



Testimony

Submitted on behalf of the  
Pennsylvania Chamber of Business and Industry

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## **Public Hearing on Property Taxes**

Before the:  
**Pennsylvania Senate Education Committee**

Presented by:

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Chairman Argall, Chairwoman Williams and members of the Education Committee, my name is Neal Leshner, and I am Director of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify today regarding property taxes and the impact of tax policy on business growth and job creation.

The Commonwealth's system of local taxation must produce stable revenues, and promote uniformity, and consistency in its application of the law and treatment of taxpayers. The Pennsylvania Chamber supports local tax policy that promotes a competitive business climate and efforts at the state level that encourage local taxing authorities to continually pursue this objective. High property taxes can impede employer growth and the PA Chamber supports efforts to reduce property taxes by addressing cost-drivers and placing reasonable limits on local governments' ability to create, expand or raise taxes or fees.

### **Impact of Property Taxes on Job Creators**

Businesses in Pennsylvania are subject to a myriad of state and local taxes, including but not limited to corporate income tax, sales taxes, personal income tax, unemployment insurance tax, gross receipts taxes, property taxes, business privilege and mercantile taxes. Taxes paid by businesses account for a relatively significant portion of the overall property tax revenue generated in Pennsylvania. According to

the Independent Fiscal Office, rental and commercial properties accounted for \$6.4 billion, or a nearly 41 percent share, of school district property taxes collected statewide in FY2020-21<sup>1</sup>. To put that in perspective, the Corporate Net Income Tax (CNIT) generated \$4.4 billion that same year.<sup>2</sup>

Property taxes also make up a significant portion of the business tax burden in Pennsylvania. A recent study by the Council on State Taxation (COST) found that total property taxes (including school and municipal) paid by businesses in Pennsylvania total \$13.2 billion and account for 36 percent of the total business tax burden in Pennsylvania and make up the largest tax category paid by businesses<sup>3</sup>.

Property tax rates play a significant role in businesses' location and investment decisions and can be detrimental to economic growth and local job creation. According to the non-partisan Tax Foundation, "states which keep statewide property taxes low better position themselves to attract business investment."<sup>4</sup> Continual growth in property taxes hinders our ability to be competitive and increasing property tax rates should only be done when absolutely necessary.

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<sup>1</sup> [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SD\\_Prop\\_Tax\\_Update\\_Aug\\_2022.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/SD_Prop_Tax_Update_Aug_2022.pdf)

<sup>2</sup> [https://www.revenue.pa.gov/News%20and%20Statistics/ReportsStats/MRR/Documents/2021/2021\\_06\\_mrr.pdf](https://www.revenue.pa.gov/News%20and%20Statistics/ReportsStats/MRR/Documents/2021/2021_06_mrr.pdf)

<sup>3</sup> [https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/2209-4097478\\_50-state-tax-2022-final-e-file.pdf](https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/2209-4097478_50-state-tax-2022-final-e-file.pdf)

<sup>4</sup> <https://taxfoundation.org/2023-state-business-tax-climate-index/#Property>

## **Prior Reforms**

Act 1 of 2006 was implemented to limit the ability of school districts to increase property taxes beyond the rate of inflation, by requiring voter approval of the need to raise taxes. However, it quickly became evident that the number of exceptions in the law had rendered it virtually meaningless. The PA Chamber supported efforts that culminated in Act 25 of 2011, which eliminated most of the exceptions to provide more meaningful protections for taxpayers. This update still allows exemptions for pensions, school construction and special education, but requires voter referendum on property tax increases above the inflation rate for any other reason. The PA Chamber would support additional efforts to strengthen the taxpayer protections in Act 1, including a consideration of funds already available to school districts before approving a property tax increase.

## **School District Reserve Funds**

The topic of growing school district fund balances has gained increased attention in recent years. You heard earlier today about the recent report issued by the Auditor General's office which looked at 12 school districts and highlighted continual property tax increases while their respective General Fund balances grew. One of these school districts, the Lower Merion School District, was also the subject of a lengthy class action lawsuit on this very topic, which historically established the right of any citizen to challenge a government's tax increase if it was illegally obtained or unnecessary. *Wolk v. Sch. Dist. Of Lower Merion* resulted in a \$27 million settlement in

which the school district agreed to return money to the taxpayers in their taxing jurisdiction. I would encourage you review this case in addition to the information presented today as you consider potential reforms.

### **Assessments and Spot Appeals**

Counties address the assessment of property values in a variety of ways. The PA Chamber also supports assessment reform that provides clear, consistent, and standardized assessment standards, including periodic, mandatory reassessment. One particular area of concern is the trend of some local taxing authorities evading the prohibition on spot property assessments by simply filing appeals. This practice often targets businesses which can experience unpredictable property tax increases as a result. The PA Chamber supports prohibiting spot appeals except under specific, legitimate circumstances.

### **Additional Tax Reforms**

I would be remiss if I did not also take this opportunity to highlight the need to also address the competitiveness of state taxes on businesses. Policymakers should build on recent reforms and continue to reform the Commonwealth's tax structure with pro-growth initiatives that will make the Commonwealth more competitive, like improving the treatment of Net Operating Losses (NOL). Pennsylvania is one of only two states that cap NOLs below the federal limit of 80 percent – 29 states have no cap at all. Increasing Pennsylvania's 40 percent cap on NOLs would promote tax neutrality by reducing additional tax burdens on entrepreneurial risk, highly cyclical

businesses, or those more susceptible to economic downturns. Our CNIT rate must continue to be reduced as the legislature intended or at an accelerated rate, in order to attract new investment, create family-sustaining jobs and spur economic growth. And finally, we should build on small-business tax reforms by removing the accelerated sales tax pre-payment requirement, allowing for bonus depreciation, and allowing small businesses the ability to carry forward net operating losses as well.

### **Conclusion**

Thank you again for the opportunity to testify. I am happy to answer any questions.