



The Plan for Pennsylvania's Future

*Sensible School Property Tax Relief for Home Owners
More Opportunity for All Pennsylvanians*

- ◆ Are your school property taxes too high?
- ◆ Do you fear losing your home due to rocketing property taxes?
- ◆ Are school property taxes pricing a home out of reach for you?

These serious questions stem from one problem: the way we finance public education is badly broken. It can no longer sustain the quality of education our students deserve and at a price we can afford. However, while we might agree on the problems, there have been no real solutions—until now, until the Plan for Pennsylvania's Future.

What is the Plan for Pennsylvania's Future?

The Plan *eliminates all* residential and commercial school property taxes, once and for all. Where, then, do we get the money to fund basic education? From a broader sales tax at a lower rate. This will include clothing and services (with some important exemptions), but at a rate lower than the current 6%. This plan moves Pennsylvania toward a simpler, more just tax model. Spreading the cost of education over more people makes the burden more bearable for everyone.

Free Market Fundamentals

The Plan is based on Sound Economic Principles

“The power to tax involves the power to destroy.”

-Chief Justice John Marshall, 1819

Where does prosperity come from? Why are South Koreans relatively affluent while their North Korean cousins live in abject poverty? The answers boil down to this: Prosperity comes from economic activity. The more economic activity a community has, generally the more prosperity it will receive; the less economic activity, the less prosperity. In North Korea, the government controls nearly all economic activity, so few exchanges occur. The result is endless shortages of even basic consumer items and food. The South Korean government, on the other hand, controls very few exchanges, which is largely why it has one of the world's strongest economies.

Why this matters: This plan will do more to spur economic activity than any other property tax reform plan. Keep reading.

There are only two ways to exchange products: in a free market, or in a bureaucracy. In a simple exchange, a buyer and seller voluntarily determine how much a product is worth and make the trade. When they do this in a free market, both sides win—each gains something he did not have before. The seller has more money to buy things from other sellers. The buyer has something to make his life better, or to increase his ability to produce things that others consumers will buy.

But sometimes, someone else dictates to buyer and seller the terms of the transaction—for example, a price ceiling to the seller, or a subsidy to “help” the buyer afford more of a certain product. This almost always leads to less economic activity. If the buyer is told to pay a higher price for a given product, the higher cost reduces the incentive to buy it. If the seller is given a maximum price, the lost revenue potential reduces incentive to produce.

In exchange like these, a bureaucracy interferes and picks the winners and losers by dictating the terms of exchange

to everyone. The more it interferes, the more losers and the fewer winners. So the buyer or seller, or both, are compelled into or out of the market, based on what someone else (who usually does not understand the market or the participants' interests so well as he thinks) decides is best for them. They can no longer behave as they wish; now they must do as they are told, or not interact at all. By interfering with the free exchange of products, bureaucracies usually curtail economic activity, which tends to lead toward poverty for everyone, except the bureaucrats and those they chose.

Why this matters: Pennsylvania has the most complex, bureaucratic sales tax model in the nation. For example, sunburn prevention products are taxed; however, sunburn treatments are not. Under the broadened sales tax plan both would be taxed equally at five percent. Answering questions about what is taxable and not taxable requires numerous attorneys, accountants and others to interpret very complex statutory and case law. Property tax requires an army of assessors, people to hear appeals, etc. The cost to employ these legions is around \$100 million state-wide—that is how much money hard-working Pennsylvania families have to give up to maintain the mechanism to collect the rest of their taxes! The Plan for Pennsylvania's Future is so simple, no attorneys or accountants are required, and there is no longer a need for assessors. This simple tax model will tax sunburn preventions and sunburn treatments evenly and fairly. The plan empowers consumers across the state, not bureaucrats in Harrisburg.

There are only two ways to collect taxes: before, and during market activity. No one likes paying taxes on purchases, especially necessities like food and clothing. But still worse is when the money for those goods is confiscated before it can even be spent. When purchases are taxed, at least some economic activity still occurs; when the money is taken before it can be spent,

nothing happens at all.

Why this matters: Right now, \$10 billion of our money is redistributed via bureaucracies, rather than the free market. The Plan for Pennsylvania's Future will return that money to the free market, which will increase the prosperity of both property owners, and the people they trade with. The money then gets spent again, further increasing the prosperity of consumer and provider every time it changes hands. This multiplying effect will provide a tremendous and needed boost to Pennsylvania's economy.

Taxing a behavior discourages it; subsidizing or not taxing it encourages it. That seems obvious enough. Government sometimes gives tax credits to promote certain activity. For example, the number of Americans investing in IRA retirement accounts shot up when the federal government reduced the tax people had to pay on these investments.

Why this matters: The current system punishes home owners and land lords for improving their properties with visit from the assessor who raises their taxes. Rather than discouraging people from improving the net worth of their primary asset, the Plan for Pennsylvania's will encourage this behavior!

In summary, economic activity creates prosperity. This plan will dramatically spur economic activity. Free markets create more economic activity than bureaucratic systems, where both sides win, rather than just those the bureaucracy picks. This plan moves away from a vast bureaucratic tax collection system toward one based on economic activity. Governments can either collect taxes before market activity, or while it occurs. While the former constricts economic activity, the latter stops it cold. This plan puts approximately \$10 billion that is now taken out of the market before it can be spent back in Pennsylvania's economy. Behavior that is taxed is discouraged; subsidized or untaxed behavior is encouraged. The Plan for Pennsylvania's Future encourages people to invest in their home, their primary asset, and quits punishing them for doing so.

Good Tax Policy

How does the Plan compare?

According to the *Institution of Taxation and Economic Policy*, a non-profit, non-partisan tax policy think tank, a sound tax model must be:

- **SIMPLE:** Can the average person understand it—without an accountant?
- **EQUITABLE:** Does it treat all families the same, letting the free market, not bureaucrats, pick the winners and losers?
- **EXPORTABLE:** Do out-of-state individuals pay for the services they use (roads, etc.)?
- **NEUTRAL:** Does it take too much money away from those who earned it? Is it fair?

A fundamental problem with Pennsylvania's current school property tax and sales tax systems is that they are very complex. With property tax, the amount of one pays the school district is based on what some regulator's arbitrary opinion of their property's value. We have the nation's most complex sales tax model. As a result, these systems are not simple, equitable or neutral. The property tax model is not exportable, and neither is sales tax when it comes to food and services. As Chief Justice Marshall warned, the power to tax is the power to destroy. The destructive nature of the current property tax system becomes more obvious with each passing year.

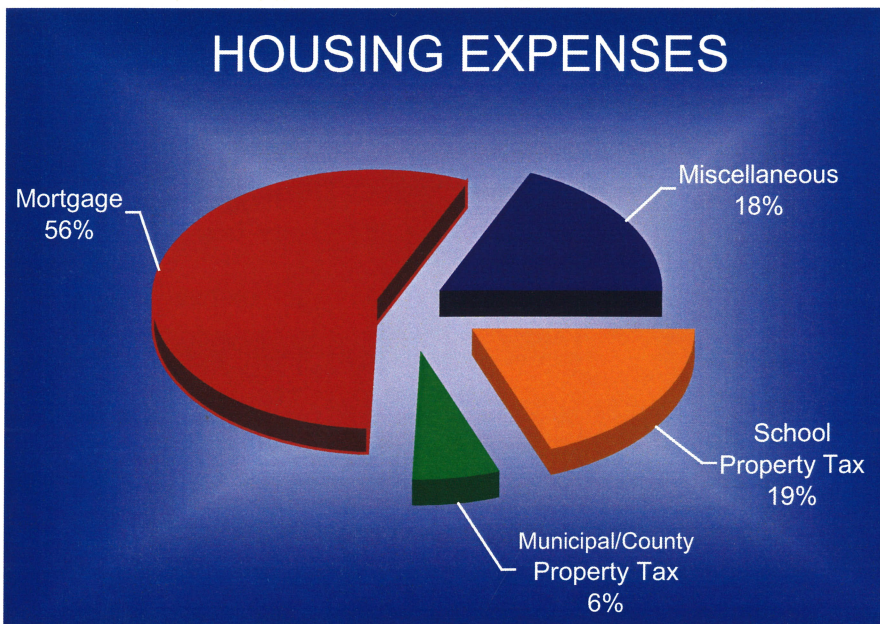
	<i>Current Sales Tax Model</i>	<i>Current Property Tax Model</i>	<i>Plan for PA's Future</i>
Bureaucracy Based	Yes	Yes	No
Free-Market Based	No	No	Yes
Simple	No	No	Yes
Equitable	No	No	Yes
Exportable	Yes	No	Yes
Neutral	No	No	Yes

There is a better way:

The Plan for Pennsylvania's Future will adequately fund education, and create a tax model that is simple, equitable, exportable and neutral. It will spur economic activity and increase opportunity for prosperity for everyone. It will quit taxing people for improving their homes.

The Plan will work because it is based on simple and sound economic principles. It will move the Commonwealth away from an antiquated, expensive and complex revenue collection mechanism toward a simple tax model that relies on the power of the free market, not bureaucratic enforcement. By moving to a broader-based sales tax, everyone will pay a little instead of a few paying a lot.

This plan gives every person more control over how much tax they pay, and when. Senior citizens will no longer be faced with the nightmare of losing their homes! Homeowners will be able to improve their houses without being punished! Renters will see rents stabilize, and many of them will for the first time be able to afford to share in the American dream! Businesses will have a reason to stay in Pennsylvania! Pennsylvania will see an increase in economic activity and prosperity! It is a common sense "pay as you go" alternative to the current "pay or you go" nightmare!



Answers to Frequently Asked Questions

1. Won't taxing necessities like food and clothing hurt the poor?

For the poorest residents, food stamps and WIC will remain exempt. Remember that Pennsylvania already taxes the most basic necessity: housing, and to the point that many can no longer afford to buy a home, or fear losing the one they have. But in the many states that already tax food and clothing, no one starves or lacks adequate clothing because of the tax on food or clothing. Here in Pennsylvania, however, thousands of people are being forced from their homes by out-of-control property taxes.

This plan gives the poor a way out of poverty. The primary way Americans accumulate wealth is in their homes: they buy a house and pay it off. For most homeowners, their property tax bill is between one and four mortgage payments. This plan eliminates that barrier, and will allow a whole segment of the population that cannot now afford a home, due to the property tax bill, to buy one and participate in the American dream.

For those who will remain renters, rising property taxes are the main reason landlords raise rents. In fact, property tax as a percentage of housing cost is greatest among those who earn the least. The Plan for Pennsylvania's Future will make home ownership an option for more people at the lower end of the economic spectrum and let current homeowners keep their homes. That's good tax policy!

2. What items will remain exempt?

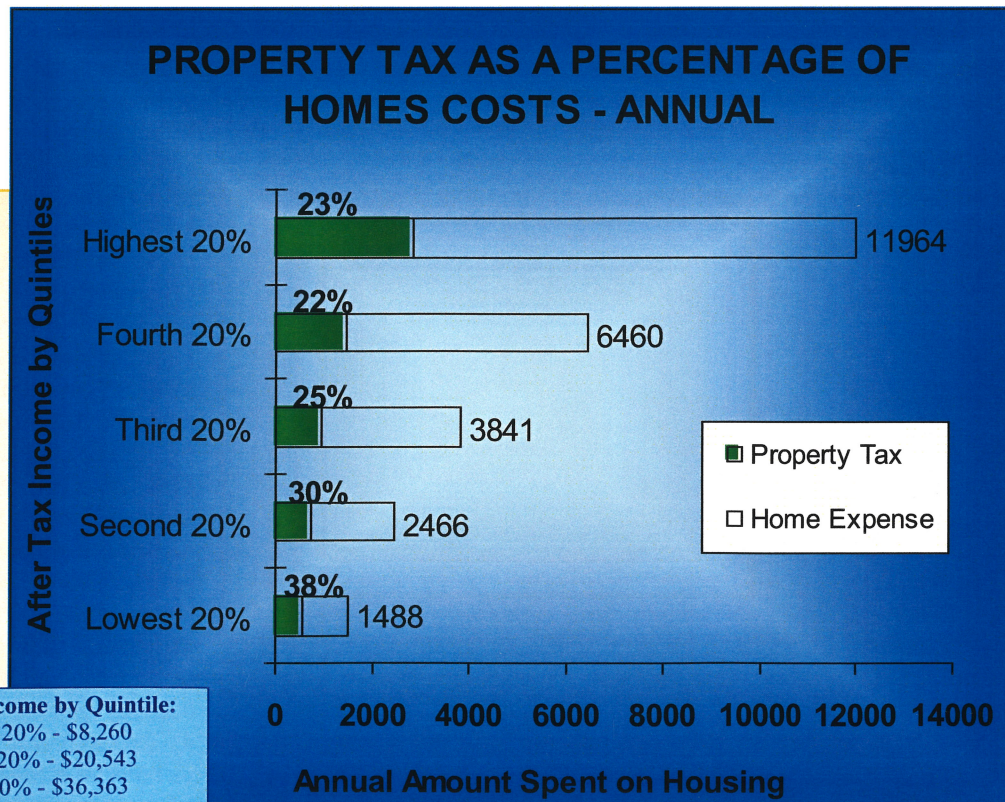
EXEMPTIONS

Food stamp/WIC purchases
 Agricultural wholesale purchases
 Sales made by tax-exempt organizations
 Manufacturing whole sale purchases
 Health care services

Trucking
 Contract farming
 Public transportation
 Prescription drugs
 Sale for resale
 Advertising

3. How does the Plan help senior citizens on a fixed income?

While some landlords will pass on part of their savings they receive from eliminated school property taxes, this will not happen in all cases. To level the playing field for older renters, the legislation will expand the Rent Rebate Program that many seniors rely on.



Average Income by Quintile:

Lowest 20%	\$8,260
Second 20%	\$20,543
Third 20%	\$36,363
Fourth 20%	\$58,593
Highest 20%	\$119,091

Who Benefits?

In General

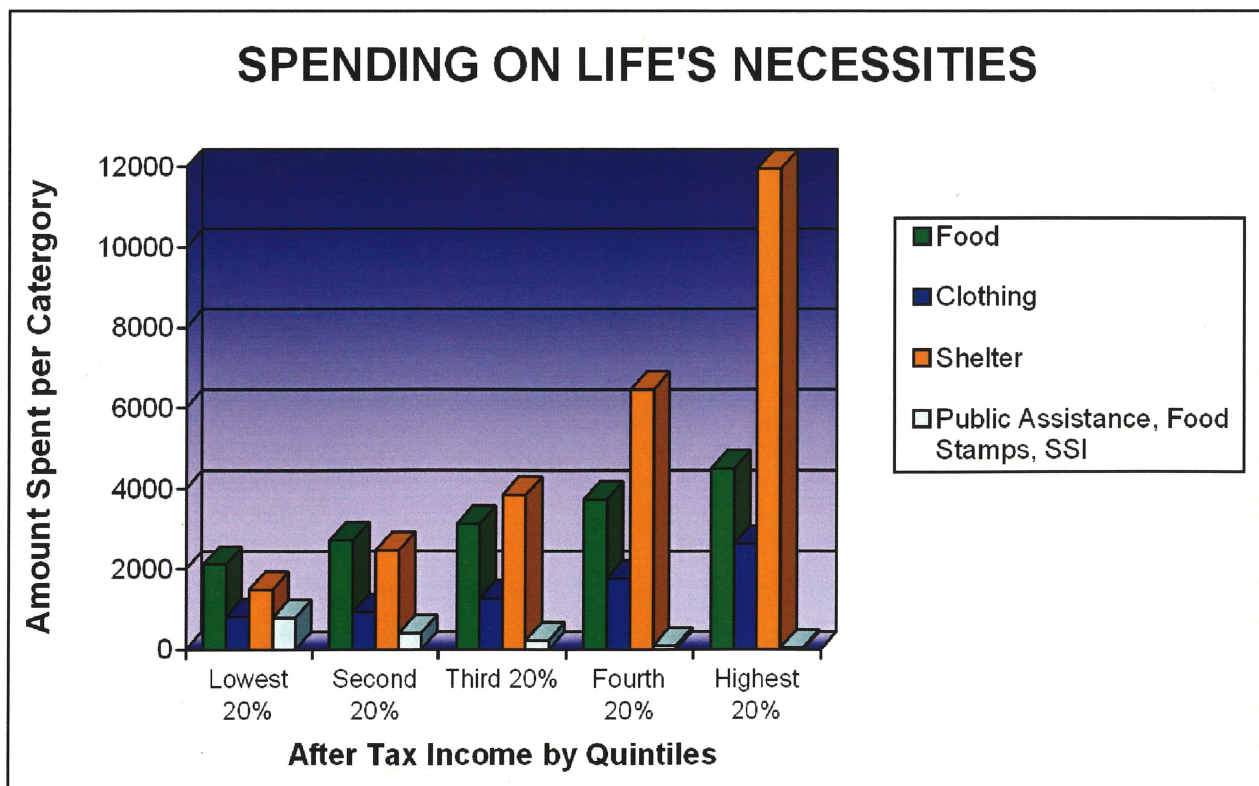
- Homeowners will be free of the financial oppression of property taxes that double every ten years.
- Senior citizens on fixed incomes will no longer live in fear of losing their homes due to property taxes increasing beyond their ability to pay.
- Farmers will have less pressure to sell the family farm.
- Renters will see rent prices stabilize. Many will be able to afford to buy a home.
- Consumers will determine when and how much education tax they pay. An unfortunate job loss will no longer be compounded by an onerous property tax bill. The most complex sales tax model in the nation will become one of the simplest.

Educators and Students

- All sales tax revenue will go to a dedicated Educational Operating Fund (EOF), separate from the General Fund. Schools will be adequately and equitably funded for the first time!
- School boards and administrations will be able to focus on academics and student performance rather than trying to figure out where the funding will come from.
- A crumbling school financing system based on an inadequate and inequitable revenue source (property taxes, etc.) will be replacing with a broader, modern and ample sales tax.

Employers and Employees

- The plan will create 139,000 family-sustaining new jobs in the first few years of implementation.
- The second-largest fixed expense (school property taxes) for most businesses after capital debt will be eliminated.
- The cost of complying with a complex tax model, which requires costly bureaucratic enforcement and regular audits will be dramatically reduced.
- The out-dated, very complex, property tax and sales tax systems will be replaced with one easy-to-understand, lower sales tax. Nearly all businesses will benefit from removing significant accounting burdens.
- New building construction and investment in Pennsylvania will be stimulated.
- Pennsylvania will become competitive with other states and better able to attract new businesses.



Despite the fact that homeowners in the highest income bracket spend increasingly more on their homes, this is not reflected in a similar percentage increase in property tax amounts. The reverse is actually true: our poorest citizens pay the highest percentage of property taxes in relation to the cost of housing.

How Much Could the Plan Save You?

Use the tax calculator below to estimate the how much *eliminating* school property taxes will save you. The Commonwealth Caucus's Plan for Pennsylvania's Future is a simple concept that will have a dramatic impact. Nearly every taxpayer will save money – a lot of money – under this plan. That means more money to spend more, more money to save and more money to invest in your future and the future of your family.

HOMEOWNERS TAX CALCULATOR

FIGURE YOUR TAXES (Fill in the Blanks)

WRITE DOWN . . .

1. The amount you currently pay in **school property taxes**.
2. The amount you currently pay in any local education **Earned Income Tax**.
3. The amount of local **OPT or head tax** you pay.
4. Total the above lines: This is the **gross amount** of the taxes you may save under this plan.

5. **Estimate of average taxes saved by going from 6% to 5%:**

Assume a total of 10%-15% of your income is spent on items currently taxed (eating out, about 35% of grocery purchases, automobile repairs, furniture and appliance purchases, etc.) Tax savings on large purchases like a car would be in addition to the following, so your actual savings could be more or less.

Household income of:	Income:	Taxable Purchases (15%)	Savings (6% to 5%)
	\$ 20,000	\$3,000	\$30.00
	\$ 30,000	\$4,500	\$45.00
	\$ 40,000	\$6,000	\$60.00
	\$ 50,000	\$7,500	\$75.00
	\$ 60,000	\$9,000	\$90.00
	\$ 70,000	\$10,500	\$105.00
	\$ 99,000	\$14,850	\$148.00

6. Total lines 1-5: TOTAL:

7. **Estimate of average new taxes at 5% on items that are now tax free.**

Assume that 15% - 20% of your income is spent on items not currently taxed like: most food items and clothing; utilities and services. (The following are yearly costs -your actual could be slightly more or less.)

Household income of:	Income:	Items not now Taxed (20%)	Increased Taxes
	\$20,000	\$4,000	\$200.00
	\$30,000	\$6,000	\$300.00
	\$40,000	\$8,000	\$400.00
	\$50,000	\$10,000	\$500.00
	\$60,000	\$12,000	\$600.00
	\$70,000	\$14,000	\$700.00
	\$99,000	\$19,800	\$990.00

AMOUNT SAVED: Subtract line 7 from line 6 to determine the impact on your taxes: If the amount on line 7 is greater than line 6, you could pay more taxes. If line 6 is greater line 7, you will save money under this plan.

TOTAL:

Net impact on your taxes: If you own property, your taxes will go down.

- a. If you own, your taxes may go down if you pay an EIT tax.
- b. If you rent, your rent payments will tend to stabilize since property taxes are the single biggest reason for increased rents.
- c. If you are a senior citizen who purchases very little, you will save even more.
- d. If you pay Occupation Taxes or other Taxes, not included above, you will save even more when these are also eliminated.

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