



COMMONWEALTH OF PENNSYLVANIA  
**DEPARTMENT OF EDUCATION**  
333 MARKET STREET  
HARRISBURG, PA 17126-0333  
www.pde.state.pa.us

August 18, 2006

Dear Superintendents:

I am writing to you today to address an issue concerning a provision in Special Session Act 1 of 2006 that has caused a number of inquiries by school districts.

Section 331.2(a) requires each school district to submit a referendum question to the electors at the primary election of 2007 seeking approval to levy, assess and collect an earned income and net profits tax (“EIT”) or a personal income tax (“PIT”) for the purpose of annually funding homestead and farmstead exclusions.

Section 331.2(c) mandates that this proposed rate of income tax shall not exceed the rate required to provide for the maximum homestead and farmstead exclusion (under 53 Pa. C.S. § 8586). It also provides that the proposed rate shall be sufficient to fund a minimum of 50% of the maximum homestead exclusion, with the exception that the board of school directors is not required to propose an EIT increase that exceeds 1% (or a PIT increase that exceeds the equivalent of a 1% EIT). **The existing EIT rate does not count toward that 1% increase.** Notably, these provisions mean the following:

- (1) a school district **may** propose any level of EIT or PIT that would provide for homestead and farmstead exclusions, so long as the revenue generated by such an EIT or PIT does not provide for an exclusion that exceeds the maximum permitted by law; and
- (2) a school district that currently levies an earned income tax **must** ask voters whether they want to levy an **additional** EIT or PIT that will fund the minimum level of homestead and farmstead exclusions, with the caveat that the district need not ask for an **increase** that exceeds 1% (the existing EIT rate does not count toward that 1% increase); and
- (3) a school district that currently does not levy an earned income tax **must** ask voters whether they want to levy an EIT or PIT that will fund the minimum level of homestead and farmstead exclusions, also with the caveat that the district need not ask for a rate that would exceed 1%.

For example, a school district that currently levies and collects 0.5% earned income tax may ask voters to increase the EIT by 1% (or perhaps more, if item 1 above were applicable), to a total of 1.5%. In this case, 0.5% will continue to be used for school district operations and the additional 1% will be used to annually fund homestead and farmstead exclusions.

Department staff are available to provide assistance as your school district implements the provisions of Act 1. Do not hesitate to contact Barbara Nelson or Benjamin Hanft at (717) 787-5423 or [ra-propertytax@state.pa.us](mailto:ra-propertytax@state.pa.us).

Sincerely,

A handwritten signature in black ink that reads "Gerald L. Zahorchak". The signature is written in a cursive style with a large initial 'G' and 'Z'.

Gerald L. Zahorchak, D.Ed.