

Application for 2004 Homestead and Farmstead Exclusions

As a result of the 2004 Homeowner Property Tax Relief Act (the "Act"), which became effective in September 2004, many Pennsylvania homeowners have recently received an Application for Homestead and Farmstead Exclusions from the county in which they own real estate. The Act, in general, provides for a minimum reduction in real estate taxes of 7.4 percent and a maximum reduction of 60 percent.

To the extent that the real estate that you own in Pennsylvania is not your primary residence, you do not qualify for the relief. A homestead must be a Pennsylvanian's permanent primary residence on which real estate taxes are paid. To the extent that a portion of your home is used for business purposes, that percentage of your real estate taxes is not eligible for the relief provided.

Based on information provided by the counties, the potential reduction in the real estate taxes you pay on your primary residence ranges from \$69 to \$825 per year. For Bensalem Township homeowners, for example, the potential reduction in the real estate taxes paid on a primary residence ranges from \$220 to \$366 per year. It is not clear when the reduction will occur, but estimates are that it may occur as early as September 2005 or as late as September 2007.

Timing of Tax Relief

The property tax relief will be made available when designated state and local revenues reach specific amounts set by the law and your school district qualifies for participation in the Act by imposing a new or increased income tax. As part of the designated state revenues, the Commonwealth will use a portion of the tax revenue from expanded gaming to provide state funding. There is a slight possibility that state funding for property tax relief could begin as early as the 2005-06 school year, but the first distribution will more likely occur in 2006-07 or 2007-08. However, for Philadelphia county only, with a limited exception that is noted below, the state funding for tax relief will be used to reduce wage taxes instead of real estate taxes, for both city residents and for nonresidents. The relief for nonresidents of Philadelphia who work in Philadelphia and pay real estate taxes to their school districts may be dual, since their real estate taxes and their Philadelphia wage taxes may both be reduced.

If you have not yet received your Application for Homestead and Farmstead Exclusions, please notify your county Board of Assessment Appeals (or its equivalent), or contact us. The completed application must be filed no later than **March 1, 2005**, in order for the homeowner to be eligible for the potential real estate tax relief. The first homestead exclusion form was required to have been mailed by the county by October 18, 2004. A second (and final)

forwarding of the homestead exclusion form, to taxpayers who have not responded to the initial mailing, must be sent by the county no later than December 31, 2004. If the completed application is not received by the county by March 1, 2005, any potential real estate tax relief will be lost.

If you would like us to complete the application for your signature, please provide the application to us by February 14, 2005, along with the other materials that you will be providing to us in connection with the preparation of your income tax returns, if applicable. If your application is approved, and the requirements indicated above (regarding designated state and local revenues reaching specific amounts set by the law) have been met, your property tax relief will appear as a tax credit on the property tax bill that you receive from the school district in which you live. For Philadelphia homeowners, the tax relief will be in the form of reduced wage taxes instead of reduced real estate taxes, except for senior citizens whose household income does not exceed \$15,000 a year.

For Further Information

If you have any questions regarding this Alert, please contact Bruce Rogers, CPA, J.D. at (215) 979-1649 or brogers@duanemorris.com or the practitioner with whom you are regularly in contact.