PENNSYLVANIA Retailers' ASSOCIATION

PA House of Representatives Finance Committee Hearing
HB 1776
June 4th, 2012
Testimony by Dean Sheaffer, Senior Vice President of Financial Services at Boscovs and Chairman of the Board for the PA Retailers' Association

Good morning, Chairman Benninghoff, Chairman Mundy, and Members of the House Finance Committee. My name is Dean Sheaffer, Senior Vice President of Financial Services at Boscov's, and I am testifying today on behalf of the Pennsylvania Retailers' Association (PRA), the statewide trade association representing retailers throughout the Commonwealth, we respectfully oppose HB 1776. Although we understand and respect the need to address the critical issue of increasing school district property taxes, we believe that the sales and use tax (SUT) is not a stable or predictable revenue source for school district funding, and an increase and expansion of the sales and use tax will negatively affect retail businesses and low income wage earners in Pennsylvania.

Using the sales tax rather than the school district property tax as a means of funding school districts is unstable, as evidenced by states that made the switch. For example, Michigan shifted school funding from a school district property tax to the sales and use tax in 1994, but in 2007, prior to the recession, Michigan schools were cutting programs and laying off teachers at an alarming rate due to sales tax revenue failing to meet projections[1]. Again this year, Michigan State Representatives are calling for restorations from last year's budget cuts and additional funding for the public school system. Terry Spradlin, associate director of the Center for Evaluation and Education Policy at Indiana University has said of the problem in

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1 http://www.thenewsherald.com/articles/2012/05/07/news/doc4fa82fe164215839166749.txt?viewmode=fullstory

Michigan, "The property tax is a much more consistent source of funding, no doubt. ...Sales taxes are cyclical."[2]

Property taxes are not only more stable but are also predictable. By eliminating school district property taxes that are collected and dispersed locally, HB 1776 creates the Education Stabilization Fund (ESF) that will replace school district property taxes with the revenue from the increased personal income tax (PIT) and sales and use tax as well as the expansion of the sales and use tax. It will become a state collection and distribution system for school funding. HB 1776 offers a distribution formula for these funds for the first fiscal year after the bill is enacted; however, there is no distribution formula for the subsequent years. The sponsor of the bill leaves the responsibility of crafting a distribution formula to the General Assembly, giving them only one year to do so until the money is merely collected and held in the ESF. It is not improbable that the General Assembly will fail to establish a disbursement formula within the first year just as it is not improbable there may be a budget impasse in the future. Since all funding for schools would come from the state, not only would schools be waiting for their ESF disbursements, they would be waiting for their General Fund appropriations as well. School funding becomes not only unstable; it is also unpredictable.

Retailers fear that an increase to the SUT will negatively affect people's purchasing patterns, both in how much they spend and where they spend it. Retailers have informed us that they would likely

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[2] http://www.post-trib.com/news/623936,salestax.article

respond to lower sales by reducing expenses, primarily payroll, i.e. jobs, wages, and employee benefits. This has been demonstrated in states that have increased the sales tax rate. In a 2010 study by Alberta Charney, Ph.D., at the University of Arizona on the effects of a 1% increase in the sales tax, it was found that consumers would likely spend less on goods and services as well as save less money, negatively affecting their ability to save adequately for purchasing homes, college funds, and retirement.[3] It also found that the direct impact on retailers would be a reduction of 4,283 jobs and $180.5 million in labor income. Similar results were found in a 2010 study by Art Hall, director of the Center for Applied Economics at the University of Kansas. His model simulated the economic impact of a 1% sales tax increase over the following six years on the state. The results demonstrated a loss of $2 billion in personal income and a net loss of 19,486 jobs by 2015.[4]

An increase to the sales tax results in fewer sales and lost jobs, hurting both retailers and consumers. This begs the question, is it worth the risk? In a still-fragile economy after the greatest recession in our lifetime, the risk seems great, especially when you consider the Commonwealth's low-wage earners. The sales tax is already a regressive tax, and considering that most low-income wage earners do not own homes, they will not receive the benefit of school district property tax relief but will undoubtedly experience the burden of both

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3 http://ebr.eller.arizona.edu/research/articles/2010/sales_tax_increase_vs_expenditure_cuts.asp

4 http://kansas.watchdog.org/3488/studies-agree-a-sales-tax-increase-kills-jobs/

an increased and expanded sales tax. This is evidenced in a 2010 study by John Wong, director of the Hugo Wall Center for Urban Studies at Witchita State University. Under his tax increase scenario, he found that low-income earners in Kansas would lose a higher percentage of their income to the tax increase than higher wage earners at rates of 2.43 % and .4% respectively.[5]

Pennsylvania's state and local tax burden is estimated at 10.1% of income, which is ranked 10th highest nationally and is higher than the national average of 9.8%.[6] States with high tax burdens are experiencing major population loss, including Pennsylvania as demonstrated by the 2010 census. According to the Tax Foundation, from 2000 to 2009 New York lost 3.4 million people with combined annual earnings of $119 billion.[7] 600,000 of those people relocated to Florida, taking with them nearly $20 billion in income. Seeing the drastic budget deficits New York has been experiencing the past few years, higher tax rates do not solve the problem of funding basic education but can instead exacerbate it. Under HB 1776, that loss of personal income tax and discretionary sales tax revenues would be significant to school funding. Again, is increasing the PIT and SUT as well as expanding sales tax worth the risk? The retail industry does not think so.

In closing, although we understand and respect the need to address increasing school district property taxes, as an industry that supports

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[5] http://kansas.watchdog.org/3488/studies-agree-a-sales-tax-increase-kills-jobs/
[6] http://taxfoundation.org/state-tax-climate/pennsylvania
[7] http://taxfoundation.org/blog/are-new-yorkers-fleeing-higher-taxes

1 in 4 jobs in the Commonwealth[8], we respectfully ask you to consider the harmful implications of increasing and expanding the sales and use tax. The sales and use tax is not a stable source of funding for schools. And in a recovering economy, an increase and expansion of the sales tax will lead to decreases in sales, loss of jobs, and hurt Pennsylvania's low-income wage earners. Thank you for your consideration of our position and for your continued support of the retail industry.

[8] http://www.retailmeansjobs.com/data/PA/0