

## Senate Bill 1: Property Tax Elimination - Article 2

[https://krc-pbpc.org/research\\_publication/unintended-consequences-property-tax-elimination-increases-taxes-on-the-middle-class-to-reduce-taxes-for-high-income-families/](https://krc-pbpc.org/research_publication/unintended-consequences-property-tax-elimination-increases-taxes-on-the-middle-class-to-reduce-taxes-for-high-income-families/)

# Unintended Consequences? Property Tax Elimination Increases Taxes on the Middle Class to Reduce Taxes for High-Income Families

Mark Price | 11/20/2015

The budget end game has focused a lot on property tax cuts. The [budget framework agreement](#) includes property tax relief, the allocation of which has not yet been worked out. And now the Pennsylvania Senate will consider SB 76, a bill to eliminate school property taxes early next week. Property tax elimination would be paid for by raising the sales tax rate to 7 percent and expanding it to cover more services, and by raising the personal income tax rate to 4.34 percent.

This blog will compare property tax elimination with two more targeted approaches that would reduce, but not eliminate, property taxes: the Republican proposal that passed the Pennsylvania House in May (HB 504) and Gov. Wolf's original proposal.

The bottom line: property tax elimination would raise taxes on the middle class to give wealthy homeowners and businesses in wealthy communities a tax break. Both targeted property tax reduction approaches would be better for the middle class, but the Wolf proposal would be the best for moderate-income homeowners and also would cut non-residential property taxes the most in lower-income communities, a potential boost to community revitalization.

We think that if Pennsylvanians and lawmakers of both parties fully understood these differences, they would oppose property tax elimination and favor using a scaled-down version of the Wolf formula to allocate the amount of property tax relief funded by the budget framework. So please, help us spread the word.

Let's start with the impact of property tax elimination on different groups of taxpayers. While we have not examined the tax incidence of the current SB 76 bill, the Institute on Taxation and Economic Policy (ITEP) did estimate for us the tax incidence of a similar proposal several years ago. That proposal, like the current SB 76, promised to eliminate school property taxes through an increase in the sales tax rate to 7 percent while applying it to more services, and an increase in the personal income tax rate (to 4.1 percent under the old SB 76 and to 4.34 percent under the new SB 76). One reason SB 76 now has a larger PIT increase is that the earlier proposal didn't raise enough revenue: even the "new and improved" SB 76 does not raise enough revenue to eliminate property taxes permanently and to adequately and equitably fund schools going forward.

Who are the winners and losers of eliminating property taxes by raising sales and income taxes? As we explained in [our release](#) last Wednesday, the sales tax falls more heavily on middle-class and low-income families. The property tax also falls more heavily on middle-class and low-income families, but it is not as regressive as the sales tax – in part, because the wealthy choose to spend substantially more on housing than the middle-class and also to impose high property taxes on themselves to provide more funding for their local schools.

Given these realities, there is a danger that raising the sales tax to eliminate school property taxes will increase taxes on lower-income families to provide tax benefits to higher-income families. Underscoring this danger, ITEP's analysis of the earlier property tax elimination proposal did, indeed, find that it increased average taxes on middle-income families, while lowering taxes, on average, on the top 20 percent of families. (This proposal also provided a small cut in average taxes for the bottom 20 percent of families). Property tax [elimination](#) amounted to a middle-class tax hike to pay for tax cuts for affluent households.

If property tax cuts are going to be a priority, a smarter approach for the middle class is to provide more targeted relief as a majority of the House proposed to do with the passage of HB 504 in early May, and as Gov. Wolf proposed in his initial budget address in March. Although we won't explain the details of the differences in the allocation formulas of the House and Wolf proposals here, it turns out the Wolf proposal is more targeted to moderate-income homeowners and communities. (For more on the House and Wolf proposals and their allocation formulas, check out our late July [trio of briefs](#)).