

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 2425 Session of
2014

INTRODUCED BY REED, SAYLOR, SWANGER, ROSS, MILLARD AND
C. HARRIS, JULY 23, 2014

REFERRED TO COMMITTEE ON FINANCE, JULY 23, 2014

AN ACT

1 Establishing the School Property Tax Reduction Fund; authorizing
2 an additional personal income tax and an additional sales and
3 use tax; providing for distributions to school districts, for
4 question to be submitted to electors and for certain
5 referendum relating to school property tax elimination;
6 imposing limitations on earned income tax rate; authorizing
7 certain increases on earned income tax rate; prohibiting and
8 limiting real property tax in certain school districts; and
9 authorizing resubmission of referendum under certain
10 circumstances.

11 TABLE OF CONTENTS

12 Chapter 1. Preliminary Provisions

13 Section 101. Short title.

14 Section 102. Definitions.

15 Section 103. School Property Tax Reduction Fund.

16 Chapter 3. School Property Tax Reductions from Statewide

17 Sources

18 Section 301. Additional personal income tax imposed.

19 Section 302. Additional sales and use tax imposed.

20 Section 303. Distributions to school districts.

21 Chapter 5. Reductions from Local Sources

22 Section 501. Preemption.

1 Section 502. Real property tax replacement.
2 Section 503. Resolution required.
3 Section 504. Use of funds.
4 Section 505. Elimination tax rate limits.
5 Section 506. Exemption.
6 Section 507. Collections.
7 Section 508. Credits.
8 Section 509. Real property tax prohibited.
9 Section 510. Applicability of personal income tax.
10 Section 511. Mercantile or business privilege tax.
11 Section 512. Exclusions from tax.
12 Chapter 9. Miscellaneous Provisions
13 Section 901. Applicability.
14 Section 902. Effective date.

15 The General Assembly of the Commonwealth of Pennsylvania
16 hereby enacts as follows:

17 CHAPTER 1

18 PRELIMINARY PROVISIONS

19 Section 101. Short title.

20 This act shall be known and may be cited as the School
21 Property Tax Reduction and Local Options Act.

22 Section 102. Definitions.

23 The following words and phrases when used in this act shall
24 have the meanings given to them in this section unless the
25 context clearly indicates otherwise:

26 "Average daily membership." The term as defined under
27 section 2501 of the act of March 10, 1949 (P.L.30, No.14), known
28 as the Public School Code of 1949.

29 "Board of school directors." A board of school directors of
30 a school district of the first class, first class A, second

1 class, third class or fourth class. The term includes a School
2 Reform Commission established in accordance with section 696(a)
3 of the act of March 10, 1949 (P.L.30, No.14), known as the
4 Public School Code of 1949, or the commission's successor.

5 "Department." The Department of Revenue of the Commonwealth.

6 "Domicile." The term as defined under section 501 of The
7 Local Tax Enabling Act.

8 "Earned income." The term as defined in section 501 of The
9 Local Tax Enabling Act.

10 "Elimination tax." Any of the following:

11 (1) The tax levied by a school district on earned income
12 and net profits under this act.

13 (2) A mercantile tax imposed under section 613 of The
14 Local Tax Enabling Act.

15 (3) A business privilege tax imposed under section 613
16 of The Local Tax Enabling Act.

17 "Fund." The School Property Tax Reduction Fund established
18 under section 103.

19 "Governing body." The board of school directors of a school
20 district.

21 "Index." The term as defined under section 302 of the
22 Taxpayer Relief Act.

23 "Local tax revenue." The revenue from taxes actually levied
24 and assessed by a school district. The term does not include
25 interest or dividend earnings, Federal or State grants,
26 contracts or appropriations, income generated from operations or
27 any other source that is not derived from taxes levied and
28 assessed by a school district.

29 "Net profits." The term as defined under section 501 of The
30 Local Tax Enabling Act.

1 "Resident." The term as defined in section 501 of The Local
2 Tax Enabling Act.

3 "School district." A school district of the first class A,
4 second class, third class or fourth class.

5 "Tax Reform Code." The act of March 4, 1971 (P.L.6, No.2),
6 known as the Tax Reform Code of 1971.

7 "Taxpayer Relief Act." The act of June 27, 2006 (1st
8 Sp.Sess., P.L.1873, No.1), known as the Taxpayer Relief Act.

9 "The Local Tax Enabling Act." The act of December 31, 1965
10 (P.L.1257, No.511), known as The Local Tax Enabling Act.

11 Section 103. School Property Tax Reduction Fund.

12 (a) Establishment.--There is hereby established in the State
13 Treasury a special fund to be known as the School Property Tax
14 Reduction Fund.

15 (b) Custodian.--The State Treasurer shall be custodian of
16 the fund, which shall be subject to the provisions of law
17 applicable to funds listed in section 302 of the act of April 9,
18 1929 (P.L.343, No.176), known as The Fiscal Code.

19 (c) Funding.--

20 (1) The tax imposed pursuant to sections 301 and 302
21 shall be received by the department and paid to the State
22 Treasurer and, along with interest and penalties and any
23 refunds and credits paid, shall be credited to the fund not
24 less frequently than every two weeks.

25 (2) During any period prior to the credit of moneys to
26 the fund, interest earned on moneys received by the
27 department and paid to the State Treasurer pursuant to this
28 act shall be deposited into the fund.

29 (3) All moneys in the fund, including, but not limited
30 to, moneys credited to the fund pursuant to this section,

1 prior year encumbrances and the interest earned thereon,
2 shall not lapse or be transferred to any other fund, but
3 shall remain in the fund and be used exclusively as provided
4 in this act.

5 (4) Pending their disbursement, moneys received on
6 behalf of or deposited into the fund shall be invested or
7 reinvested as are other funds in the custody of the State
8 Treasurer in the manner provided by law. All earnings
9 received from the investment or deposit of such funds shall
10 be credited to the fund.

11 (d) Limitations on fund.--Moneys deposited in or
12 appropriated to the fund shall be used solely as provided in
13 this act.

14 CHAPTER 3

15 SCHOOL PROPERTY TAX REDUCTIONS

16 FROM STATEWIDE SOURCES

17 Section 301. Additional personal income tax imposed.

18 (a) Construction.--The tax imposed by this section shall be
19 in addition to any tax imposed by the Commonwealth pursuant to
20 Article III of the Tax Reform Code and section 321(c) of the
21 Taxpayer Relief Act. The provisions of Article III of the Tax
22 Reform Code shall apply to the tax imposed by this act.

23 (b) Personal income tax.--There is hereby imposed a tax upon
24 each class of income as defined in Article III of the Tax Reform
25 Code. The tax shall be collected and shall be paid over to the
26 Commonwealth as provided in Article III of the Tax Reform Code.

27 (c) Rate.--The tax imposed by subsection (b) shall be at the
28 rate of 0.63%.

29 (d) Deposit of tax proceeds.--The department shall deposit
30 taxes collected under this section in the fund pursuant to the

1 provisions of section 103.

2 (e) Rules and regulations.--The rules and regulations of the
3 department which are promulgated under Article III of the Tax
4 Reform Code, or any other act, shall be applicable to the tax
5 imposed by this section to the extent that they are applicable
6 to the tax imposed under Article III of the Tax Reform Code.

7 Section 302. Additional sales and use tax imposed.

8 (a) Construction.--The tax imposed by this section shall be
9 in addition to any tax imposed by the Commonwealth pursuant to
10 Article II of the Tax Reform Code, Article II-B of the Tax
11 Reform Code, section 503(a) and (b) of the act of June 5, 1991
12 (P.L.9, No.6), known as the Pennsylvania Intergovernmental
13 Cooperation Authority Act for Cities of the First Class and
14 section 3152-B of the act of July 28, 1953 (P.L.723, No.230),
15 known as the Second Class County Code. The provisions of Article
16 II of the Tax Reform Code shall apply to the tax imposed by this
17 act.

18 (b) Sales and use tax.--There is hereby imposed a tax upon
19 each sale or use as defined in Article II of the Tax Reform
20 Code. The tax shall be collected and shall be paid over to the
21 Commonwealth as provided in Article II of the Tax Reform Code.

22 (c) Rate.--The tax imposed under subsection (b) shall be at
23 the rate of 1%.

24 (d) Tax computation.--The tax imposed under subsection (b)
25 shall be computed as follows:

26 (1) If the purchase price is 50¢ or less, no tax shall
27 be collected.

28 (2) If the purchase price is 51¢ or more but less than
29 \$1.51, 1¢ shall be collected.

30 (3) If the purchase price is \$1.51 or more but less than

1 \$2.51, 2¢ shall be collected.

2 (4) If the purchase price is \$2.51 or more but less than
3 \$3.51, 3¢ shall be collected.

4 (5) If the purchase price is \$3.51 or more but less than
5 \$4.51, 4¢ shall be collected.

6 (6) If the purchase price is \$4.51 or more but less than
7 \$5.51, 5¢ shall be collected.

8 (7) If the purchase price is \$5.51 or more but less than
9 \$6.51, 6¢ shall be collected.

10 (8) If the purchase price is \$6.51 or more but less than
11 \$7.51, 7¢ shall be collected.

12 (9) If the purchase price is \$7.51 or more but less than
13 \$8.51, 8¢ shall be collected.

14 (10) If the purchase price is \$8.51 or more but less
15 than \$9.51, 9¢ shall be collected.

16 (11) If the purchase price is \$9.51 or more but less
17 than \$10.01, 10¢ shall be collected.

18 (12) If the purchase price is more than \$10, 1% of each
19 \$10 purchase price plus the above bracket charges upon any
20 fractional part of a \$10 increment shall be collected.

21 (e) Deposit of tax proceeds.--The department shall deposit
22 taxes collected under this section in the fund pursuant to the
23 provisions of section 103.

24 (f) Rules and regulations.--The rules and regulations of the
25 department which are promulgated under Article II of the Tax
26 Reform Code, or any other act, shall be applicable to the tax
27 imposed by this section to the extent that they are applicable
28 to the tax imposed under Article II of the Tax Reform Code.
29 Section 303. Distributions to school districts.

30 (a) General rule.--The State Treasurer shall make

1 distributions from the fund to each school district as provided
2 in this section.

3 (b) Amount of distributions.--Amounts deposited in the fund
4 under sections 301 and 302 shall be distributed to each school
5 district under this section by multiplying the total amount of
6 funds available for distribution from the fund by a fraction,
7 the numerator of which is the school district's average daily
8 membership and the denominator of which is the average daily
9 membership of all school districts, provided that no school
10 district receives a distribution exceeding the total amount of
11 property tax revenue received by the school district.

12 (c) Frequency of distributions.--Distributions to school
13 districts under this section shall be made at least quarterly
14 beginning October 1, 2015.

15 (d) Duties of Department of Education.--The Department of
16 Education shall supply the State Treasurer with all information
17 necessary to make the distributions required under this section.

18 (e) Use of proceeds.--The following shall apply:

19 (1) For the first fiscal year in which a school district
20 receives a distribution under subsection (b), each school
21 district receiving a distribution under subsection (b) shall
22 reduce its millage rate by multiplying the millage rate by a
23 fraction, the numerator of which is the total amount of money
24 distributed to the school district under subsection (b), and
25 the denominator of which is the total assessed value of real
26 property in the school district.

27 (2) Except as otherwise provided under paragraph (1) and
28 Chapter 5, a school district shall be subject to the Taxpayer
29 Relief Act.

30 CHAPTER 5

REDUCTIONS FROM LOCAL SOURCES

Section 501. Preemption.

No act of the General Assembly may vacate or preempt any resolution passed or adopted under the authority of this chapter, or any other act, providing authority for the imposition of an elimination tax by a school district, unless the act of the General Assembly expressly vacates or preempts the authority to pass or adopt resolutions.

Section 502. Real property tax replacement.

A school district that levies a tax on real property may reduce or eliminate the revenues provided by the real property tax by imposing the elimination tax as provided under this chapter.

Section 503. Resolution required.

The board of school directors may impose or increase the maximum limits of the elimination tax by adopting a resolution. Prior to approving the resolution, the board of school directors shall:

(1) Give public notice of its intent to adopt the resolution in the manner provided under section 306 of The Local Tax Enabling Act.

(2) Conduct at least one public hearing regarding reducing or eliminating the tax on real property and imposing or increasing the maximum rate of the elimination tax.

Section 504. Use of funds.

All funds generated from an elimination tax shall be used to directly reduce or eliminate school district real property tax millage rates.

Section 505. Elimination tax rate limits.

(a) Limit.--If a school district has reduced property tax

1 millage rates to zero, a board of school directors may not
2 increase the elimination tax for the support of public schools
3 by more than the index unless there is compliance with section
4 333 of the Taxpayer Relief Act.

5 (b) Maximum rate.--The maximum rate of the elimination tax
6 calculated under this chapter shall not be subject to the limits
7 on the earned income tax specified under section 311(3) of The
8 Local Tax Enabling Act.

9 (c) Limit.--The rate of the mercantile or business privilege
10 tax imposed under section 511 shall not generate revenues in
11 excess of 50% of the total elimination tax revenues generated
12 under this chapter.

13 Section 506. Exemption.

14 A school district that imposes an elimination tax may exempt
15 from the payment of that tax any person whose total income from
16 all sources is less than \$12,000.

17 Section 507. Collections.

18 (a) Earned income and net profits.--An elimination tax on
19 earned income and net profits shall be subject to Chapters 5 and
20 7 of The Local Tax Enabling Act.

21 (b) Mercantile tax or a business privilege tax.--A
22 mercantile tax or a business privilege tax imposed under this
23 chapter shall be subject to section 511.

24 Section 508. Credits.

25 (a) Credit.--Except as provided under subsection (b), the
26 provisions of section 317 of The Local Tax Enabling Act shall be
27 applied by a board of school directors to determine any credits
28 applicable to an elimination tax.

29 (b) Limitation.--Payment of a tax on earned income and net
30 profits to any state other than Pennsylvania or to any political

1 subdivision located outside the boundaries of this Commonwealth
2 by a resident of a school district located in this Commonwealth
3 shall not be credited to and allowed as a deduction from the
4 liability of the person for an elimination tax imposed by the
5 school district of residence.

6 Section 509. Real property tax prohibited.

7 (a) Prohibition.--For the first fiscal year beginning after
8 the adoption of a resolution that eliminates real property tax
9 millage rates and each fiscal year thereafter, a school district
10 shall be prohibited from levying, assessing or collecting a real
11 property tax.

12 (b) Applicability.--This section shall not apply to the
13 collection of delinquent real property taxes.

14 Section 510. Applicability of personal income tax.

15 Nothing under this chapter shall be construed to authorize a
16 school district to levy, assess or collect a personal income
17 tax.

18 Section 511. Mercantile or business privilege tax.

19 (a) Wholesale dealers.--Each school district shall have the
20 power and may levy, assess and collect a tax on each dollar of
21 the whole volume of business transacted by wholesale dealers in
22 goods, wares and merchandise.

23 (b) Retail sales.--Each school district shall have the power
24 and may levy, assess and collect a tax on each dollar of sales
25 by:

26 (1) Retail dealers in goods, wares and merchandise,
27 including proprietors of restaurants or other places where
28 food, drink and refreshments are served.

29 (2) Providers of services.

30 (c) Transactions partially free of tax.--No tax shall be

1 levied on the dollar volume of business transacted by wholesale
2 and retail dealers derived from the resale of goods, wares and
3 merchandise, taken by any dealer as a trade-in or as part
4 payment for other goods, wares and merchandise, except to the
5 extent that the resale price exceeds the trade-in allowance.

6 Section 512. Exclusions from tax.

7 A tax under section 511 may not be levied, assessed or
8 collected on:

9 (1) The gross receipts from utility service of any
10 person or company whose rates and services are fixed and
11 regulated by the Pennsylvania Public Utility Commission, on
12 any public utility services rendered by the person or
13 company, on any privilege or transaction involving the
14 rendering of the public utility service or on any Federal
15 Energy Regulation Commission-approved qualifying facility.

16 (2) Any of the following:

17 (i) Goods and articles manufactured in the school
18 district.

19 (ii) The by-products of manufacture.

20 (iii) Minerals, timber, natural resources and farm
21 products produced in the school district.

22 (iv) The preparation or processing of items under
23 subparagraph (iii) for use or market.

24 (v) Any privilege, act or transaction related to the
25 business of manufacturing, the production, preparation or
26 processing of minerals, timber and natural resources or
27 farm products, by manufacturers, by producers and by
28 farmers with respect to the goods, articles and products
29 of their own manufacture, production or growth.

30 (vi) Any privilege, act or transaction relating to

1 the business of processing by-products of manufacture.

2 (vii) The transportation, loading, unloading or
3 dumping or storage of goods, articles, products or by-
4 products under this paragraph, except that school
5 districts may levy, assess and collect taxes on a person
6 using municipal services and the personal income of
7 natural persons engaged in these activities whether doing
8 business as an individual proprietorship or as members of
9 partnerships or other associations.

10 (3) Gross receipts or part of gross receipts which are:

11 (i) Discounts allowed to purchasers as cash
12 discounts for prompt payment of their bills.

13 (ii) Charges advanced by a seller for freight,
14 delivery or other transportation for the purchaser in
15 accordance with the terms of a contract of sale.

16 (iii) Received upon the sale of an article of
17 personal property which was acquired by the seller as a
18 trade-in to the extent that the gross receipts in the
19 sale of the article taken in trade does not exceed the
20 amount of trade-in allowance made in acquiring the
21 article.

22 (iv) Refunds, credits or allowances given to a
23 purchaser on account of defects in goods sold or
24 merchandise returned.

25 (v) Pennsylvania sales tax and any sales tax, use
26 tax and occupancy tax imposed under law.

27 (vi) Based on the value of exchanges or transfers
28 between one seller and another seller who transfers
29 property with the understanding that property of an
30 identical description will be returned at a subsequent

1 date, except that if sellers engaged in similar lines of
2 business exchange property and one of them makes payment
3 to the other in addition to the property exchanged, the
4 additional payment received may be included in the gross
5 receipts of the seller receiving such additional cash
6 payments.

7 (vii) Receipts of sellers from sales to other
8 sellers in the same line where the seller transfers the
9 title or possession at the same price for which the
10 seller acquired the merchandise.

11 (viii) Transfers between one department, branch or
12 division of a corporation or other business entity of
13 goods, wares and merchandise to another department,
14 branch or division of the same corporation or business
15 entity and which are recorded on the books to reflect
16 such interdepartmental transactions.

17 (ix) Transfers attributable to activities occurring
18 outside the taxing authority. Gross receipts shall be
19 attributed to the jurisdiction in which the activities
20 generating the receipts occur.

21 (4) The gross receipts of:

22 (i) Any bank, bank and trust company, private bank,
23 savings bank or trust company, as defined in the act of
24 November 30, 1965 (P.L.847, No.356), known as the Banking
25 Code of 1965.

26 (ii) Any other institution or entity subject to the
27 supervision of the Department of Banking under section
28 201 of the act of May 15, 1933 (P.L.565, No.111), known
29 as the Department of Banking and Securities Code.

30 (iii) Any national bank.

