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Revised homestead exemption facing hurdles

By Colin McNickle

The Pennsylvania electorate voted last fall to allow for a 100 percent homestead exemption. But numerous hurdles remain that will make drafting enabling legislation tedious and difficult, say scholars at the Allegheny Institute for Public Policy.

The measure, which will amend the state Constitution, was adopted 54-46 percent in Nov. 7's balloting. It would allow (but not mandate) local taxing bodies – counties, municipalities and school districts – to exclude up to 100 percent of the median assessed value of each owner-occupied homestead from the current 50 percent.

But there are significant obstacles to implementing the change, say Eric Montarti, a senior policy analyst, and Jake Haulk, president of the Pittsburgh think tank.

“The underlying purpose of the new and potentially far more generous homestead exclusion ... is to allow taxing bodies to make major reductions in homeowner tax burdens, or possibly eliminate them altogether,” they say (*in Policy Brief Vol. 18, No. 2*).

“Of course, absent dollar-for-dollar cuts in spending, that means the loss of tax revenue ... must be made up by shifting the burden to other taxes and/or taxpayers.”

And therein lies the challenge to legislators drafting enabling legislation: Given the pressure most school districts are under to find more revenue because of rising pension, compensation and other costs, it's improbable that those districts can cut expenditures in any meaningful way.

Any loss of revenue from the homestead exemption would have to be made up by shifting taxes to other sources, primarily on income. Which means renters and their landlords would incur added tax liability with no offsetting property tax reduction.

Also problematic is the relative paucity of interest among government jurisdictions in the existing homestead exemption or in shifting taxes.

“It is easy to understand the wishes of homeowners to want relief from property taxes,” Montarti and Haulk note. “On the other hand, schools, municipalities and counties need revenue to provide services. Efforts to shift a large share of the burden to other revenue sources must of necessity create political opposition from those for whom the tax burden would be increased.”

But there are additional challengers for lawmakers.

Among them, the old flat-dollar exclusion moves to an equal-percentage exclusion. Whereas some wealthier property owners under the existing system might believe they are getting too little of a break, homesteads with lower valuations might, under the new regimen, feel owners of higher-valued properties are garnering too much of a break.

Additionally, given how grossly outdated homestead valuations are in many counties -- because of a failure to regularly reassess -- percentage-based exclusions could exacerbate taxation unfairness.

And how might the new law stymie long-running efforts to eliminate all school property taxes?

“If an appreciable number of school districts were to adopt a significant exclusion and shift taxes to income or other permitted taxes, the elimination of school taxes statewide would become even more cumbersome than it is already,” Montarti and Haulk say.

“All these and doubtless many more hurdles to passage of legislation to adopt the provisions in the constitutional amendment point to a very long, contentious and arduous road ahead.”

Colin McNickle is a senior fellow and media specialist at the Allegheny Institute for Public Policy (cmcnickle@alleghenyinstitute.org).

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
