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Pennsylvania

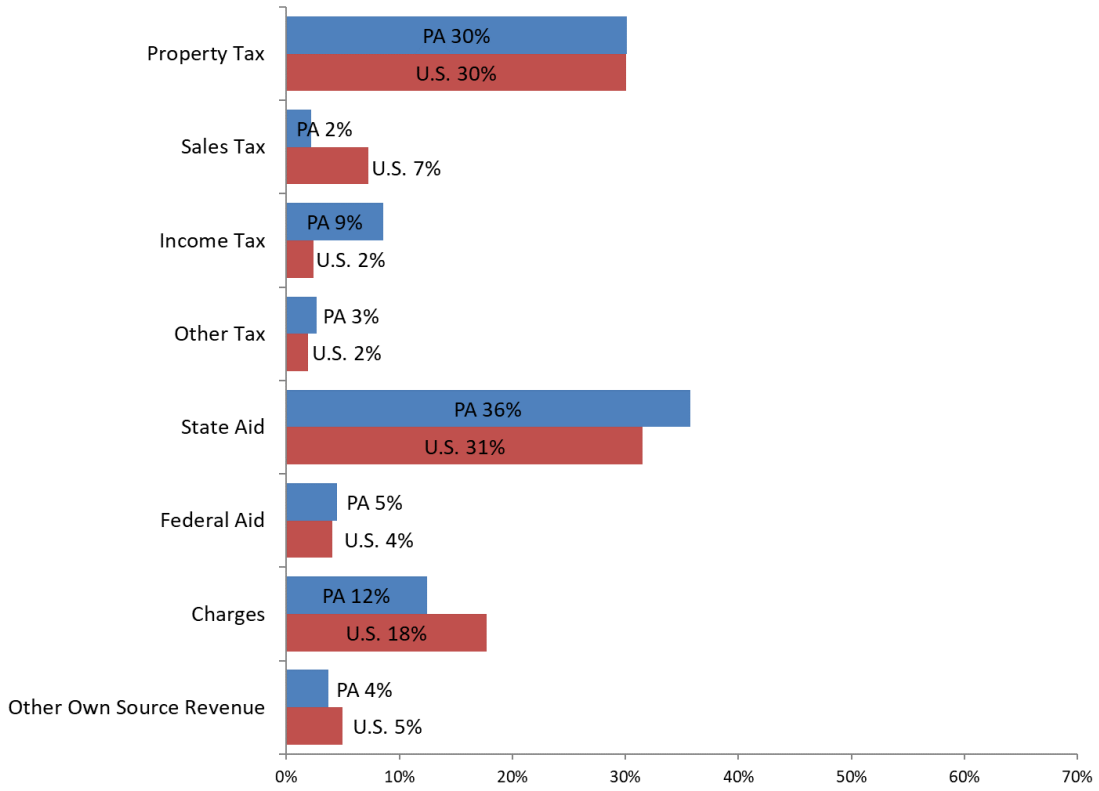
Highlights

Although local government reliance on income tax revenue in Pennsylvania is more than four times the national average, income taxes account for only 9 percent of local general revenue. Pennsylvania relies more heavily on state aid and the property tax (figure PA-1).

"The real property tax system of Pennsylvania is highly decentralized, with numerous variations in due dates and procedures among the various taxing entities" (CCH State Tax Law Editors 2017). Pennsylvania's 67 counties are responsible for assessment, with assessment ratios varying across counties. Counties also vary in their appraisal cycles, and they may use either market value or a base year as the basis for determining assessed values.

The quality of property tax assessment has long been a concern in Pennsylvania (Strauss 2001; Strauss 2018). In its 2019 study, the Council on State Taxation and the International Property Tax Institute gave Pennsylvania the lowest grade among the U.S. states on its administrative practices (Dobay et al. 2019).

Figure PA-1
Sources of Local General Revenue, Pennsylvania and U.S., 2017



Source: U.S. Census via Significant Features of the Property Tax

Pennsylvania is the only state that has allowed local taxing bodies for more than a century to levy a higher tax rate on land than on buildings (known as a split-rate tax). The number of municipalities with separate tax rates on land and buildings peaked in 2000, but it has dropped over the past decade (Yang 2014).

Property Tax Reliance

In 2017, property tax as a share of state and local revenue in Pennsylvania was slightly lower than the national average. At the same time, the effective property tax rate for the median value owner-occupied home in Pennsylvania ranked 11th highest in the nation (table PA-1).

Table PA-1
Selected Pennsylvania Property Tax Statistics, 2017[1]

	Pennsylvania	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,529	$1,618	*26*
Property tax percentage of personal income	2.9%	3.1%	*25*
Total property tax as percentage of state-local revenue	15.6%	16.2%	*23*
Median owner-occupied home value[2]	$174,100	$222,041	*29*
Median real estate taxes paid for owner-occupied home[2]	$2,767	$2,412	*17*
Effective tax rate, median owner-occupied home[3]	1.6%	1.1%	*11*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2014-2018.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Property taxes are not levied at the state level, but property tax revenue is an important source of local revenues for Pennsylvania's 67 counties, 2,560 municipalities, and 500 school districts (Pennsylvania Department of Community and Economic Development 2018). Pennsylvania does not tax tangible personal property.

Assessments are conducted at the county level (table PA-2). The assessment ratio, which the state refers to as the established predetermined ratio or county predetermined ratio, is established by ordinance by the board of county commissioners and varies by county. Counties may use current-year market values or adopt a base year for market values to compute assessed value. They may also decide when to conduct reassessments; as of 2010, seven counties had not conducted a reassessment since at least the mid-1980s (Legislative Budget and Finance Committee 2010).

Local governments are divided into classes, using population as a guide. There are nine classifications for counties, four for cities, two for townships, and five for school districts. For example, Philadelphia is the only first class city and Philadelphia County is the only first class county, but there are several fifth class counties, all with populations between 90,000 and 145,000. The Consolidated County Assessment Law regulates the property assessment process in counties of the second class A through the eighth class. Property assessments in Philadelphia and Allegheny Counties are subject to distinct statutory provisions in addition to unique home rule charter and administrative code requirements. The Third Class City Code governs the assessment of real estate for tax purposes in third class cities.

Limits on Property Taxation

Statutory tax rate limitations on real estate have been established for all classes of taxing jurisdictions in Pennsylvania except the cities of Philadelphia, Pittsburgh, and Scranton and the Philadelphia School District. Jurisdictions that have adopted home rule charters under the Home Rule Charter and Optional Plans Law are not subject to property tax rate limits imposed by the legislature in various local government codes.

The Consolidated County Assessment Law also places restrictions on property taxation after a countywide reassessment. In particular, each taxing district in counties of second A and third class is required to reduce the tax rate for the first year after a countywide reassessment so that the total amount of taxes levied that year against properties taxed in the preceding year does not exceed 110 percent of the tax levied in the preceding year. This requirement does not apply to school districts subject to property tax limits on reassessment under the 2006 Taxpayer Relief Act.

Property Tax Relief and Incentives

Pennsylvania offers a number of property tax relief and incentive programs. The Homestead (or Farmstead) Exemption Program provides property tax relief to owners of qualifying homestead or farmstead properties by exempting a portion of the assessed value of owner-occupied properties. The exclusion amount cannot exceed 50 percent of the median value of all homestead properties within the taxing jurisdiction. The Property Tax/Rent Rebate Program grants tax rebates to eligible Pennsylvanians age 65 and above, widows and widowers at least 50 years of age, and people with disabilities age 18 and older. The annual income limit for this program is $35,000 for homeowners and $15,000 for renters. The program provides a standard rebate up to $650, but supplemental rebates for eligible homeowners can raise total rebates to $975.

Other programs have been created to promote economic development. The Keystone Opportunity Zones Program allows abatements or exemptions of certain state and local taxes, including local property tax, sales tax, and other taxes in designated areas. The purpose of the program is to revive economically distressed urban and rural areas. The Tax Increment Financing Guarantee Program aims to stimulate economic development through the use of tax increment financing.

Table PA-2
Property Tax Features of State Governments, United States, 2018

Feature	Pennsylvania	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

In 1913, Pennsylvania passed a property tax reform bill that allowed Pittsburgh and Scranton to set different property tax rates for land and buildings, known as "two-rate" or "split-rate" property taxation. The purpose of the reform was to encourage development of large land holdings and discourage land speculation. In 1975, Harrisburg became the third city to adopt two-rate property taxation after third class cities were authorized to set separate tax rates for land and buildings. School districts coterminous with third class cities were authorized to implement two-rate property taxes in 1993, and boroughs were allowed in 1998 (Bourassa 2009). Between 1980 and 2000, the number of municipalities levying a higher tax rate on land than on buildings rose. The land-to-building tax rate ratio varied across two-rate municipalities and over time (Yang 2014). Five municipalities, including Pittsburgh, reverted to the conventional property tax after 2000. Counties and school districts (except Aliquippa and Clairton) continued to levy a uniform tax rate on land and buildings.

The Pennsylvania State Tax Equalization Board (STEB) was established by the General Assembly in 1947 to compensate for the lack of assessment uniformity statewide in distributing school subsidies. STEB later became a part of the Department of Community and Economic Development in an effort to improve efficiency through resource sharing. The Board annually determines the aggregate market value of taxable properties in each political subdivision and school district in Pennsylvania and establishes a common level ratio of assessed value to market value for each county for the previous calendar year. The common level ratio is admissible as evidence in any appeal involving real property assessments.

The Pennsylvania Constitution requires uniformity in taxation, which has also led to various court challenges. One particularly important case was *Clifton v. Allegheny County* (2009), in which the Pennsylvania Supreme Court found that Allegheny County's use of a base year rather than market value

violated the state's constitutional requirement that all property in each county be assessed uniformly (Youngman 2016). However, the court did not find that the base year system itself was unconstitutional, merely the way that Allegheny County implemented the system (Weintraub and Karpchuk 2015).

In 2011, The City of Altoona, in Blair County, became the first city in Pennsylvania and the first city in the country to levy a pure land value tax at the municipality level, but in 2016 the city council decided to abandon the land value tax, reverting to assessing land and buildings in 2017. Altoona's mayor Matt Pacifico said the policy was blunted because of the town's small share of total property taxes; the school district and county taxes make up a much greater share of the total tax bill and those governments did not adopt land value taxation." Secondly, he said the land value tax was not widely understood (Kibler 2016; Lawler 2017).

Recent Developments

In November 2017, Pennsylvania voters approved a constitutional amendment to permit the state legislature to enact legislation authorizing local taxing authorities to exempt 100 percent of homestead property from taxation (Branham 2017). This was a first step towards allowing local governments to exempt homesteads from property taxation, paving the way for consideration of a property tax swap bill. Under HB 2329, which died in committee in 2018, school districts could exempt up to the full value of residential and farm properties from taxation, and the local revenue loss would be back filled by a 1.72 percentage point increase in Pennsylvania's individual income tax rate.

In September 2017, in *William Penn Sch. Dist. et al. v. Pennsylvania Department of Education*, the Pennsylvania Supreme Court reinstated a lawsuit challenging the state's system of school funding. That lawsuit "contends that Pennsylvania's school-funding system violates the state constitution's guarantee of a "thorough and efficient system" of education as well as its equal-protection provision" (Hanna, Graham, and Boccella 2017). The case was remanded to the trial court and is scheduled to go to trial in summer 2020 (Superville 2018).

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