



INDEPENDENT FISCAL OFFICE

August 16, 2019

The Honorable Mario Scavello
Senate of Pennsylvania
20 East Wing, Main Capitol Building
Harrisburg, PA 17120

Dear Senator Scavello:

This letter responds to your request that the Independent Fiscal Office (IFO) provide estimates of the funds necessary for a proposed property tax rebate for homeowners in certain age and income ranges. The specified age and income ranges are as follows:

- Homeowner age 62 or older with household income less than \$65,000;
- Homeowner age 62 or older with household income less than \$70,000;
- Homeowner age 65 or older with household income less than \$65,000; and
- Homeowner age 65 or older with household income less than \$70,000.

The proposal provides a property tax rebate of up to \$5,000 to eligible homeowners based on age and income, not to exceed actual school district property taxes paid. The table below displays estimates for (1) the number of homeowners in Pennsylvania that would receive a rebate based on the aforementioned income and age categories, (2) the funds necessary to provide the proposed rebate to those groups of homeowners and (3) the average rebate for each group of homeowners.

Impact of Proposed School District Property Tax Rebate (2017)

<u>Homeowner Group</u>	<u>Number of Homeowners</u>	<u>Dollar Amount¹</u>	<u>Average Rebate</u>
62 or older - income less than \$65,000 ²	761,200	\$1,290	\$1,700
62 or older - income less than \$70,000	807,800	\$1,390	\$1,720
65 or older - income less than \$65,000	658,600	\$1,120	\$1,700
65 or older - income less than \$70,000	697,300	\$1,200	\$1,720

¹ Millions of dollars. Excludes impact from elimination of Property Tax Rent Rebate Program.

² Income includes retirement income such as Social Security, pensions and IRA withdrawals.

Source: 2017 American Community Survey 1- Year Public Use Microdata Survey (PUMS), U.S. Census Bureau. Computations by the IFO.

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The figures shown in the table assume that 95 percent of eligible homeowners would utilize the proposed tax relief.¹ Previous research by the IFO suggests that the full population eligible for property tax relief does not typically apply for relief. For example, in 2017, roughly two-thirds of eligible homeowners claimed rebates under the Property Tax Rent Rebate (PTRR) Program, which provides rebates to certain homeowners based on income, age and other homeowner characteristics.² The significant increase in the utilization rate is due to the higher level of relief offered under the current proposal, which would effectively eliminate the entire school district property tax burden for most eligible homeowners. For all age and income groups, roughly 95 percent of homeowners that receive the proposed rebate would have their school district property taxes eliminated.

To calculate the amount necessary to fund this proposal, eligible homeowners already receiving other forms of property tax relief must be accounted for. In 2017, the PTRR Program provided \$117 million to homeowners aged 65 or older.³ If the PTRR Program were to continue in its current form, then this amount could be subtracted from the estimates shown in the table.

The future benefits and cost of this proposal will be affected by the growth of (1) populations within the aforementioned age and income ranges and (2) statewide property taxes. The IFO projects that through 2024, the number of residents age 62 or older and 65 or older will grow by average rates of 2.1 percent and 2.6 percent per annum, respectively. The IFO also projects that school district property taxes will grow by 3.0 percent per annum during the same time period. Combining these factors and the fixed dollar threshold, the monies necessary to fund the proposal would grow by roughly 4.0 to 5.0 percent per annum over the next five years.

Your request also asks the IFO to compute the change in the personal income or sales tax rate necessary to fund the proposal. For this purpose, the IFO assumed an average gross cost of \$1.35 billion for FY 2019-20 (which allows growth from the 2017 data used in the table from the previous page) and deducts \$120 million due to relief already provided by the PTRR, for a net cost of \$1.23 billion. To provide those net funds, the sales tax rate would need to increase by 0.64 percentage points while the personal income tax rate would need to increase by 0.33 percentage points.

If you have any further questions regarding this analysis, please do not hesitate to contact me (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three business days after transmittal to your office.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

¹ The analysis also assumes that additional homeowners that have not applied for the homestead exclusion would come forward and apply for the rebate. Data from the U.S. Census Bureau's American Community Survey suggest that up to 15 percent of owner-occupied homeowners in Pennsylvania do not apply for the homestead exclusion.

² See <http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/Response-Letter-05-10-2019.pdf>.

³ See the Department of Revenue's 2017 Property Tax/Rent Rebate Program Statistical Report: https://www.revenue.pa.gov/GeneralTaxInformation/News%20and%20Statistics/ReportsStats/PTRR/GenAssembly/Documents/2019_ptrr_report.pdf.