



# PENNSYLVANIA TAXPAYER RELIEF ACT

## Summary

### Overview

The Pennsylvania Taxpayer Relief Act will double the size of the Property Tax and Rent Rebate (PTRR) Program in 2006, increasing payments by \$147 million and adding 281,000 new participants.

The plan also will provide property tax reductions in 2006 if school boards approve increases in school district earned income taxes (EIT). Any school district that does not approve an EIT increase in 2006 will be required to put the question before the voters through a local referendum in 2007.

It also makes the backend referendum spending controls mandatory for all school districts, allows additional referenda to authorize further property tax reductions beginning in 2007 and prohibits the 111 school districts that opted-in to Act 72 of 2004 from levying the 0.1% earned income tax.

Act 72 will be repealed.

### Expansion of Property Tax and Rent Rebate Program (PTRR)

- **Program Expansion.** These changes will increase the number of eligible claimants from the current level of 331,095 claimants to a new level of 612,655 claimants. The total amount of payments will increase by \$147 million, more than doubling the size of the current program.
- **Income Eligibility Limits.** The income eligibility requirements for PTRR will be increased to \$25,000. The current limit is \$15,000.
- **Payment Schedule.** The PTRR payment schedule is streamlined to provide the following payments, based on an eligible claimant's income:

\$0 – \$8,000	.....	\$.650
\$8,001 – \$15,000	.....	\$.500
\$15,001 – \$18,000	.....	\$.300
\$18,001 – \$25,000	.....	\$.250

### School District Option – 2006

- **Property Tax Reductions Authorized by Resolution.** Before June 30, 2006, each school district, except Philadelphia, Pittsburgh and Scranton, may adopt a resolution authorizing an increase in the EIT in order to provide property tax reductions through the homestead and farmstead exclusion.
- **Maximum Property Tax Reductions.** The resolution may increase the EIT rate up to the rate required to provide a property tax reduction of up to 35% of the maximum homestead and farmstead exclusion.

### Primary Election Referendum – 2007

- **Property Tax Reductions Authorized by Referendum.** In the 2007 primary election, any school district that did not approve an EIT increase to provide property tax reductions in 2006, except Philadelphia, Pittsburgh and Scranton, will propose a referendum question asking voters to authorize an increase in the EIT in order to provide property tax reductions through the homestead and farmstead exclusion. A school district that did approve an EIT increase in 2006 will have the option to propose a referendum question.

- **Minimum Property Tax Reductions.** The referendum question must propose to increase the EIT rate to provide a property tax reduction of at least 35% of the maximum homestead and farmstead exclusion. However, a school district will not be required to propose to increase the rate by more than 1.0%.

## **Mandatory Backend Referendum/Spending Controls – Beginning 2006**

- **School Districts that Opted-In to Act 72.** School districts that opted-in to Act 72 will be governed by backend referendum requirements, beginning in 2006.
- **School Districts that Did Not Opt-In to Act 72.** For 2006 only, school districts that did not opt-in to Act 72 will be prohibited from increasing their tax rates above the annual inflationary percentage and will not be able to place referendum questions before the voters to approve further increases. However, these school districts may petition a court of common pleas for an additional tax increase if the school district proves that it can not otherwise balance its budget. Beginning in 2007, these school districts will be governed by the same backend referendum requirements that apply to school districts that opted-in to Act 72.
- **Act 72 Backend Referendum.** The backend referendum requirements are virtually identical to those included in Act 72. Any proposed tax rate increase that exceeds an annual inflationary percentage must be approved by the voters in a referendum, unless the school district qualifies for any of the exceptions.

## **Prohibit School Districts From Levying 0.1% EIT**

- **Act 72 Requirement.** School districts that opted-in to Act 72 were required to adopt resolutions authorizing a 0.1% EIT to be levied in the year in which gaming revenues were available for property tax reductions.
- **Levy of Tax Prohibited.** The 111 school districts that adopted such resolutions will be prohibited from levying the 0.1% EIT.

## **Additional Referenda – Municipal Election Years**

- **Additional Property Tax Reductions Authorized by Referendum.** Beginning with the municipal election of 2007, each school district, except Philadelphia, may propose a referendum question asking voters to authorize an increase in the EIT. No sooner than 2009, a school district may propose a referendum question to convert the EIT to a personal income tax in order to provide property tax reductions through the homestead and farmstead exclusion.

## **Gaming Revenues Add Relief Unless a District Opt-Out**

- **Participation.** All school districts will receive property tax reduction payments from gaming revenues.
- **Opt-Out Provision.** When gaming revenues are available for property tax reduction payments, a school district may adopt a resolution to opt-out of gaming revenues. Voters may reverse the school district's decision to opt-out by approving a referendum question at the next general or municipal election.

## **Property Tax Reduction Payments and Reserve Fund**

- **Property Tax Reduction Formula.** The Act 72 formula will be used to distribute gaming revenues for property tax reduction payments. It distributes funds based on a school district's tax capacity, tax effort and tax burden.
- **Initial Distribution Amount.** The amount of gaming revenues required for an initial property tax reduction payment will be set at \$400 million. Under Act 72, it was set at \$500 million.
- **Property Tax Reserve Fund.** The amount required to be deposited in the Property Tax Reserve Fund will be set at 25% of the amount of property tax reduction payments for that year up to a maximum of \$150 million. Under Act 72, it was set at \$400 million.

## **Property Tax Installment Payments**

- **Installment Payment Option.** Beginning in 2006, all school districts that did not opt-in to Act 72, except Philadelphia and Pittsburgh, will be required to offer homestead and farmstead property owners the option to pay their property taxes in installments. School districts that did opt-in to Act 72 will be required to offer this option in 2007.

## **Repeal of Act 72**

- **Act 72 of 2004 is repealed.**