

Antietam School District
Act 1 Local Tax Study Commission
December 11, 2006

A Report and Recommendation to the
Antietam School District Board of School Directors

In accordance with Act 1 of 2006, the Antietam Local Tax Study Commission (LTSC) was appointed by the Antietam Board of School Directors (Board) on September 14, 2006 and charged with the responsibilities as outlined in the Act. A nine member LTSC was duly appointed in accordance with the Act and by design, represented a wide demographic cross-section of the Antietam community. The statutory responsibilities include mandatory study items as well as a formal LTSC final recommendation to the Board regarding specific ballot questions and issues outlined in the Act.

Background

At the May 2007 primary election, every school board in the Commonwealth must submit a “front-end” voter referendum question concerning adoption of a new or increased income tax. The purpose of this referendum, if approved by the voters, is to fund property tax relief. The funds received as a result of the approved referendum would be allocated to approved homestead and farmstead property owners. If approved, the ballot question, by its nature and designed intent, will cause a variety of financial impacts for both community members and the districts. These “impacts” will vary among individuals, communities, and school districts based on their economic / demographic situations.

To meet the mission required for this report, the LTSC met five times on advertised public meeting dates to review issues and district data. In addition, on November 15, 2006 the LTSC held a public hearing to inform the public about Act 1 and obtain public input.

As follows, four mandatory study items were expressed in the statute for the LTSC to review:

1. Historical and current district revenue from current taxes.
2. Percentage of total district revenue provided by current taxes.
3. Age, income, employment, and property use characteristics of the district tax base.
4. Projected district revenue from current taxes, and from the possible new or additional Act 1 EIT or PIT.

The LTSC was provided with district and community data that met those required study items and additional information was provided beyond the scope of the statute. A copy of these materials, handouts, electronic resource information, as well the LTSC meeting minutes accompany this report as an addendum for permanent Board record.

The LTSC is required to make a recommendation to the Board within 90 days of Board appointment, or no later than December 13, 2006. By statute, the LTSC recommendation is non-binding on the Board and it is recognized that some data may change or be updated as the Board considers its final decision. For that reason, recommendations herein include brief and reasonable amounts of narrative to assist with Board deliberation and consideration. It is understood that the Board must act on the LTSC recommendation no later than March 13, 2007 and adopt a tax referendum resolution authorizing a specific referendum question.

Recommendations

Tax Base: *The LTSC recommends the EIT tax base for the ballot question.*

Since only one ballot question is allowed on the ballot, it is necessary to choose between two income tax options presented in Act 1. The Act includes both the earned income tax (EIT) and the personal income tax (PIT) for consideration. For taxpayers, the PIT tax base is the same as their taxable income for the Pennsylvania State tax return. For the EIT base, it is the same as their taxable earnings reported on the tax return to the Berks County Earned Income Tax Bureau.

Personal Income Tax

This is the first time the State has provided school districts with the legislative authority to actually levy a PIT tax. The current state PIT rate on this base is 3.07%. The PIT is generally considered a fairer, broader based tax in that it recognizes “wealth” assets, specifically items such as interest earnings and dividends from certain investments, which are not taxed under the EIT. For Antietam, the PIT base is about 5% larger than the EIT base. This small differential in the two tax bases means that it would have a minimal impact overall on any tax rate that would be applied.

Additionally, since the PIT would be collected for the first time, initial start-up and implementation issues abound. Should the PIT base be selected, Act 1 requires complete elimination of the current EIT tax as currently levied by the district. There is no current tax collection structure for a school district PIT so it would have to be developed at the same time the existing EIT structure was abandoned. PIT transition would also present many problems and costs for taxpayers because they would be required to file an additional tax return each year. The municipalities would continue to collect the EIT, and the new district PIT would be added.

Earned Income Tax

Our school district EIT is currently levied at a rate of .5% with a well-established collection process. It is a familiar tax to constituents with regard to its association with the district and it does not tax the interest earnings of those who manage to save funds for retirement or a rainy day.

The LTSC spent considerable time and debate on this issue. While at one end of the spectrum the PIT tax would capture wealth of those with high income and significant investments, it would also tap into those on fixed incomes, small businesses, and retirees who have managed to save funds. While there are trade-offs no matter how this review is framed, the demographic data of Antietam suggested a better fit with the EIT than the PIT.

Tax Rate: *The LTSC recommends an additional EIT rate of 0% for the ballot question.*

While we will not review the calculations here, Act 1 provides a statutory mandate to achieve a certain threshold of tax relief from the ballot question that raises the income tax rate. For Antietam, the minimum amount of property tax relief is the amount realized by raising the EIT rate by 1%. The amount of relief then jumps to a level that is calculated based on 25% of the median homestead value and ranging up to a maximum, which is 50% of the same number. As calculated on the best available data, the range of available EIT rate increases was from 2.2 % to 4.2%. (The Act includes language that restricts a rate increase to the nearest one-tenth of 1%).

In deciding which rate to recommend, the LTSC reviewed district demographic data on age, income, renters, homeowners, and farmsteads. Based on the calculations referred to above, implementing even the 1% EIT rate increase would result in 73% of the district population paying more in taxes should the referendum be approved by the voters. Therefore, it is the opinion of the LTSC that recommending even a 1% increase in the EIT would not be a prudent decision for the majority of the community. The LTSC recognizes that the Board cannot accept this recommendation, but in good conscience we cannot recommend anything different.

Ballot Question: *“Do you favor imposing an additional ___% earned income tax? The revenue generated from the increased tax rate will be used to reduce taxes on qualified residential properties by \$____. The current earned income tax rate is .5%.”*

Act 1 states: “The referendum question submitted to the electors of the school district at the primary election of 2007 shall state the rate of the proposed income tax to be levied, the reason for the tax, the estimated per homestead tax reduction and the current income and net profits tax levied by the school district. The question shall be clear and in language that is readily understandable by a layperson and shall be framed in one of the following forms:” [3 referendum question forms were then presented in the act]. Basically, the questions are different based on which tax base is selected and if the district has or does not already have an EIT.

Even though the LTSC recommendation is for a 0% EIT increase, Act 1 still requires that the LTSC recommend a referendum question. Therefore, the LTSC recommends the above form of the ballot question.

Other items: *Farmstead reduction amount equal to Homestead reduction amount*

Act 1 allows for differentiation between the approved Homestead reduction and Farmstead reduction amounts. In all scenarios of review the LTSC made the assumption they would be treated equally with the same reduction amount.

Concluding Remarks

Act 1 is complex and has many confusing and “moving” targets and interpretations that have yet to be settled by the courts or administrative edict. Community information and education about what Act 1 is and what it is not will be vital for voters to make an informed choice. The members of this Commission strongly encourage the Board to conduct a thorough and complete informational campaign so that the entire community is aware of and understands the result and implications of Act 1.

Therefore, within the guidelines as understood in Act 1, by submittal of this report the Antietam Local Tax Study Commission is of the opinion that it has completed its duties and fulfilled its obligations. We express our appreciation to the Board and administration for their support, and to the community for their input.

Respectfully Submitted,

Members of the Antietam School District Act 1 Local Tax Study Commission

Mr. John A. Fielding, III, Chair _____

Mr. Thomas A. Trainer, Vice-Chair _____

Ms. Nancy Boudreau _____

Ms. Beth Calabria _____

Mr. Robert Delong, Jr. _____

Mr. Warren Fegley _____

Ms. Joanne Just _____

Mr. Michael Millard _____

Mr. Tony Phyrillas _____