



April 23, 2014

An Overview of the Proposed Amendment to Senate Bill 76

An amendment to Senate Bill 76 was proposed in April 2014. How would the proposed amendment impact SB 76?

SB 76 Remains Largely Unchanged by the Proposed Amendment

Generally, the amendment offers revisions to address technical concerns about the bill, specifying the products and services that would be subject to the expanded and increased state sales tax, clarifying which business-to-business services would be exempt, and updating the activation and implementation dates contained in the original legislation introduced on March 14, 2013.

What Does SB 76 Do?

- **Eliminates all school property taxes** except those needed to pay outstanding construction debt.
- **Makes permanent the state budget cuts to education** enacted in recent years by basing school district funding on current funding levels.
- **Drains billions of dollars from public schools in upcoming years** by artificially capping state education funding at a rate that is not connected to actual costs.
- **Undermines local control over school funding and hands funding decisions to Harrisburg.** School district are prohibited from levying property taxes. Earned income, net profits, and personal income taxes are allowable but require a voter referendum.
- **Raises other taxes** — the personal income tax would go from 3.07% to 4.34%, and the sales tax from 6% to 7%.
- **Jeopardizes school funding by relying on more volatile sources of funding**, since income and sales tax revenue can drop significantly during a bad economy.
- **Imposes a sales tax on food for the first time, making Pennsylvania one of only three states to tax food.** Only WIC-eligible items would be exempted.
- **Expands the sales tax to a range of products and services**, including child care services, clothing and footwear over \$50, dry cleaning charges, non-prescription medications, hair salons, funeral expenses, non-tuition fees at some colleges, non-housing charges at many nursing care facilities, many legal & accounting services, garbage collection, tow truck charges, parking fees, taxis, public transit, and in-state train, plane, and charter bus transportation.

- **While applying sales tax to most services used by individuals and families, the legislation exempts many business-to-business services from the sales tax.**
- **Eliminates all property taxes for corporations** that own shopping malls, factories, skyscrapers, and other commercial enterprises, shifting the cost to individual taxpayers and small businesses. Over 23% of all assessed property in Pennsylvania is commercial or industrial, much of which is corporate owned.

The Proposed Amendment Makes Minor Changes to SB 76

- **SB 76 would still limit new education funding.** SB 76 would cap education funding growth by linking it to growth in sales tax or the Consumer Price Index, *whichever is less*. The state’s Independent Fiscal Office projects that schools would receive \$2.6 billion less in funding by 2018-19 under SB 76 than could be expected from the current system.¹ The amendment changes this formula to the lower of sales tax or the statewide “average weekly wage” (calculated by the Bureau of Labor Statistics) growth in the previous year. The result is the same: growth in average weekly wage is less than what school districts would otherwise have to spend on students if SB 76 was not in place.
- **Philadelphia-specific provisions are modified. Philadelphia would be allowed to continue locally generated taxes for schools.** SB 76 would immediately cut \$192 million from Philadelphia schools by prohibiting *all* school taxes currently levied by the city – non-business income, use & occupancy, and liquor by the drink – but would only replace the revenue that was raised through property taxes. The amendment would allow Philadelphia to continue to levy these other local taxes to fund its schools. In addition, Philadelphia would continue to receive \$86 million from the Act 1 Property Tax Relief Fund for wage tax relief under the amendment.
- **The amendment clarifies which business-to-business services would be taxed** by using specific industry codes from the North American Industry Classification System (NAICS).
- **SB 76 would impose sales tax on colleges, nursing homes, and other residential service providers.** The amendment exempts tuition and housing-related charges from sales tax for colleges, nursing homes, and other residential service providers, but allows sales tax on other costs (food service, fees).
- **Exempts nonprofit providers of certain services from sales tax, but allows sales taxes to be collected by for-profit providers.** This provision may be difficult to administer. The loss of revenue from this change needs to be analyzed as it may result in more cuts to education.

The proposed amendment to SB 76 does not fundamentally alter the many structural deficiencies of the legislation. SB 76, whether in its current form or if amended, would impose a foundational re-organization of the state’s taxation and educational systems, with potentially vast negative consequences for Pennsylvania’s schools, its workers and consumers, and the economy of the commonwealth.

¹ Pennsylvania Independent Fiscal Office, Analysis of Proposal to Replace School Property Taxes: House Bill 76 and Senate Bill 76 of 2013, Special Report 2013-7, October 1, 2013 <http://www.ifo.state.pa.us/resources/PDF/SR2013-07.pdf>.