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Homestead property tax elimination challenges

By Colin McNickle

It could take raising Allegheny County's sales and use tax by more than a percentage point – a nearly 16 percent increase – to offset the loss in tax receipts should all county property taxes be eliminated on owner-occupied homes, researchers at the Allegheny Institute for Public Policy say.

But the challenges in doing so are myriad and would strike some as economically unsavory, say Eric Montarti, a senior policy analyst at the Pittsburgh think tank, and Jake Haulk, its president. And it does not appear likely that any enabling legislation will be forthcoming in the General Assembly in 2018, they say.

It was last fall that Pennsylvania voters adopted a constitutional amendment to allow local taxing bodies to exempt up to 100 percent of the median assessed value of each homestead from taxation, up from the current 50 percent. The change would be an option, not a mandate, and the percentage could be less.

Allegheny County's total assessed homesteads value is \$45.4 billion. Based on its 4.73 millage rate, that produces total revenue of \$214.7 million, or 60 percent of all collected property taxes. It is the only county in the commonwealth offering a homestead exemption for county taxes, currently \$18,000 per homestead.

While the county already receives 25 percent of proceeds from the 1 percent Regional Asset District (RAD) piggyback sales tax (created in 1993 and which generated just more than \$48 million last year), think tank scholars say more make-up revenue obviously would be necessary.

“Thus, in order to eliminate county property taxes on homesteads would require legislative approval to levy a separate 1.1 percent sales and use tax (over and above the existing RAD tax) to replace the property tax revenue lost,” Montarti and Haulk say (*in Policy Brief Vol. 18, No. 5*).

“That would push the total sales tax levied in the county to just over 8 percent.”

Such a move, however, would not eliminate taxes on non-homestead properties. That could lead to higher millage rates to offset homestead exemption losses, certain to “face a firestorm of opposition,” the researchers say.

That said, income and/or gross receipts business taxes also could be considered. But will legislation enabling homestead tax elimination and optional replacement taxes even be introduced this year?

“Bear in mind that the Legislature could opt to grant authority to cut homestead taxes by less than 100 percent,” Montarti and Haulk remind. It’s also important to note that any shift of tax burden to other revenue sources would be “extraordinarily problematic.”

“The difficulties of coming up with legislation to address the complexities of shifting large amounts of tax burden, especially for school taxes, the biggest property tax burden, makes a 2018 bill unlikely,” the Allegheny Institute scholars say.

“A prolonged and exhaustive series of hearings will be required.”

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