tax revenues	65% of total budgeted tax revenues	50% of total budgeted tax revenues
Personal income	1.0% rate	1.5% rate	2.0% rate
Business use or occupancy	Total budgeted business property tax reduction	Total budgeted business property tax reduction	1983-1984, budgeted reductions; thereafter, rate of increase in personal income tax revenues
Amusement	Current rate	Current rate	5% or current rate, if higher
Real estate transfer	Current rate	Current rate	.5% or current rate, if higher
Residential construction	Current rate	Current rate	\$500 per residential unit, or current rate, if higher
Earned income and nuisance taxes	Current rate	Current rate	Taxes abolished
All replacement taxes	Total budgeted school tax reductions	Total budgeted school tax reductions	--

Under the proposed system, each school district would be able to determine its degree of reliance on each of the three major revenue raisers--the real property, personal income and business use or occupancy taxes. A district may decide to reduce its property taxes to well below 50 percent of its total revenues. Most school districts would not find it necessary to levy the personal income tax at a rate approaching the maximum 2 percent rate in order to replace revenue losses attributable to the mandated reduction in property taxes and the eliminated Act No. 511 earned income tax--now levied at a .5 percent rate by approximately 90 percent of the school districts.

The legislation retains three of the Act No. 511 taxes for the convenience of the school districts now utilizing them, and it is not expected that their use will be greatly expanded.

Exemptions and Special Provisions--In devising the proposed tax system, the task force systematically reviewed the impact on school districts of various characteristics and on major categories of taxpayers. This led to the proposals to:

- Exempt from the mandatory property tax reduction for a five-year period school districts where the personal income tax base is inordinately small in comparison with residential property values, i.e., districts where the ratio of the market value of residential property to personal income is equal to or exceeds 2.0.
- Require landlords to notify tenants of property tax reductions on rental units with the reductions reflected in subsequent leases.
- Require school districts to give income tax relief to persons who, because of poverty, are determined to be in need of the special tax provisions under the State income tax.
- Authorize a school district to provide income tax relief for the elderly on the basis of the same income and age criteria as employed by the Commonwealth in granting property tax rebates.
- Redefine "realty tax equivalents" reported by school districts under section 1106-A of the Tax Reform Code of 1971 (public utility realty tax) to include the product of the assessed value of public utility property and the rate of the business use or occupancy tax.

The exemption of districts in which the ratio of the market value of residential property to personal income is equal to or exceeds 2.0 is intended to avoid excessively high local income tax rates in those few districts where residences, particularly vacation homes, represent a disproportionate part of the district's tax base. The legislation includes the five-year exemption to avoid administrative problems that could arise if districts fail to qualify for consecutive years. Table 8 shows the nine districts that would currently qualify for exemption, the estimated ratios and the residential property taxes as a percentage of total personal income. Under the proposed legislation, these districts would not be bound by the limitation that property tax revenues not exceed

Table 8

SCHOOL DISTRICTS WITH ESTIMATED RATIO OF MARKET
VALUE OF RESIDENTIAL PROPERTY TO PERSONAL
INCOME (1978) EQUAL TO OR EXCEEDING 2.0

School district	County	Estimated ratio	Residential real estate taxes as percentage of personal income
Wallenpaupack	Wayne	8.4	6.82
Pocono Mountain	Monroe	4.3	3.64
Delaware Valley	Pike	3.8	4.42
East Stroudsburg	Monroe	2.9	3.36
Jim Thorpe Area	Carbon	2.8	3.68
Western Wayne	Wayne	2.7	2.65
Fairfield Area	Adams	2.7	2.29
Pleasant Valley	Monroe	2.2	2.54
Forest Area	Forest	2.0	2.00

SOURCE: "1979-1980 School Tax Simulation Study," Institute for Research on Land and Water Resources, The Pennsylvania State University, and staff adjustments to update ratios to 1978 levels.

50 percent of total school taxes and could continue to levy the property tax at the level deemed appropriate as well as have the option to levy the local personal income tax.

The task force inserted the requirement applying to landlords at the request of several organizations testifying at the public hearing, even though recognizing that the provision would be difficult to enforce and could be interpreted to provide a reduction in rents which, because of increases in other costs, may not be realized. However, the provision does require disclosure of the property tax reduction accruing to each rental unit.

With respect to the public utility realty tax, under the existing provisions a sum designated as the total of "realty tax equivalents" is distributed annually to all local taxing authorities in the Commonwealth. In 1977-1978, distributions from the tax amounted to about \$36 million, or approximately 55 percent of the total tax receipts of \$65 million. The Commonwealth retained the remaining

45 percent (\$29 million). School districts receive \$22 million, or approximately 60 percent of the amount distributed, and account for about 60 percent of total "realty tax equivalents." Since school property taxes are to be reduced by an estimated 35 percent after the transition period, a provision is needed to maintain the level of realty tax equivalents arising from school districts. (For an analysis of the distribution of the public utility realty tax see Joint State Government Commission, Taxation of Public Utility Realty, 1970, pp. 23-26.)

The proposed amendment to the public utility realty tax requires that the product of a school district's business use or occupancy tax rate multiplied by the assessed value of its public utility realty be reported as part of the realty tax equivalent for the district. This treatment would maintain the level of realty tax equivalents reported by school districts at approximately the level that would have prevailed had there been no reduction in school property taxes.

Fiscal Impact

Total Tax Reductions and Replacements--Table 9 illustrates that the proposed school tax system balances the revenue lost from the reduced property and Act No. 511 taxes. The table presents estimates based on 1979-1980 budgeted data of the amounts of the proposed tax reduction and the remaining and replacement taxes as of the end of the three-year transition period.

The school real property tax is reduced by \$617 million, Act No. 511 taxes by \$282 million, and the school code per capita tax by \$17 million. Revenues from replacement taxes include \$716 million from the local personal income tax and \$200 million from the business use or occupancy tax if it is levied by all school districts.

Personal Income Tax and Reduction in Millage Rates--After taking into account the yield from the business use or occupancy tax, the average statewide personal income tax rate to replace property and Act No. 511 tax losses would be about 1 percent on a personal income tax base estimated at \$71 billion (1979).

Table 9

POST TRANSITION ESTIMATED TAX REDUCTIONS
AND REPLACEMENTS BASED ON SCHOOL DISTRICT
BUDGET DATA FOR 1979-1980
(in millions)

Tax	Budgeted revenues	Proposed reductions after transition	Proposed replacements after transition	Net remaining plus replacement taxes
Existing taxes				
Real property	\$1,738	\$617	\$0	\$1,121
Code per capita	17	17	0	0
Act No. 511	323	282	0	41
Other ¹	168	0	0	168
New taxes				
Personal income	--	--	716	716
Business use or occupancy	--	--	200	200
TOTAL	2,246	916	916	2,246

1. Pennsylvania public utility realty tax distribution, special Philadelphia and Pittsburgh school taxes and delinquent taxes.

SOURCE: Budgeted data for school districts supplied by Pa. Department of Education.

The actual income tax rate would vary from district to district depending on the level of property taxes, the level of personal income and the district's decision to tax the use or occupancy of business property. Based on 1979-1980 budgets, the estimated income tax rates for all but the exempt school districts fall within the range of .14 to 1.81 percent of estimated personal income.

Table 10 provides illustrations of the personal income tax and property tax rates in 20 selected school districts that would eventuate from a required reduction of property tax revenues to 50 percent of total school revenues and the elimination of certain Act No. 511 taxes. The personal income tax rates in table 10 are computed on the assumption that each district will levy the business use or occupancy tax at a level sufficient to replace the business property tax reduction.

Table 10

ILLUSTRATIONS OF PERSONAL INCOME AND REAL PROPERTY TAX RATES IN SELECTED
SCHOOL DISTRICTS UNDER PROPOSED TAX SYSTEM

County/school district	Personal Income Tax			Real Property Tax		
	Rate required to replace residential tax loss	Rate required to replace Act No. 511 taxes	Total replacement rate	Current rate (approximate in mills)	Rate under proposed limitation (in mills)	Percentage decrease in rate
Allegheny/Shaler	.846%	.391%	1.237%	49.2	29.6	40%
Armstrong/Apollo Ridge	.557	.548	1.105	132.4	89.4	32
Beaver/Freedom	.497	.384	.881	94.2	64.4	32
Berks/Wilson	.667	.604	1.271	89.1	58.2	35
Berks/Wyomissing	.386	.405	.791	84.2	54.8	35
Blair/Altoona	.284	.698	.982	50.7	38.3	24
Bucks/Centennial	1.397	.110	1.507	145.4	78.1	46
Butler/South Butler	.629	.423	1.052	78.9	50.3	36
Centre/Bellefonte	.133	.994	1.127	61.5	54.5	11
Chester/Tredyffrin- Easttown	1.092	0	1.092	84.2	47.5	44
Clarion/Clarion	.446	.723	1.169	60.3	41.4	31
Crawford/Conneaut	.809	.393	1.202	86.7	54.4	37
Cumberland/West Shore	.322	1.084	1.406	70.0	55.6	21
Dauphin/Central Dauphin	.169	.848	1.017	40.6	34.1	16
Delaware/Radnor Twp.	.829	0	.829	142.2	77.9	45
Fayette/Connellsville	.325	.474	.799	67.5	49.1	27
Lancaster/Manheim Twp.	.370	1.019	1.389	99.3	74.1	25
Lawrence/Ellwood City	.484	.632	1.116	78.9	54.1	31
Montgomery/Upper Merion	.820	.060	.880	96.7	51.9	46
Northhampton/Easton	.803	.504	1.307	58.8	36.9	37

SOURCE: "1979-1980 School Tax Simulation Study," Institute for Research on Land and Water Resources, The Pennsylvania State University.

Columns 1 and 2 of the table reveal that in nine of the districts the Act No. 511 tax reduction is equal to or greater than the property tax reduction. Taxpayers in half of the illustrated districts, as shown in the last column, would experience reductions in their property tax rates of between 30 percent and 40 percent. Those districts with the greatest Act No. 511 tax reduction would experience a relatively smaller property tax reduction.

Table 11 illustrates the impact of the proposed tax system on homeowners at various income levels and residential assessed values in 15 selected districts. The table shows the tax rate on personal income required to offset a reduction in school property taxes to 50 percent of total school tax revenues (based on 1979-1980 budgeted data) along with the dollar amount of tax at several income levels for each school district, the real property tax reduction in mills and the assessed value of a home at which the reduction in property taxes would exactly offset the increase in the income tax. Individuals at the given income levels with higher assessed values than shown in the table would receive net tax relief while those with lower assessed values would pay a larger amount in income taxes than they would receive in property tax relief. For example, in Shaler School District (first row) a homeowner with an income of \$20,000 would pay \$169 in local personal income tax and receive an equivalent reduction in property taxes if his residence has an assessed value of \$8,631. A higher assessed value would produce a net tax reduction.

Table 11

ILLUSTRATIONS OF IMPACT OF PROPOSED REAL PROPERTY TAX
REDUCTION ON HOMEOWNERS AT SELECTED INCOME LEVELS IN
SELECTED SCHOOL DISTRICTS

County/school district	Household income level	Rate of replacement personal income tax ¹	Additional income tax	Reduction on assessed value ² (in mills)	Break-even residential assessed value ³
Allegheny/ Shaler	\$40,000	.846%	\$338	19.58	\$17,263
	20,000		169		8,631
	12,000		102		5,209
Armstrong/ Apollo Ridge	40,000	.557	223	43.03	5,182
	20,000		111		2,580
	12,000		67		1,557
Beaver/ Freedom	40,000	.497	199	29.77	6,685
	20,000		99		3,325
	12,000		60		2,015
Berks/ Wilson	40,000	.667	267	30.92	8,635
	20,000		133		4,301
	12,000		80		2,589
Blair/ Altoona	40,000	.284	114	12.42	9,179
	20,000		57		4,589
	12,000		34		2,738
Bucks/ Centennial	40,000	1.397	559	67.32	8,304
	20,000		279		4,144
	12,000		168		2,496
Butler/ South Butler	40,000	.629	252	28.64	8,799
	20,000		126		4,399
	12,000		75		2,619
Chester/ Tredyffrin- Easttown	40,000	1.092	437	36.71	11,904
	20,000		218		5,938
	12,000		131		3,569
Crawford/ Conneaut	40,000	.809	324	32.34	10,019
	20,000		162		5,009
	12,000		97		2,999

Table 11 - Illustrations of Impact of
Proposed Real Property Tax Reduction--Continued

County/school district	Household income level	Rate of replacement personal income tax ¹	Additional income tax	Reduction on assessed value ² (in mills)	Break-even residential assessed value ³
Cumberland/ West Shore	40,000	.322	129	14.42	8,946
	20,000		64		4,438
	12,000		39		2,705
Dauphin/ Central Dauphin	40,000	.169	68	6.50	10,462
	20,000		34		5,231
	12,000		20		3,077
Delaware/ Radnor	40,000	.829	332	64.27	5,166
	20,000		166		2,583
	12,000		99		1,540
Lancaster/ Manheim Township	40,000	.370	148	25.22	5,868
	20,000		74		2,934
	12,000		44		1,745
Lawrence/ Ellwood City	40,000	.484	193	24.80	7,782
	20,000		97		3,911
	12,000		58		2,339
Montgomery/ Upper Merion	40,000	.820	328	44.77	7,326
	20,000		164		3,663
	12,000		98		2,189

1. Personal income tax rate calculated as necessary to replace loss in residential property tax, based on 1979-1980 budgeted school district tax data and Pa. Department of Education estimate of 1979 income. This rate does not cover the reduction in Act No. 511 taxes.

2. Application of 50 percent limitation of real estate taxes to total taxes, with the resultant loss divided by the 1978 assessed property values from the thirty-first annual certification of the Pa. State Tax Equalization Board; tax data from 1979-1980 school districts' budgets.

3. The assessed value of a residence at which a resident would incur neither a gain nor a loss. Taxpayers at each income level with assessments above the break-even assessed value would experience a tax gain while a net tax loss would accrue to homeowners with assessments below this value.

SOURCE: 1979-1980 Budget Data, Pa. Department of Education.

IV. Summary of Proposed Amendments

The task force recommendations involve amendments to three statutes--the Public School Code of 1949, The Local Tax Enabling Act (Act No. 511 of 1965) and Article XI-A of the Tax Reform Code of 1971 (public utility realty tax). This chapter presents a brief summary of each provision of the implementing legislation.

Public School Code

Section 602.1(a) limits real property taxes in any school district to 80 percent of total tax revenues in fiscal 1981-1982, 65 percent in fiscal 1982-1983 and 50 percent in fiscal 1983-1984 and thereafter.

Section 602.1(b) exempts from the required reduction in property taxes for a five-year period those school districts where for any year the ratio of market value of residential property to total personal income is greater than 2.0.

Section 602.1(c) requires landlords to notify tenants of property tax reductions on rental units and that the reduction in property taxes be reflected in subsequent leases.

Section 602.2(a) authorizes the school districts to levy a tax on personal income (the same base used for State tax purposes) with a maximum rate of 1 percent in fiscal 1981-1982, 1.5 percent in fiscal 1982-1983 and 2 percent in fiscal 1983-1984 and thereafter.

Section 602.2(b) requires that districts provide income tax relief on the same basis to persons who, because of poverty, are determined to be in need of the special tax provisions under the State income tax.

Section 602.2(c) permits a school district to provide income tax relief for the elderly on the basis of the same income and age criteria as employed by the Commonwealth in granting property tax rebates.

Section 602.2(d) requires employers to withhold the local personal income tax from each employee's compensation at the rate established by the applicable school district.

Section 602.3 authorizes a school district to levy a business use or occupancy tax on the user or occupier of real property for the privilege of carrying on any business, trade, occupation, profession, vocation or any other commercial, industrial or agricultural activity. The section excludes from the tax all residential occupancy and the use or occupancy of property that is exempt from the real property tax. During the three-year transition period the tax could not be levied at a rate higher than necessary to replace the school district's business property tax reduction (see Section 602.7). Thereafter, the tax rate is limited so that the yield will not increase at a rate greater than the yield of the district's personal income tax. The tax liability is the product of (1) the proportion of the area used or occupied (or the proportion of the total rentals), (2) the total assessed value of the property, (3) the rate of the tax and (4) the period of occupancy.

Sections 602.4 and 602.5 transfer the amusement tax and the real estate transfer tax unchanged from The Local Tax Enabling Act.

Section 602.6 adds a residential construction tax which is levied by six school districts under the "tax anything" provisions of Act No. 511. The tax is not currently specifically authorized or prohibited nor are any rate restrictions imposed in Act No. 511. The legislation limits the tax rate to the rate currently levied or \$500 per residential unit and contains an exemption from the tax for housing built exclusively for occupancy by limited-income senior citizens.

Section 602.7 allows school districts during the transition period to continue to levy the Act No. 511 taxes they now utilize at no greater than the current rates; limits the rates of the three retained taxes to either the maximums established in Sections 602.4, 602.5 and 602.6 or the current rates, if higher; and limits a district's personal income tax during the transition period to rates that realize no more than the sum of the district's budgeted reductions in residential property taxes and Act No. 511 taxes. This section also emphasizes that nothing contained in the amendments prevents school districts from reducing school property taxes below the limits required.

Section 2 of the legislation repeals Section 679 which authorizes the \$5 per capita tax. This repeal is in keeping with the overall policy to eliminate all "nuisance" taxes levied by school districts.

Section 3 expresses the legislative intent that the tax reductions required by the bill and the replacement taxes are nonseverable and further that the companion amendments to The Local Tax Enabling Act must be read in pari materia with the school code amendments. If any material provisions of the school code amendments are declared invalid, The Local Tax Enabling Act amendments would not take effect--retaining the status quo. The nonseverability aspect of the package of bills is not applicable to a challenge to an existing tax that is continued in the school code amendments, i.e., taxes authorized by Sections 602.4, 602.5 and 602.6, nor to merely administrative provisions.

The Local Tax Enabling Act
(Act No. 511 of 1965)

These amendments to The Local Tax Enabling Act remove the authorization of school districts to tax under the act, while leaving the taxing powers of municipalities unimpaired, and reduce by one-half the rate limitations on all taxes that could currently be shared by school districts and municipalities but permit municipalities to continue to levy these taxes at any existing rates in excess of the reduced limitations.

Tax Reform Code of 1971, Article XI-A
(Public Utility Realty Tax)

These amendments deal with the necessary changes in the public utility realty tax distribution provision to reflect the automatic reduction in realty tax equivalents of school districts as school property taxes are reduced. Under the provisions of the public utility realty tax, a sum designated as the total of "realty tax equivalents" is distributed annually to all local taxing authorities in the Commonwealth. This amendment requires that the product of the school district's business use or occupancy tax rate multiplied by the assessed value of its public utility realty be reported as part of the realty tax equivalent for the district.

ANALYSIS OF SCHOOL PROPERTY TAX BURDEN

Excerpt reproduced from Theodore R. Alter, Alternatives to the Property Tax for Financing Pennsylvania's Public Schools, Department of Agricultural Economics and Rural Sociology, The Pennsylvania State University (University Park: 1979), pp. 9, 24-25.

In developing property tax burden estimates under these three incidence assumptions, it was necessary to make additional assumptions about who bears the tax burden by property type and how that tax burden is distributed by income class. . . . The following table displays these assumptions concerning who bears the property tax burden according to the three main property types and the three property tax incidence assumptions used in this study.

Table 3. Who bears the property tax burden by property type.

Incidence Assumption	Property Type		
	Residential	Nonresidential	Agricultural
1	Homeowners	Capital Owners	Farmers
2	Homeowners	{1/2 Capital Owners 1/2 Consumers	Farmers
3	Homeowners	Consumers	Farmers

.
Results. Tables 4 and 5 display estimated tax burdens associated with the school property tax in 1975. Table 4 shows the school property tax burdens for all Pennsylvania taxpayers under the three tax incidence assumptions used in this study.

Table 4. 1975 school property tax, estimated tax burdens (taxes as a percentage of taxable income), all taxpayers.

Income Class	Tax Burden Assumptions			Distribution of Taxpaying Units
	1	2	3	
	- - - - - percent - - - - -			
less than \$5,000	5.81	5.72	5.62	33.8
\$5,000 to \$9,999	4.43	4.96	5.49	20.9
\$10,000 to \$14,999	3.10	3.51	3.92	18.9
\$15,000 and above	1.71	1.44	1.17	26.4
Total	2.65	2.65	2.65	100.0

For the state as a whole, school property taxes were 2.65 percent of taxable income in 1975, and were distributed regressively regardless of incidence assumption (these assumptions are described on p. 9). As expected, however, under the most regressive assumption - assumption 3, the tax burden is concentrated more heavily in the lower income brackets than under the other two incidence assumptions. The apparent anomaly of the highest tax burden in the lowest income class occurring under the most progressive incidence assumption -- number 1, is a function of the allocating mechanism used to distribute property taxes across income classes. Capital or unearned income was used to allocate nonfarm/nonresidential property taxes under this assumption, and that type of income as defined in this study had a generally U-shaped distribution for Pennsylvania in 1975; that is, it was more heavily concentrated in both low and high income classes than in the middle classes.

Table 5 shows estimated 1975 school property tax burdens for farm, nonfarm, and all Pennsylvania taxpayers under incidence assumption 2. Farm tax burdens are considerably higher than nonfarm tax burdens across all income classes. In addition, farm tax burdens are distributed regressively within the farm sector, although the degree of regressivity is quite low and considerably less than it is in the nonfarm sector. In fact, other than in the lowest income class, the farm school property tax burden is almost proportional (taxes as a percentage of income are the same for each income class).

Table 5. 1975 school property tax estimated tax burdens (taxes as a percentage of taxable income), tax burden assumption 2.

Income Class	Sector		
	Farm	Nonfarm	All Taxpayers
	----- percent -----		
less than \$5,000	7.45	5.68	5.72
\$5,000 to \$9,999	7.06	4.89	4.96
\$10,000 to \$14,999	6.99	3.43	3.51
\$15,000 and above	6.77	1.37	1.44
Total	6.94	2.57	2.65

