



**Act 1 - 2006  
Local Tax Reform**

**Tax Study  
Commission**



# ACT 1

- Approved and signed into law on June 27<sup>th</sup> by Governor Rendell
- Formerly known as Act 39

# Tax Study Commission

- Board must appoint a Tax Study Commission by September 14, 2006
- “The commission shall consist of five, seven, or nine members who are taxpayers and / or resident individuals of the School District and shall reflect the socioeconomic, age, and occupational diversity of the School District to the extent possible.”

# Purpose

- The purpose of the Tax Study Commission will be to make a recommendation to the School Board on the type of income tax and the income tax rate that will be included in the mandatory referendum question. Under the new law, the Commission's options are limited to recommending an Earned Income Tax (EIT) or a Personal Income Tax (PIT) for the purpose of funding the homestead and farmstead property tax exemptions. The law requires that only one referendum question be submitted to local voters.

# Membership of the Tax Study Commission

- Five, seven, or nine members
- Taxpayers and / or resident individuals (renters)
- The TSC Shall reflect the socioeconomic, age, and occupational diversity of the school district to the extent possible.
- One TSC member may be a School Board member
- No member shall be an official or employee, or a relative thereof, of the school district.

## Act 1 prohibits a “relative” of a board member or an employee from serving on the Tax Study Commission.

- **What constitutes a “relative” limiting the ability to serve on a tax study commission?**
- For guidance we can look to 24 PS 11-1111 of the Public School Code (Employment of relatives of school directors). This section states that “no teacher shall be employed, by any board of school directors, who is related to any member of the board; as, father, mother, brother, sister, husband, wife, son, daughter, stepson, stepdaughter, grandchild, nephew, niece, first cousin, sister-in-law, brother-in-law, uncle, or aunt, unless such teacher receives the affirmative votes of a majority of all members of the board other than the member related to the applicant who shall not vote.” We suggest this definition of “relative” may be applicable to the eligibility of Tax Study Commission members. A more limited definition of relative is found in 65 Pa CS 1102, the Ethics Standards and Financial Disclosure Law, where “Immediate family” is defined as a parent, spouse, child, brother or sister.

## Are staffing and expenses for the Local Tax Study Commission mandatory?

- According to subchapter D, section 331 of Act 1, the district “**shall** provide necessary and reasonable support staff and **shall** reimburse the members of the local tax study commission for necessary and reasonable expenses in the discharge of their duties.” These items are not discretionary.

# Contents of the study

- The local tax study commission shall study the existing taxes levied, assessed and collected by the school district and the effect of any county or municipal taxes imposed concurrently with the school district. The local tax study commission shall determine how the tax policies of the school district could be improved by the levy, assessment and collection of the taxes authorized under section 321. The study shall include consideration of all of the following:
  1. Historic and present rates of and revenue from taxes currently levied, assessed and collected.
  2. The percentage of total revenues provided by taxes currently levied, assessed and collected.
  3. The age, income, employment and property use characteristics of the existing tax base.
  4. Projected revenues of taxes currently levied, assessed and collected, including taxes authorized and taxes not levied under this chapter.

# Referendum Question

- “The referendum question submitted to the electors of the school district at the primary election of 2007 shall state the rate of the proposed income tax to be levied, the reason for the tax, the estimated per homestead tax reduction and the current rate of earned income and net profits tax levied by the school district. The question shall be clear and in language that is readily understandable by a layperson and shall be framed in one of the following forms.”

# Sample Referendum Questions

- Do you favor imposing an additional X% earned income tax? The revenue generated from the increased tax rate will be used to reduce taxes on qualified residential properties by (insert amount of reduction). The current earned income tax rate is Z%.
- Do you favor imposing a personal income tax at X%? The revenue generated from the tax will be used to reduce taxes on qualified residential properties by (insert amount of reduction).
- Do you favor converting the school district's current earned income tax to a personal income tax at X%? The revenue generated from the personal income tax will be used to reduce taxes on qualified residential property by (insert amount of reduction) and to replace the revenue from the school district's current earned income tax. The current earned income tax rate is Z%.

# Important Dates

- PDE releases 2007-08 index – August 15, 2006
- 2007-08 preliminary budget
  - Must be advertised by January 25, 2007 (if above the index).
  - Must be adopted by February 14, 2007 (if above the index).
  - If below the index – 30 days prior to final budget adoption.
- Deadline for Court and/or PDE to rule on back-end referendum exceptions - March 21, 2007
- May 15, 2007 – Primary Election
  - Referendum question must be on the primary ballot asking voters if they want to increase EIT or PIT to reduce property taxes

# PASBO Webcast

This webcast is designed as a training session for newly appointed tax study commission members. The webcast will inform commission members of their role in developing a recommendation to the school board on the ballot question at the May primary. The session will provide an overview of school district tax structures, requirements for tax study commissions to review, timelines and operations. It will focus on:

- School district income and property taxes
- How property tax reduction will work for homestead/farmstead properties
- Commission areas of study
- Tax and other information necessary for review
- Converting Earned Income Tax Revenue to Property Tax Reduction
- The ballot question form
- Timelines