

Property Tax Reduction

Understanding the Question on the May Ballot

On the May 15 primary ballot there will be a referendum proposing a homestead and farmstead property tax reduction that is tied to a matching earned income tax (EIT) or personal income tax (PIT). This statewide referendum arises from Gov. Ed Rendell's property tax reform legislation, Act One, "Pennsylvania Tax Payer Relief Act," which was signed into law June 27, 2006. All school districts in Pennsylvania, other than Philadelphia, Pittsburgh, and Scranton, are required to include a referendum on the May ballot. The following are some questions and answers designed to help you understand the issues before you cast your vote.

How can I get a homestead/farmstead property tax reduction?

To get a property tax reduction under Act One, voters will have to approve the referendum on the May ballot that would institute a personal income tax or earned income tax. If the school district already has an earned income tax, a new rate will need to be approved.

What is the difference between an EIT and a PIT?

For employees, an EIT is a local tax on wages earned on the job, similar to withheld state income tax. Business owners would pay a local EIT on the profit from sole proprietorships and partnerships. A local PIT, like state income tax, would include the income from wages and profits, as well as other sources, such as interest, dividends, capital gains, rental income, and gambling winnings.

Will I be able to choose between an EIT and a PIT at the election?

No. Your school district chose which type of tax will be offered. Each school district was required by law to appoint a local tax commission in the fall, composed of volunteers from the district. The commission's job was to recommend which type of tax to propose and the tax rate. The school district, using this recommendation and feedback from public hearings, then made a decision as to the wording of the referendum on the ballot.

If I don't pay any state income tax now, because my income is too low, will I need to pay a local income tax?

If your school district is proposing a PIT, the low income provisions that apply for state income tax would also apply for local tax. If the proposal is for an EIT, there is no mandatory low income threshold, but the school district has the ability to enact one.

What if I rent instead of owning a home?

You will be subject to any new EIT or PIT on your income, but since you did not pay property tax, there would be no corresponding property tax reduction.

Will the homestead and farmstead property tax reduction be based upon how much property tax I pay now?

No. The reduction will be a fixed dollar amount for each homestead or farmstead and will be based on a calculation outlined within the law. The estimated reduction will be specifically stated in the referendum.

If the referendum does not pass, will there still be a property tax reduction?

No. If the referendum does not pass, there will be no new tax and there will also be no reduction at this time. The state could provide some other reduction in the future.

Does the outcome of the referendum affect the school district's budget?

No. The referendum is designed to be an even tradeoff between property tax reduction and increased income tax. However, your district may have a separate referendum on the ballot relating to the school district's budget. Act One requires any school district whose budget calls for an increase in property tax above the rate of inflation to put an additional referendum on the ballot asking for permission to increase property taxes by the higher rate. These are different issues. It is important not to confuse the two.

If the referendum passes, what is the effective date of the tax increase?

The effective date will be July 1, 2007, which is the beginning of the next fiscal year. Whether it passes or fails, each school district will have the opportunity to have a new referendum every two years.

If you have any other general questions regarding Act One and the ballot referendum, you can visit the free, "Ask a CPA" online service provided by members of the Pennsylvania Institute of CPAs. It can be found at www.IneedaCPA.org. Your local school board members and your state representative are also excellent resources for specific questions regarding your property tax.

The Pennsylvania Institute of Certified Public Accountants is a 19,000-member association of Pennsylvania CPAs in business and industry, public practice, government, and education. Information is provided as a public service to inform the voting public of basic tax issues. Views expressed do not imply an opinion of the PICPA, its officers, directors, employees, or members.

PICPA is headquartered in Philadelphia with a government relations office located in Harrisburg and a western regional office in Pittsburgh. Visit www.picpa.org.

PICPA
Experience the value![®]
Pennsylvania Institute of
Certified Public Accountants