

# Income tax could replace property tax

**UNIVERSITY PARK** — Replacing the school property tax with an income tax would lower tax burdens for many people, an economist at Penn State suggests.

"Citizens must be concerned, however, with what is given up if the property tax is no longer used to finance schools," declared Theodore R. Alter, agricultural economist with the College of Agriculture at Penn State.

Alter said a series of court cases since about 1970 has raised serious questions regarding the role of the property tax in financing schools.

The courts, in general, have objected to school finance systems where the quality of a student's education appears to be determined largely by school district property wealth. In general, state aid to equalize such discrepancies among school districts has been inadequate, Alter pointed out.

Using 1975 as a typical year, Alter and associates found that property taxes in Pennsylvania ranged from 7.5 per cent of income for farmers with the lowest income to 1.4 per cent of income for nonfarmers with the highest incomes.

Farm tax burdens were consistently higher than those of nonfarmers for all income groups and in total, he added.

Dissatisfactions with the property tax exist on the part of both citizens and government officials, Alter reported.

The property tax is inconvenient in that many taxpayers must make large, lump sum payments once or twice a year. Also, the tax seems uncertain to many people due to the seemingly complicated way of making assessments, millage rates, and tax levies.

The property tax is often viewed as inefficient, it was stated, since it tends to encourage urban sprawl and the conversion of farm and other open spaces to higher, more intensive uses. And the property tax, Alter pointed out, sometimes causes communities to compete for tax base while minimizing service costs.

This latter situation, he said, can distort the distribution of development and public services among communities.

Additionally, the property tax is considered inequitable, since many people believe such tax burdens fall more heavily on the poor than the rich. Also, most people see little

relationship between property tax payments and the benefits from public services.

Property tax reform generally means three things, it was pointed out. First, there is the possibility of improving administration of the current system.

Second, the current property tax can sometimes be modified to make it more equitable and to reduce other negative aspects. A third reform is to substitute, completely or partially, another tax source for property tax.

Alter and associates studied both local and state income taxes as full substitutes for the 1975 school property tax.

They found that a local flat rate income tax would generally lead to the greatest decrease in tax burdens for most taxpayers.

The local flat rate tax was followed in order of effectiveness by, first, a combined flat rate state and local income tax, and second, by a flat rate state income tax for schools.

Under each of these alternatives, taxes for farmers would on the average be reduced significantly, it was stated. For nonfarmers, taxes would be reduced on the average except for people with incomes over

\$15,000 where 1975 school property taxes were levied at 1.4 per cent of income.

The increases, however, would be less than the tax reductions experienced by other nonfarm and farm taxpayers.

Variations in local property and income tax bases would result in some differences from this general summary of tax burden changes, Alter noted.

In defense of the property tax, Alter said it is a

productive source of revenue. Then too, property tax decisions keep citizens keenly aware of, and involved in, decisions regarding school district revenue and expenditures.

"It is important to note," Alter commented, that many of the inefficiencies and inequities associated with the property tax could be made less severe through reforms of administration and policy within the existing property tax

system."

He said the property tax is truly a local tax, in that most decisions regarding its use are made locally. Moving to a state income tax to finance schools could weaken the link between preferences for local expenditures and decisions to fund these expenditures, he observed.

The project was supported in part by fair funds administered by the Pennsylvania Department of Agriculture.

## Vegetable oil sales protected

**WASHINGTON, D.C.** — Exporters who sell U.S. vegetable oils to Poland may apply for up to \$3 million protection against payment defaults for non-commercial reasons, Kelly M. Harrison, general sales manager for the U.S. Department of Agriculture, announced today.

This protection is being offered under the Commodity Credit Corporation's non-commercial risk assurance program.

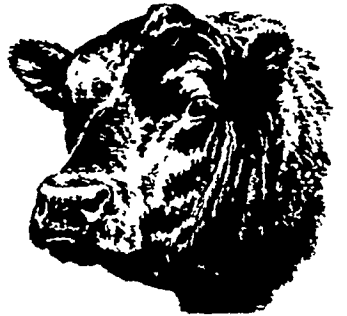
Under the \$300 million in coverage offered earlier on U.S. exports to Poland, up to \$112 million has been designated for feed grains, \$34 million for wheat, \$30.8 million for soybeans, \$54.28 million for protein meals, \$5

million for edible soy protein, \$25 million for cotton, \$8 million for tobacco, \$5.95 million for tallow, and \$3 million for vegetable oils. The remaining \$21.97 million in commodity designations will be announced later.

Before applying for this protection, an exporter must have a sale calling for export no later than August 31, 1980. Applications must be submitted before the export is completed and the assurance fee must accompany the application.

The fee rate is 15.5 cents for \$100 for six months; 23.2 cents per \$100 for one year; 38.8 cents per \$100 for two years; and 56 cents per \$100 for three years, based on

semiannual repayments of principal plus accrued interest. Based on equal annual repayments of principal plus accrued interest, the fee rate is 32.3 cents per \$100 for one year; 49.2 cents per \$100 for two years, and 67.9 cents per \$100 for three years.



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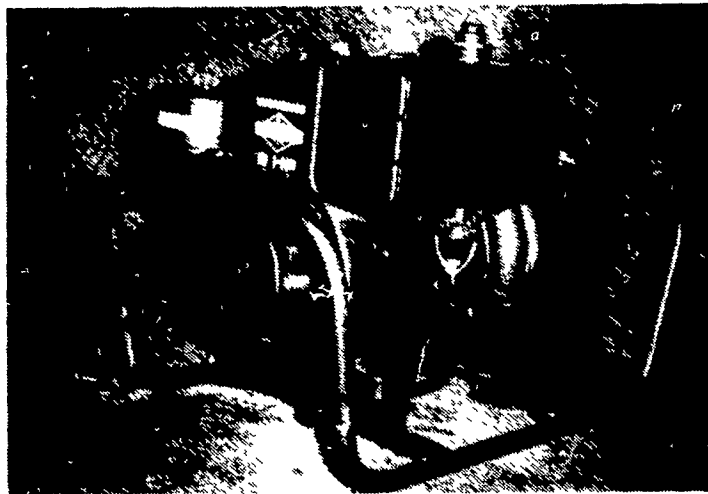
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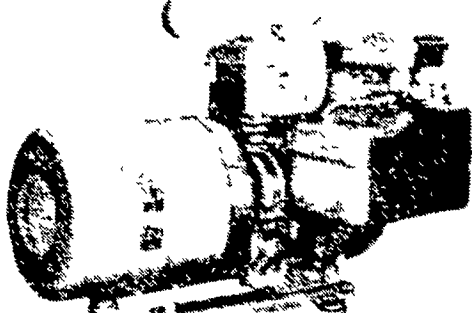
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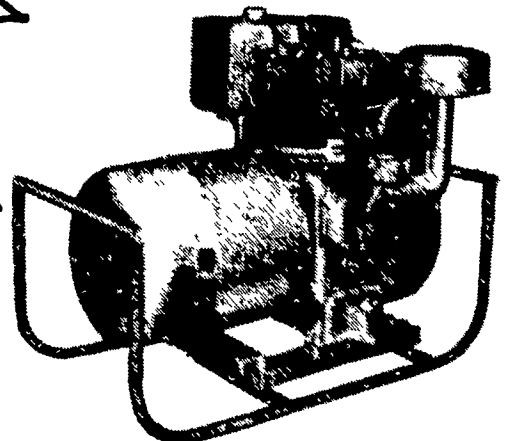
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