



**AMERICANS FOR
PROSPERITY®**
PENNSYLVANIA

June 10, 2015

Chairman Eichelberger, Chairman Blake and members of the Senate Finance Committee:

Thank you for the opportunity to testify before you today. On behalf of more than 188,000 Americans for Prosperity activists across Pennsylvania, we come today in strong opposition to House Bill 504.

This bill is being sold as a “tax swap” scheme in which some taxes are raised in order to cut others. However, this is a misguided solution that will ultimately provide some with a tax cut while raising taxes across the board on Pennsylvania families and businesses; and essentially empowers the state to raise taxes again *during* an economic downturn.

Increasing the personal income tax punishes the hard work of Pennsylvanians trying to provide for themselves and their families, and creates a disincentive to work harder and earn more. Increasing the state sales tax is a regressive tax hike that will hit middle- and lower-income families hardest at a time when they can least afford it.

Moreover, this bill would be especially harmful to small businesses, the lifeblood of Pennsylvania. Most small businesses in our state file under the personal income tax and lease their property, so they would feel only the harm of tax increases and none of the tax “relief.” Together, these tax hikes will result in a weaker tax base and lower economic activity, hurting potential for investment, wage increases, and job creation.

Worse yet, businesses are not the only ones who would feel only the negative impacts of this plan. Renters – most not wealthy enough to own their own home – are in a similar situation in which they would be hit with income and sales tax hikes, but receive no property tax relief. In addition, residents in 173 school districts across the state will see a net tax increase.

At this point, we would like to give actual numbers of how this plan would impact individuals living in the Commonwealth. It is important to note that this plan was pushed saying that individuals would save 50 percent on their property taxes. While the overall property tax bill might decrease, it is paid for by the income tax and sales tax increase. To understand the true impact, one must factor in not just the potential savings, but also the potential losses. On average, citizens would only see a five percent overall savings. Residents in the Bryn Athyn school district in Montgomery County will have an 89 percent increase in their overall tax burden. Residents in Cambria, Blair and Venango counties would see their net tax burden increase between five and 10 percent. While residents in Cumberland, Dauphin Lackawanna, Lancaster, Lehigh, Montgomery and Westmoreland counties would see a slight break in their overall tax burden on average, there are still residents in individual school districts who would see their net tax burden increase substantially.

Also important to note is that this bill does nothing to prevent future property tax increases that would completely eliminate the “relief” in this bill. School boards can still raise their millage rates up to the rate

of the index each year. As the state's pension crisis worsens, the Act 1 exemptions will not necessarily go away. When revenue from the income tax does not meet expectations, the sales tax will go to pay down the millage rates, amounting to another tax increase as homeowners will no longer see the homestead exemption.

It is for these reasons that tax swap schemes like the one in this proposal are a bad deal for taxpayers. When government decides it needs more revenue, reversing tax cuts is the first place policymakers' turn. These revenue shortfalls occur during economic downturns when families are feeling the pinch hardest, only to have government worsen the blow. Essentially, this bill empowers the state to raise taxes at a time people could least afford it.

Rather than follow the failed policy direction of more tax increases, this legislature should attack the root of the problem - reckless spending. Instead of adding to the burden of families and business, the state should enact significant pension reform, end corporate welfare like the film tax credit, and avoid unnecessary projects such as the creation of an Obamacare exchange – and properly prioritize how it spends the money taxpayers send to Harrisburg.

Limited and responsible government benefits the entire state, while proposals like HB 504 take the state down the wrong path to bigger government and lost jobs as a result.

Again, on behalf of more than 188,000 Americans for Prosperity activists across Pennsylvania, we stand in opposition to House Bill 504, and will continue our work educating individuals on votes taken to advance this misguided scheme.

Thank you,

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