Tax Study Commission Makes Recommendation to South Fayette Board of School Directors

On December 4, the South Fayette Tax Study Commission made their recommendation regarding Act 1 and possible changes to the current taxing structure to the Board of School Directors. Act 1 ***requires*** school boards to place a referendum question on the May 2007 ballot requiring a vote on either increasing their earned income tax (EIT) or replacing it with a personal income tax (PIT) to fund the required property tax reductions outlined in the law. After months of research, the Tax Study Commission recommended replacing the current school district 0.5% Earned Income Tax with a 1% Personal Income Tax, in an effort to provide qualified households with the maximum property tax reduction available while imposing the minimum tax increase required by Act 1.

Any recommended tax shift must also remain ***revenue neutral*** to the school district. This means the district will not receive any additional revenues as a result of this change. While three members of the nine-person commission were in favor of an increased EIT, the primary reasons stated at the meeting by the majority of the commission members for recommending a PIT over an EIT increase were that a PIT spreads the impact of the tax shift over a wider demographic and a PIT provides a greater dollar amount of property tax reduction for the same percentage tax increase over the EIT equivalent.

The Tax Study Commission has met weekly for several months in an effort to digest volumes of district data and analyze the best alternative considering the demographic makeup and growth of the district. And, although Act 1 will provide the promised "tax relief" for some senior homeowners, others in our community will see a net increase in the taxes they pay as a result. Renters under the age of 65 *(50 if widow or widower)* are not eligible for the Rent Rebate Program under the Act and will receive a larger tax burden while receiving no tax reduction offset. Renters make up 23% of the households in South Fayette. When all demographics are considered, it appears that approximately 50% of the households in the district would benefit from any tax change and 50% would be penalized.

Below you will find the official recommendation made by the Commission, as well as the proposed referendum question that could appear on the ballot.

If you have specific questions, South Fayette has set up an email address where you can send your inquiries. Post your questions to act1taxcommission@southfayette.org and someone from the business office will be happy to answer your questions.

Earned Income Tax is technically known as an Earned Income and Net Profits Tax and is a tax on the salaries and wages of individuals and the net profits of certain corporations.

Personal Income Tax is on wages, salaries, interest, dividends, and other forms of income. Neither tax is imposed on pension or Social Security income.

What does Act 1 mean to you?

Provided below are a few examples of how Act 1 could impact your total tax bills if the referendum is passed in the May election. This data is based upon the most recent information available and is subject to change as updated data becomes available.

Household 1: John and Mary Thompson, *Home Owners, mid-40s*
Household Income: $100,000 per year, combined
Changes to Net Taxes Paid if Referendum is Passed by voters*

-$406.45	reduction in property tax
+$500.00	additional personal income tax paid
$93.55	**Total Net Increase to Taxes**

Household 2: Richard Jenkins, *Renter, age 35*
Household Income: $40,000
Changes to Net Taxes Paid if Referendum is Passed by voters*

- $0	no reduction as he is not a homeowner
+$200.00	additional personal income tax paid
$200.00	**Total Net Increase to Taxes**

Household 3: Tom and Alice Smith, *Homeowners, retired*
Household Income: $0 (assumes no investment income)
Changes to Net Taxes Paid if Referendum is Passed by voters*

- $406.45	reduction in property tax
+ $0	additional personal income tax paid
$406.45	**Total Net Decrease to Taxes**

**All figures are approximate at this time. Earning thresholds and actual tax relief will be updated as new numbers are available from the County later this winter.*

Commission Recommendation

We conclude unanimously that tax shifting is undesirable, and the tax policies of the school district would not be improved by levy of an increased EIT or conversion to a PIT. We believe the tax collection procedures and timing would be adversely affected by the impositions imposed by Act 1.

However, since the school board is obligated to place a question on the ballot, whether or not approval of the question would improve the tax policies of the school district, and in accordance with our 6 to 3 vote in favor of a PIT conversion, we recommend the ballot question submitted be as follows:

Referendum Question

Do you favor converting the school district's current earned income tax to a personal income tax at 1%? The revenue generated from the personal income tax will be used to reduce taxes on qualified owner occupied residential property by approximately $406.45 and would replace the revenue from the school district's current earned income tax. The current school district earned income tax rate is 0.5%, and the current combined municipal/school district rate is 1%. The new school district tax rate would be a 1% personal income tax, and the municipal rate will remain .5% earned income tax.