Finance and Budget Team

Analysis of Administration Legislation: Bill Nos. 220439, 220440, 220441

Homestead Exemption Increase

Description:

The Homestead Exemption allows for owner-occupants to reduce the taxable portion of their property's assessed value by the amount designated via legislation. Currently, the Homestead Exemption is set at $45,000. At the current tax rate of 1.3998%, the exemption is worth $629.90 annually ($52.40 monthly) for enrolled homeowners. **The Administration has proposed increasing the Homestead Exemption to $65,000, making the exemption worth $909.80 annually ($75.80 monthly).**

Background:

The authority to grant Homestead Exemptions finds it basis in an amendment of the Pennsylvania Constitution which was approved by the voters of Pennsylvania on November 4, 1997. Article VIII (Taxation and Finance) Section 2 (Exemptions and Special Provisions) subsection (b) (vi) reads as follows:

> *The General Assembly may, by law, authorize local taxing authorities to exclude an amount based on the assessed value of a homestead property.* ***The exclusion authorized by this clause shall not exceed one-half the median assessed value of all homestead property within a local taxing jurisdiction.*** *A local taxing authority may not increase the millage rate of its tax on real property to pay for these exclusions.*

As highlighted in the above text, the exemption cannot exceed one-half (50%) of the median assessed value of all homestead property within Philadelphia County. The 2023 assessment data includes a median assessed value of homestead-eligible properties of $189,800, making the maximum homestead allowable by law $94,900. ***Please note: this figure is preliminary and may change. The State will determine the cap after an analysis of the 2023 assessment data.***

Financial Impact:

According to the most recent data, 225,384 properties in Philadelphia have a Homestead Exemption on their property. Given current enrollment, a $20,000 increase in the Homestead Exemption would reduce annual Real Estate tax revenues by $63.7 million – $28.7 million to the City and $34.9 million to the School District. Over the Five-Year Plan, this increase would reduce City and School District revenues by a combined $318.8 million. Any revenue loss associated with an increase in the Homestead Exemption cannot be supplemented through an increase in the Real Estate tax rate. In 2019, City Council increased the Homestead Exemption to $40,000 and offset the revenue loss to the School District by increasing the Realty Transfer Tax.

Estimated Annual Cost of Increases to the Homestead Exemption		
Homestead Proposal	Annual Revenue Loss: City	Annual Revenue Loss: School District
Current: $45,000	$0	$0
$10k Increase: $55,000	$14.3 million	$17.5 million
Admin Proposal: $65,000	**$28.7 million**	**$34.9 million**
$30k Increase: $75,000	$42.9 million	$52.5 million

	Revenue Impact of $65,000 Homestead Exemption (000s)					
	FY23	FY24	FY26	FY26	FY27	Total
City	$ (28,775)	$ (28,775)	$ (28,775)	$ (28,775)	$ (28,775)	$ (143,877)
School District	$ (34,989)	$ (34,989)	$ (34,989)	$ (34,989)	$ (34,989)	$ (174,943)
Total	$ (63,764)	$ (63,764)	$ (63,764)	$ (63,764)	$ (63,764)	$ (318,820)

LOOP Expansion

Family size	Income cap
1 person	$110,700
2 people	$126,500
3 people	$142,300
4 people	$158,100
5 people	$170,750
6 people	$183,400
7 people	$196,050
8 people	$208,700

Background:

The Longtime Owner Occupants Program (LOOP) began in 2014 to protect longtime homeowners from a sharp increase in property assessment associated with AVI by ***limiting the reassessment value to a 50% increase and freezing the assessment for the homeowner as long as they own the home.*** In order to qualify for LOOP, the following criteria must be met:

1. The owner-occupied property's assessment increased by 50% from the previous year.
2. The property has been owner-occupied for 10 years.
3. The occupants meet income requirements (see table).
4. Applicants are current on their property tax bill or enrolled in a payment plan.

Financial Impact:

As of FY22, the current total program cap is $25 million. If more than $25 million in assistance is requested and approved, the discount for homeowners decreases proportionally. **The administration has proposed to increase the LOOP cap from $25 million to $30 million.** According to the 2023 assessment data, thousands of new properties increased 50%+ from 2022 to 2023 and may be newly eligible for LOOP. Council Technical Staff will continue to analyze the 2023 assessment data to assess the financial impact of new LOOP enrollees.

Wage and Net Profits Reduction

Background:

The Administration has proposed a reduction in the Wage and Net Profits taxes for residents and non-residents. **This proposal would reduce the resident portion of the tax to 3.7% over two years (0.1398%), while the non-resident rate would decrease to 3.44% (0.0081%) in FY23.**

	Resident	Non-Resident
FY22	3.8398%	3.4481%
FY23	3.80%	3.44%
FY24	3.70%	3.44%
FY25	3.70%	3.44%
FY26	3.70%	3.44%
FY27	3.70%	3.44%

	Cost of Wage Tax Reductions (000s)		
	Resident	Non-Resident	Total
FY23	$ (14,865)	$ (1,909)	$ (16,775)
FY24	$ (54,449)	$ (1,993)	$ (56,442)
FY25	$ (56,884)	$ (2,083)	$ (58,967)
FY26	$ (59,264)	$ (2,171)	$ (61,435)
FY27	$ (61,695)	$ (2,261)	$ (63,956)
Total	$ (247,157)	$ (10,418)	$ (257,575)

Proposed Changes:

These reductions would cost $257.6 million over the Five-Year Plan – the vast majority of which is driven by the resident reduction. $247.2 million of the $257.6 million in reductions over the Five-Year Plan is due to the 0.14% reduction in the resident portion of the tax.