Act 1 Tax Study Commission Report
For the Southern Columbia School District

The title of this piece of Legislation is the "Taxpayer Relief Act of June 27, 2006". While the title implies that this legislation will provide tax relief for all residents of the District, we feel that this is not the case. A more accurate term would be to say that this legislation accomplishes tax shifting instead of relief. Under this act, certain segments of the population pay less in taxes while other segments of the population pay more. Our intention was to strike a reasonable balance between an increase in an earned income tax rate and property tax relief.

RECOMMENDATIONS AND REASONING:

The Committee was inclined to recommend that no changes be made to the EIT rate, but under Act 1, the Board of Directors is required to propose a front-end referendum to raise the rate by a minimum of 0.4 percent.

In accordance with Section D of the Taxpayer Relief Act of June 27, 2006, the tax study commission for the Southern Columbia School District investigated the differing types of tax collection systems, and reviewed an appropriate percentage amount to impose to satisfy the requirements of Act 1. The recommendations of the Tax Study commission are as follows:

1. We recommend that the type of tax used be an Earned Income Tax. We recommend using an Earned Income Tax instead of a Personal Income Tax for the following reasons:
    - There is already a system of collection in place to administer an Earned Income tax.
    - As of this date, the state legislature has not granted school districts the authority to collect a personal income tax. While this option is in the process of being approved, we felt that having the timeline to create a bureaucracy to administer this type of tax would be too short in order to have it in place for the summer of 2007.

2. The second item we were charged with recommending was a rate for the Earned Income Tax to generate the funds for implementing the property tax reduction aspects of Act 1. We would recommend that the Earned Income tax rate be raised by 0.4 percent to total 1.9 percent for the following reason:
    - Under Act 1 we are mandated to increase taxes by a rate that would provide property tax relief equaling at least 25% of the Median Assessed Value of the properties in the district. According to Dr. Hartman's calculations, this relates to a minimum increase of 0.4 percent. Based on the financial data, this is the smallest increase in Earned Income Taxes allowable under Act 1.

ANALYSIS:

Different types of residents are going to be affected in different ways by this change in taxation. Under the model used to calculate an increase of the Earned Income Tax by 0.4 percent as recommended above. The break even number for residential property owners for 2007-2008 is

$42,310.00. This number represents the break even point for the increased Earned Income Tax. Any property owners who have a household income greater than that amount will wind up paying more in Earned Income Tax than the reduction they see in property taxes. This number changes depending upon the year and the number of farmstead and homestead exclusions are sent in to the County Assessor's office. For 2008-2009, the break even number changes to $54,007, and for 2009-2010 it goes to $53,660.00.

WINNERS AND LOSERS:

The winners under this system of taxation would be anyone who owns their home and has a household earned income under the numbers listed in the paragraph above. These residents will get more back in property tax relief than they will pay in increased Earned Income Taxes.

The losers in this system are:

- Anyone who rents their residence as they will be paying an increased percentage of Earned Income Tax, but are not eligible to apply for a homestead or farmstead exclusion.
- Anyone who owns their home and has a household income greater than the numbers listed in the paragraph above. These residents will pay more in Earned Income Tax than the amount they will get back in property tax relief.

The Tax Study Commission would like to thank you for this opportunity to serve our local school district in order to make Southern Columbia a better place to live. If you have any questions before you decide what ballot measure you are going to place on the ballot for the May Primary, feel free to contact any member of the Tax Commission Study to discuss your concerns.

MEMBER NAMES AND SIGNATURES HERE

Jerry Davis (Affirmative Vote) _____ _____

Jesse R. Hopper, Jr. (Affirmative Vote) _____ _____

Linda Kashner (Affirmative Vote) _____ _____

Patrick Sassani (Affirmative Vote) _____ _____

Eric Stahley (Affirmative Vote) _____ _____

Beryl Benson (Non-affirmative Vote) _____ _____

Amanda Bell-Perry (Absent) _____ _____