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Eliminating Homestead Property Taxes: By the Dollars

Summary: So how much money would it take to eliminate completely all property taxes levied on homestead property? This is a question that would have to be considered if the General Assembly were to enable local taxing entities to enact homestead exclusions up to the maximum 100 percent of each home's assessed value now permitted by the constitutional amendment approved by voters last November.

In 2006 the Legislative Budget and Finance Committee was charged by the General Assembly with identifying the amount of property tax revenue raised from homestead property. The study arrived at a figure of $7.6 billion, about half of the total property taxes paid that year in the commonwealth to counties, municipalities, and school districts by all types of real property. The Committee was also charged with finding out how much was being raised by state sales and income taxes, possibly to provide groundwork to shift homestead property taxes onto alternative taxes. Homestead is the term used to identify or describe owner-occupied housing.

The inquiry found that one point of the sales tax would generate $1.3 billion and one tenth of a point of the personal income tax would generate $0.316 billion in the 2007-08 fiscal year. Since Pennsylvania is still trying to figure out how to eliminate property taxes and adopted a constitutional amendment allowing total homestead value exclusions shows that the Committee's study did not provide adequate groundwork for implementing a shift of homestead taxes to other sources. More recently, following the approval of the constitutional amendment, the state's Independent Fiscal Office and the County Commissioners Association of Pennsylvania tabulated the number of homesteads and assessed value of homesteads and all other property for each county in the state. That data show a statewide total of 2.9 million homesteads with their share of total assessed property value ranging from a high of 70 percent in Bucks County to a low of 23 percent in Greene County.

From the assessed value of homestead property by county it is an easy calculation to determine how much property tax revenue is raised from homesteads for each county and how much revenue from alternative sources would have to be raised in order to replace the revenue lost if the county adopted a 100 percent homestead exclusion.

Consider the situation in three Southwestern Pennsylvania counties: Allegheny, Washington, and Butler. Allegheny and Washington have conducted reassessments in the past decade while Butler County has a very old reassessment year of 1969. All have a pre-determined ratio (assessed value to market value as established by county) of 100 percent.

Allegheny County's total assessed value for homesteads is placed at $45.4 billion. At the county's 4.73 property tax millage, the revenue produced by homesteads would total $214.7 million (60% of the total collected from property taxes). Allegheny County is the only county in the state that offers a homestead exclusion for county taxes (currently $18,000 per homestead).

Just south, Washington County has a homestead assessed value total of $8.6 billion with no exclusion. Washington County's millage rate is 2.43 mills raising $20.9 million from homestead properties. That is half of what the county budgeted for total property tax collections in 2018.

Butler County's total homestead assessed value of $1.1 billion and a millage rate of 27.628 mills (the high millage rate reflecting the nearly 50-year-old reassessment) would produce revenue of $30.3 million from homestead property, over 60 percent of what the county expected to collect in 2017.

Thus, in order to enact a homestead exclusion of 100 percent for county tax purposes, these three counties would be facing the issue of how to make up revenues of $214.7 million, $20.9 million, and $30.3 million respectively.

Of the three counties, none levy a personal income tax and only one, Allegheny, derives any revenue from a sales tax (Philadelphia, a combined city-county, taxes both). As part of the Regional Asset District sales tax created in 1993, the county gets one quarter of the revenue raised by the one percent add on sales tax, about $48.2 million in 2017. Thus, in order to eliminate completely 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. That would push the total sales tax levied in the county to just over 8 percent.

No matter what the county might decide to use to replace the eliminated homestead tax revenue it would not eliminate the requirement of other properties to pay taxes. Moreover, going forward these properties would still need to be assessed, certified annually, and would still have to pay taxes on those assessments. Would the county raise the millage rate on non-homestead property to replace revenue lost from exempting homesteads? That would certainly face a firestorm of opposition.

If new legislation to implement a homestead exemption is enacted that contains sales and/or income tax options for counties to replace homestead property taxes, then governing bodies would have to consider what options would work best if they decided to eliminate homestead taxes. Based on a 2017 report by the Commissioners Association several pieces of legislation that involved giving counties the ability to tax sales, income, and/or gross receipts business taxes were introduced in the General Assembly.

Will legislation providing for the homestead tax elimination and optional replacement taxes be forthcoming in 2018? Bear in mind that the Legislature could opt to grant authority to cut homestead taxes by less than 100 percent. As noted in *Policy Brief Vol. 18, No.2*, any shift of tax burden to other revenue sources will be extraordinarily problematic. The difficulties of coming up with legislation to address the complexities of shifting large amounts of tax burdens, especially for school taxes, the biggest property tax burden, makes a 2018 bill unlikely. A prolonged and exhaustive series of hearings will be required.

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