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Property Tax Circuit Breakers

Fair and Cost-Effective Relief for Taxpayers

JOHN H. BOWMAN, DAPHNE A. KENYON,
ADAM LANGLEY, AND BETHANY P. PAQUIN

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Policy Focus Report Series

The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines, and from professional practitioners, local officials, and citizens in diverse communities.

About the Authors

John H. Bowman is Emeritus Professor of Economics at Virginia Commonwealth University. He is a widely published expert on property taxes and the author of *Property Tax Circuit Breakers in 2007: Features, Use, and Policy Issues,* the Lincoln Institute working paper that served as the starting point for this report. Bowman earned his Ph.D. in economics from Ohio State University. He has directed a tax policy analysis unit at the Ohio Department of Taxation, and worked for the former Advisory Commission on Intergovernmental Relations (ACIR) as senior resident in public finance and primary author of its 1975 report on circuit breakers.

Daphne A. Kenyon is principal of D. A. Kenyon & Associates, a public policy consulting firm in Windham, New Hampshire, and she serves on the New Hampshire State Board of Education. She is a visiting fellow at the Lincoln Institute of Land Policy, and the author of another Lincoln Institute Policy Focus Report, *The Property Tax–School Funding Dilemma,* published in 2007. She earned her Ph.D. in economics from the University of Michigan.

Adam Langley is a research assistant at the Lincoln Institute of Land Policy, where he has coauthored papers on property taxes and education finance. He earned his B.A. in political studies from Bard College and is enrolled in an M.A. program in economics at Boston University.

Bethany P. Paquin is a research assistant for the Lincoln Institute of Land Policy and D. A. Kenyon & Associates. She earned her B.A. in political science from Grove City College in Pennsylvania.

LINCOLN INSTITUTE OF LAND POLICY
113 Brattle Street, Cambridge, MA 02138-3400, USA
www.lincolninst.edu

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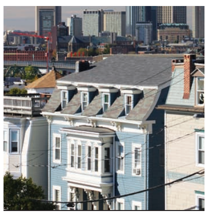


Executive Summary

In recent years public pressure on governors and state legislators to provide property tax relief has been intense. The property tax is criticized as being particularly burdensome for low- and moderate-income families, and for those whose incomes have declined due to layoff, retirement, divorce, or illness. States can address these flaws of the property tax through the type of property tax relief analyzed in this report—the circuit breaker.

Property tax circuit breakers provide households with direct property tax relief that increases as household income declines, for a given property tax bill. Property tax circuit breakers can be used to increase tax equity by reducing the most onerous property tax burdens, measured in relation to income. By targeting property tax relief to those most in need of relief, circuit breakers promote tax equity at minimal cost to the budget while preserving the basic nature and strengths of the property tax.

Circuit breakers target property tax relief more precisely to those with a limited ability to pay property taxes than other common forms of property tax relief. Assessment caps primarily benefit homeowners whose homes have rapidly appreciated in value. Fixed dollar homestead exemptions (e.g., a fixed $25,000 exemption) provide the same amount of tax relief to all homeowners facing a particular tax rate, regardless of income.

As of 2008, 33 states and the District of Columbia had one or more circuit breaker programs. Although circuit breakers have great potential for improving property tax fairness, the programs employed by many states fall short of ideal and should be reformed.

One frequent pitfall is enacting a circuit breaker that is too restrictive. For example,

Recommended Design Features for Property Tax Circuit Breakers	
Recommended Feature	**Reason for Recommendation**
Provide adequate tax relief and reliable funding	Without both adequate relief and funding, circuit breakers cannot provide meaningful tax assistance to those in need
Cover owners and renters of all ages	Renters pay property taxes indirectly, and excessive tax burdens are not limited to the elderly
Use a broad definition of income, including Social Security benefits	Avoids providing different tax relief to households with similar property tax burdens
Use a multiple-threshold formula; Apply brackets incrementally	Targets property tax relief to those with greatest need; prevents notch effects
For generous threshold circuit breakers, include a copayment requirement	Without a copayment, taxpayers whose property tax bills exceed the threshold level are insulated from any property tax increase; can promote excessive spending
Set a limit on the maximum property value considered in the circuit breaker formula	Limits the tax relief sent to those with very expensive homes
Consider placing no other limits on income, benefits, or net worth	Other limits are not necessary with a properly designed circuit breaker; also they can impose unintended changes in distribution of benefits
Provide funding by the state	Local funding is problematic due to the wide range in local fiscal capacity and mobility of taxpayers
Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters	Provides timely and highly visible property tax relief
Set up a simple, streamlined application system	Will maximize participation and reduce administration and compliance costs
Establish and fund an outreach program	Participation rates will likely be low without outreach efforts

if the benefit or income limit is set too low, the circuit breaker will not provide sufficient tax relief for the targeted population. Another common failing is favoring the elderly, which is done by 21 states. The need for property tax relief is often greater for the nonelderly who are more likely to have a mortgage and to live under the poverty line.

Property tax circuit breakers are particularly important for states with high property taxes. However, the best circuit breaker for a particular state also depends on the state's tax structure and the division of responsibilities between state and local governments.

When designing a circuit breaker, choices must be made regarding eligibility, formula type, additional formula features, administration, and outreach. Some of the most important recommendations regarding circuit breaker design are summarized here.

CHAPTER 1

The Case For Property Tax Circuit Breakers

Surveys of public opinion consistently show that the property tax is either the most unpopular tax or close behind the federal income tax in the level of public antipathy it attracts (Fisher 2007, 318). However, property taxes are an important source of government revenue and provide critical support for independent local governments, so their elimination really is not an option (Fisher 2009).

In recent years the public has pressed governors and state legislators to provide property tax relief. In 2006 and 2007, lawmakers in more than half the states introduced property tax relief measures in response to taxpayer discontent fueled by both increasing property tax burdens on households relative to their income and a rising share of property tax payments shouldered by homeowners (Haveman and Sexton 2008, 8).

Although legislative plans to expand property tax relief seem to have abated somewhat in 2009, this lull may not last very long. State government cuts in aid to local governments together with economic hardship experienced by families, both arising from the severe economic recession, will likely encourage continued calls for property tax relief.

A common criticism of the property tax is that it is not based directly on the ability to pay taxes, assuming income is the best measure of ability to pay. The property tax can be particularly burdensome for low- and moderate-income families. It also can be burdensome for families of limited means who have experienced house price increases that have outstripped increases in their incomes, or for those whose income has declined due to layoff, retirement, divorce, or illness. States can address these flaws of the property tax through the form of property tax relief analyzed in this report—the circuit breaker.

Figure 1.1 offers a classification of the various forms of residential property tax relief. Direct property tax relief provides a tax reduction to particular taxpayers; indirect property tax relief reduces overall reliance on property taxation as a revenue source.

Property tax circuit breakers provide households with direct property tax relief that increases as household income declines (for a given property tax bill). In other words, circuit breakers create an inverse relationship between income and property tax relief. The term "circuit breaker" was coined in the 1960s by John Shannon of the U.S. Advisory Commission on Intergovernmental Relations to reflect the idea that, just as electrical circuit breakers prevent circuits from being overloaded by electric current, property tax circuit breakers can prevent taxpayers from being overburdened by property taxes (Bowman 2006).

Property tax payments as a percent of income for households across the United States range widely (figure 1.2). Nearly half of all taxpayers pay less than 2.5 percent of their income in property taxes. On the other hand, about 10 percent of taxpayers pay more than 10 percent of their income in property taxes, and about 4 percent pay 20 percent or more. When the data are examined by income level, it is clear that property tax burdens fall disproportionately on low- or moderate-income households. For example, 93 percent of the households who pay more than 20 percent of their income in property taxes have incomes under $40,000.

This dilemma is illustrated by Rose, who lives in a state with high property taxes and finds her property tax payments burdensome. She would likely benefit from a more

FIGURE 1.1
Types of Residential Property Tax Relief

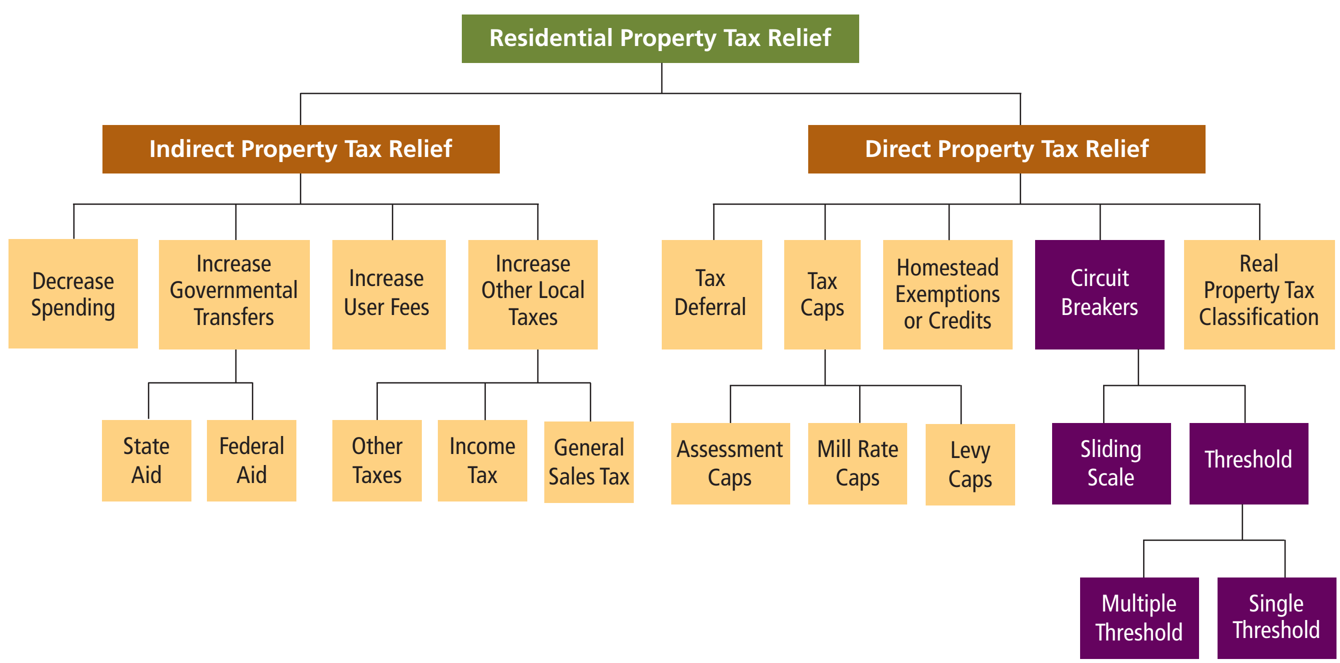


FIGURE 1.2
Property Tax as a Percent of Income (2006)

Source: U.S. Census Bureau (2006a).

BOX 1.1
Taxpayer Profile: A Low-income Homeowner in a State with High Property Taxes

Rose is a divorced homeowner living near the center of a middle-income community in a New England state that relies heavily on the property tax. The yard of her modest ranch-style home features a broken-down utility van with a giant bush growing through it. Rose earns $9.00 per hour at her job as a maid. She works 50 hours a week to pay her bills, but finds it tough to keep up. She provides for her ill mother who came to live with her years ago because she could not afford a nursing home.

In 2008, Rose had to pay more than $7,000 in property taxes, which amounts to about 30 percent of her total income. The town's 2008 property tax rate is $25.53 per $1,000 assessed value (or $5,106 per year on a home assessed at $200,000), giving it the distinction of having one of the highest municipal property tax rates in a state that relies very heavily on the property tax.

Rose complains that her property taxes fund 12 weeks of paid vacation for city firefighters, while she cannot afford to take one day off from work. Selling her home is an unlikely prospect in a weak real estate market already flooded with homes for sale, but Rose may lose her house through foreclosure.

The town provides property tax relief only for the elderly, veterans, and the disabled. The greatest tax rebate Rose could obtain from the state's meager property tax relief program for low- and moderate-income households is $700, but even that is unavailable since her modest income exceeds the state's $20,000 ceiling for eligibility.

adequately funded circuit breaker program (see box 1.1).

ADVANTAGES OF CIRCUIT BREAKERS AS A TAX RELIEF MEASURE

If policy makers wish to provide property tax relief for needy households, it is not necessary to reduce property taxes for businesses, farms, and open space, and not all households need relief. Across-the-board adjustments would be much more expensive than a program targeted to needy households.

Targeted tax relief is particularly appropriate in a climate of fiscal stringency (Schuck and Zeckhauser 2006, 1). With budget deficits predicted for federal, state, and local governments, it is sensible to try to provide tax relief only to those who really need it. This is one way to "do more with less." Property tax circuit breakers target property tax relief more precisely to those with a limited ability to pay property taxes than other widely known forms of direct relief.

- Fixed-dollar homestead exemptions (e.g., a flat $25,000 exemption) provide the same dollar value of property tax relief to all homeowners facing a particular tax rate, regardless of income.
- Fixed-percentage homestead exemptions (e.g., exempting 10 percent of the value of each home) tend to provide greater dollar amounts of tax relief to high-income homeowners than to low-income homeowners.
- Assessment caps primarily benefit homeowners whose homes have been rapidly appreciating in value (see Haveman and Sexton 2008).

In Maine, for example, policy makers and citizens recently debated the relative merits of expanding the state's circuit breaker versus enacting an assessment cap. In 2004, Maine political activist Carol Palesky and her organization, the Maine Taxpayer Action Network, lobbied to cap local property taxes at 1 percent of assessed value, arguing that this plan would bring fairness to the state's tax structure because everyone would pay the same taxes for the same services.

Opponents (including the Maine Municipal Association, the Maine Center for Economic Policy, and the Chamber of Commerce) argued the 1 percent cap would create new problems: it would shortchange communities and lead to diminished local services; shift the burden to the state and lead to reduced state services; disproportionally benefit nonresidents and the wealthy; and ultimately discourage crucial business development in the State of Maine (*Portland Press Herald* 2004; Dorsey 2004). Following months of intense debate, voters rejected the referendum, which appeared as Question 1 on the November 2004 ballot.

The debate over Question 1 prompted several alternative plans from municipal and business organizations, and the governor. A legislative Joint Select Committee on Taxation was formed in December 2004 to craft a property tax reform bill, which included a significant expansion of Maine's circuit breaker program. According to Rep. Richard Woodbury, co-chair of the Joint Committee, "In advocating for the plan, we characterized the circuit breaker expansion as an income-based tax cap, building on a program the state already had in place" (Woodbury 2007). In January 2005, after the demise of Palesky's proposed tax cap, the Joint Committee's property tax reform bill was enacted in legislation known as LD1.

State-funded circuit breakers, the focus of this report, provide a particularly effective type of support for local governments. By relieving tax payments for those who are overburdened, circuit breakers tend to reduce antipathy towards the property tax. Furthermore, because households tend to be sorted among communities by income level, circuit breaker funding will be sent more than proportionately to communities with lesser fiscal capacity, thereby reducing local fiscal disparities (Bowman 1975, 27).

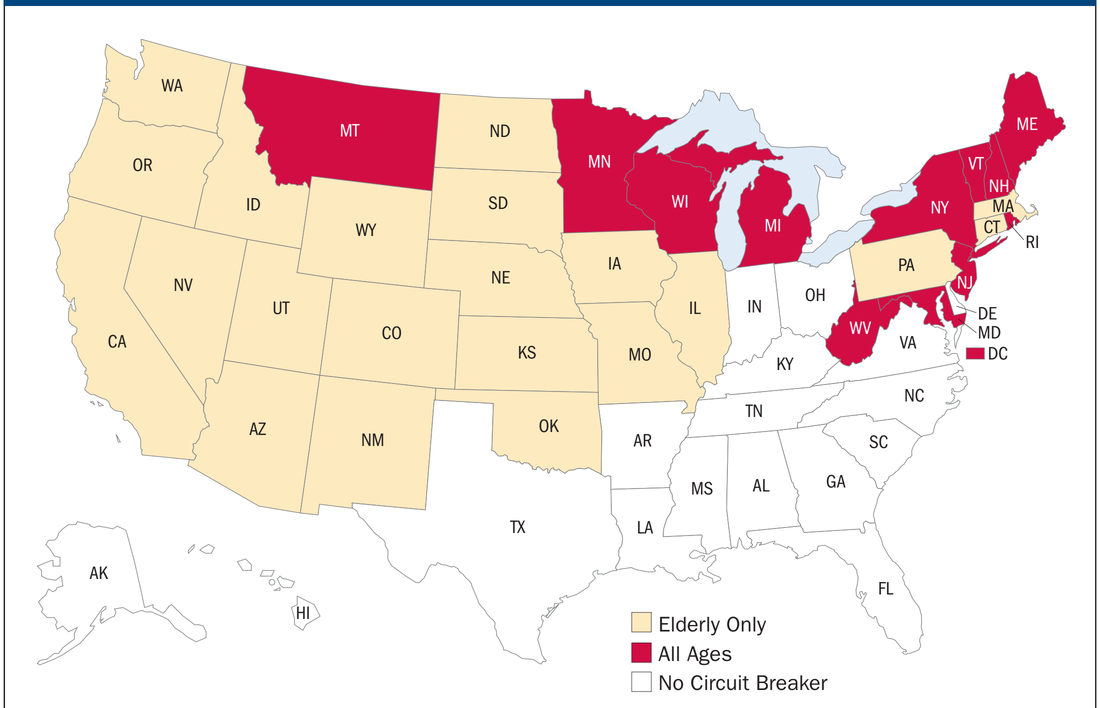
DEFINITION AND EXTENT OF CIRCUIT BREAKERS

A majority of states have adopted property tax circuit breakers in the last 40 years, although lawmakers and the general public know them by different names. While most states have some form of circuit breaker program, very few states call their program a "circuit breaker." For example, Maryland calls its program the Homeowners' Property Tax Credit, and Minnesota's program is named the Property Tax Refund (see Bowman 2008a and the Appendix).

Other states refer to aid programs as circuit breakers that do not fit the definition used in this report. For example, a property tax relief program enacted in Indiana in 2008 termed a circuit breaker limits homeowners' tax bills to 1 percent of the property's assessed value (Lohrmann 2008). Since relief is not related to household income, however, Indiana is not included in this report. Massachusetts has a special education reimbursement program, which is commonly known as the circuit breaker program. It is designed to provide additional funding to districts for high-cost special education students, so it also is not included here.

The design of the program, not its name, determines whether a program is included in this report on property tax circuit breakers. As of 2008, 33 states and the District of Columbia had one or more such programs. (All circuit breaker data in this report are for 2008 unless noted otherwise.) Figure 1.3 shows that most states provide circuit breaker programs only for the elderly; only 12 states plus the District of Columbia provide circuit breakers for all ages.

FIGURE 1.3
States with State-funded Circuit Breaker Programs, 2008



Notes: Providing benefits for all ages does not always mean providing the same benefits. Six of thirteen states shown as providing benefits for all ages provide enhanced benefits for elderly claimants. The program in Kansas is available to younger residents with a dependent child under eighteen. Funding for California's circuit breaker was suspended in 2008 due to budget constraints.

CHAPTER 2
Circuit Breaker Eligibility

Property tax relief under a circuit breaker is greater for low-income households than for high-income households for a given property tax bill, but this leaves many issues regarding circuit breaker eligibility unanswered. This chapter looks at the relationship between income and circuit breaker relief, and examines whether eligibility for relief should be conditioned in part based on age or other taxpayer characteristics.

ELIGIBILITY BY INCOME GROUP

Although an inverse relationship between income and property tax relief is the hallmark of the circuit breaker, a related issue is whether tax relief should be limited to low-income households or provided as well to middle- and high-income households.

When considering eligibility for property tax relief, it is critical to consider the objective for that relief. If the objective is to relieve the burden of excessive property taxes, one can argue for restricting circuit breaker eligibility to low- or low- and moderate-income households. These groups are most likely to lack the ability to pay high property taxes.

A second frequently stated objective is to keep property taxes from forcing families out of their homes. Changed circumstances, such as layoff, illness, retirement, divorce, or the death of at least one income earner, as well as large, unforeseen increases in home value, may cause property taxes that had seemed reasonable at the time of purchase to become onerous, at least temporarily.

If this is the predominant objective, assistance could be extended to higher-income taxpayers. However, providing tax deferral or home equity loans might be another

BOX 2.1
Taxpayer Profiles: Reactions to Property Tax Relief in Indiana

Per capita property taxes in Indiana rose at a significantly higher rate than the U.S. average from 2000 to 2006 (Fisher et al 2009). That is likely one reason public pressure for property tax relief has been intense in recent years. Hundreds of demonstrators protested higher property taxes in front of the governor's residence (Murray 2007). Property tax relief legislation was debated at length before being enacted in March 2008. Two households featured in the *Indianapolis Star-News* had different experiences and reactions.

Timothy Crocker, 44, saw the assessment on his two-bedroom condominium increase from $16,600 in 2006 to $39,300 in 2007, causing a near tripling of his property tax bill. As a hotel bellman and college student with one son, his budget is tight. Crocker planned to make room in his budget for this higher property tax bill by downgrading his car insurance, trimming his food budget, and possibly dropping cable TV (King 2007).

Rosalind and Stephen Mitchel of the affluent suburb of Carmel were not happy about their property taxes either, despite the fact that the increase from 2006 to 2007 was a more modest 6 percent. After living in their home for 40 years and raising eight children they no longer pay a mortgage but find that property taxes keep rising. "You work all of your life to pay for your home…and you still don't own your property (because of property taxes)," Mrs. Mitchel said, noting that a person's home can be taken away if the taxes are not paid (Lopez et al. 2007).

alternative for high-income households or for those who live in comparatively expensive houses.

A third objective for providing property tax relief is to decrease antipathy toward the property tax. This objective would encourage policy makers to expand relief beyond low-income households to moderate- and middle-income households. It might also encourage policy makers to provide greater benefits to seniors than to other groups, which might limit their resistance to property tax increases used to pay for schools. See box 2.1 for an example of the real-world pressures for providing property tax relief to a broad spectrum of households.

Income is generally the best available criterion for targeting eligibility for property tax relief. However, many circuit breaker programs treat certain households more favorably than others based on criteria other than income and property tax payments.

SPECIAL TREATMENT FOR THE ELDERLY

Circuit breakers often use age as a proxy for financial need. Financial hardship never was limited to the elderly, but using age as a proxy for need is now clearly outmoded. Poverty has been higher among the nonelderly than among the elderly over the last quarter century. The poverty rate for people aged 65 and over dropped from 35 percent in 1960 to 10 percent in 1995, putting it slightly below the poverty rate for working-age adults and well below that for children (NBER 2004).

The maturing of the Social Security system and indexation of its benefits have been important in the improved relative status of the elderly. Even before these developments, however, many questioned the reasonableness of property tax relief programs for only the elderly: ". . . the case for tax favors seems tenuous, because the economic circumstances of the aged as a group appear to be better than those of most other age groups" (Chen 1969, 232). The elderly have long had a higher level of net worth than the nonelderly, reflecting their greater opportunity to accumulate assets and pay off mortgages over time.

That said, many people continue to believe that property tax relief should target the elderly because they often pay a higher share of their income in property taxes. For example, table 2.1 shows that 16.5 percent of homeowners aged 65 and over paid more than 10 percent of their income in property taxes—more than double the percentage for homeowners aged 18 to 64. However, this is not a justification for limiting circuit breaker eligibility to the elderly.

Table 2.1 also shows that once all costs of home ownership are considered—including mortgage payments, property taxes, utilities, and insurance—the proportions of elderly and nonelderly homeowners paying more than 35 percent of their income are nearly identical. More important, circuit breakers automatically target tax relief to households paying a disproportionate share of income in property taxes regardless of age.

A second concern is whether elderly households should be given higher property tax relief than equivalent-income nonelderly households because they are less likely to have children in public schools. However, many economists argue a life-cycle view is a better way to evaluate tax fairness because it compares the total public services consumed and total property taxes paid over an individual's entire life.

TABLE 2.1

Economic Status and Housing Costs by Age (2006)

	Age 18–64	Age 65 +
Economic Status (Households)		
Median household income	$54,726	$27,798
Percent below poverty level	10.8	9.4
Housing Costs (Homeowners)		
Percent of homeowners with mortgages	80.3	29.4
Property taxes as a percent of homeowner income		
Proportion of homeowners paying 5.0–9.9%	15.6	20.6
Proportion of homeowners paying 10.0% +	7.7	16.5
Total housing costs as a percent of homeowner income		
Proportion of homeowners paying 35.0–49.9%	11.4	10.0
Proportion of homeowners paying 50.0% +	11.6	12.9

Sources: U.S. Census Bureau (2006a; 2007).

With this perspective, the relatively high property taxes paid by seniors (in relation to current services) simply offset the relatively low property taxes they paid when their children were in school. Moreover, younger households with no children in the public schools do not necessarily receive lower tax bills. Property taxes are not user fees, but are more general payments for public services (Kenyon 2007, 36).

SPECIAL TREATMENT FOR THE DISABLED, VETERANS, AND OTHER GROUPS

In some instances, circuit breakers are more generous for, or even restricted to, certain categories of taxpayers. Favored categories include military veterans, disabled military veterans, disabled people generally, and widows and widowers.

There are two basic rationales for such provisions. One is gratitude. For example, property tax relief restricted to (or more generous for) military veterans who served in a combat zone is sometimes said to be an expression of gratitude for such service. One might question whether this is the best way to show gratitude for military service.

Another rationale for special treatment is that members of certain disabled groups are considered to be needier. Common qualifying disabilities include blindness and loss of use of one or more limbs through amputation or paralysis. When property tax relief is based on disability, it is necessary to define the qualifying disabilities, causes, and extent. The minimum qualifying degree or threshold of disability is usually 100 percent, although lesser percentages may be allowed, and the disability often must be permanent rather than temporary.

Such provisions, even if motivated by a sense of fairness, can create inequities. Other people may be equally disabled, in terms of inability to perform work, but if their disability is not listed they are excluded. Mental problems, generally omitted by these property tax relief programs, can be debilitating. Temporary disability, for six months or a year, can cause serious financial problems and need for property tax assistance, but no help is forthcoming if permanent disability is required for participation. Less than 100 percent disability also can cause financial stress, but these categorical programs often are for total disability only. Even when partial disability can qualify for relief, spelling out a precise threshold creates problems; for example, if 90 percent disability is the qualifying threshold, someone with 80 percent disability gets nothing, even though the partial disability may create financial hardship.

CONSIDERING NET WORTH

Income alone does not determine economic well-being. If two families of four have the same $40,000 annual income, but one has a net worth of $500,000 and the other a net worth of $50,000, they are not equally well-off. The high net worth of the first family makes it better able to pay property taxes and less deserving of public subsidy. This raises the question of whether circuit breaker eligibility should also be related to net worth.

Reporting net worth requires claimants to list and value their relevant assets and obligations. Equity would require inclusion of works of art and jewelry, for example, as well as real estate, automobiles, stocks and bonds, and savings accounts. This presents difficulties of discovery and valuation, which are greater for some assets than for others.

Discovery is a problem for administrators, and it is an important one. Claimants typically know what assets they have, but they have an incentive to underreport assets if it seems they can do so successfully. To make the net worth test meaningful and fair, audit and verification procedures are required. Some assets are relatively easy to conceal, such as household items, although entry into the home to look for them would be unpopular and infeasible.

Even when discovery is not a problem, valuation may be (particularly for assets for which there is little market information). Another consideration is that some assets' values may fluctuate widely, even within a short time period. Value on a given date must be specified, more or less arbitrarily, and the value on that date may be considerably higher or lower than at other times during the year. Moreover, not all assets change in value at the same time or rate, so the measures for various claimants are affected differently.

A net worth test makes sense since it is reasonable to expect people with valuable assets to borrow against them, if need be, to meet their tax obligations, rather than to have those obligations forgiven or subsidized. However, the practical problems noted above are serious concerns. Perhaps the best way to incorporate net worth into considerations of property tax relief eligibility is to focus on home value. Homes are easier to value than other assets and must be revalued periodically for property tax purposes. With the growing market for reverse mortgages over the last decade, it is becoming more reasonable to expect households with very high-value homes to borrow against those homes to pay their taxes (Kaplan 2008).

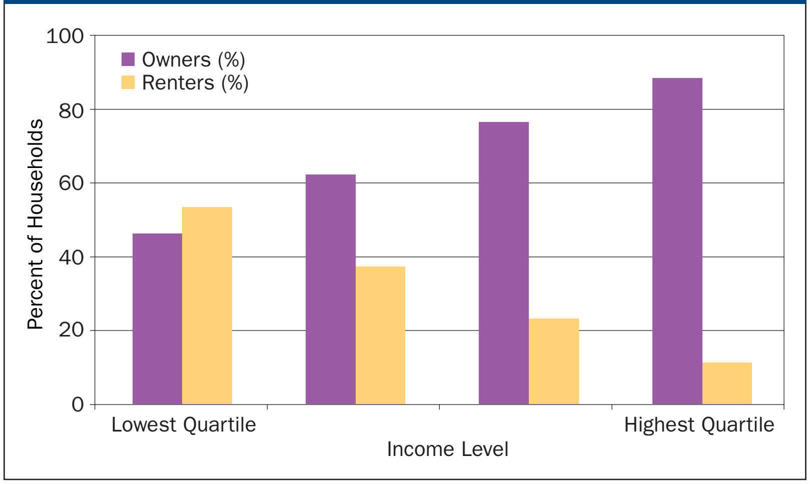
ELIGIBILITY OF RENTERS

The 31 percent of U.S. households who were renters in 2006 do not receive property tax bills, but this does not mean they do not pay property taxes (U.S. Census Bureau 2006a). In most cases landlords pass on some portion of their property taxes in the form of higher rent. Renters generally have lower incomes than homeowners, as shown in figure 2.1. Almost 90 percent of households in the highest income quartile are homeowners while only 11 percent are renters. Since renters bear property tax burdens and are generally less well-off than homeowners, in terms of both income and net assets, they should be included in needs-based property tax relief programs. Seniors are more likely to be homeowners than the population as a whole at all income levels, although older renters are disproportionately concentrated in the lower income brackets (figure 2.2).

CONCLUDING COMMENTS

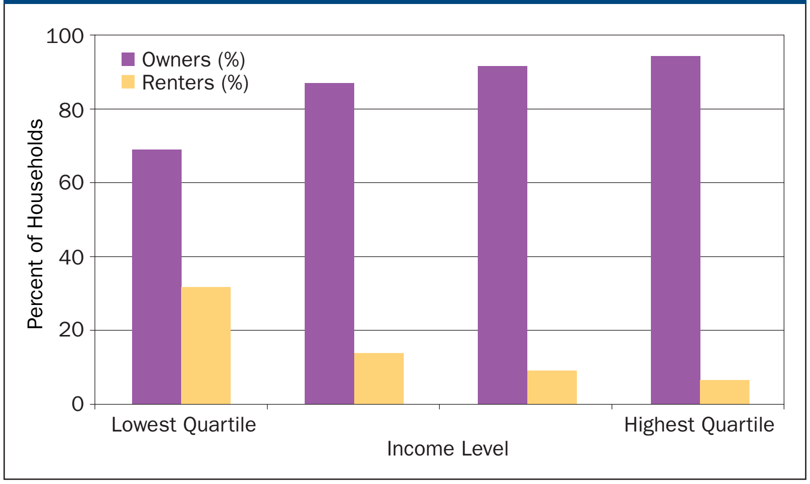
The strength of circuit breakers is that they can target property tax relief on the basis of need, using income as the primary indicator of ability to pay property taxes. Income, broadly defined, is an objective measure of economic well-being and ability to pay. Proxies for need are unnecessary in such programs. Indeed, this discussion indicates that old age in particular is a poor proxy for need. Extending property tax relief for certain other categories of taxpayers is appropriate only when a disability or other condition increases need for tax relief in a manner not fully reflected in income.

FIGURE 2.1
Percent of Owners and Renters by Income Quartile, All Ages (2006)



Source: U.S. Census Bureau (2006a).

FIGURE 2.2
Percent of Owners and Renters by Income Quartile, 65+ Only (2006)



Source: U.S. Census Bureau (2006a).

CHAPTER 3

The Basic Types of Property Tax Circuit Breakers

Property tax circuit breakers provide direct property tax relief to households based on their incomes, but circuit breaker formulas differ across states. There are two basic types of circuit breakers—threshold and sliding-scale. The following descriptions may help policy makers who are thinking about enacting or redesigning a circuit breaker. The Appendix provides more detailed information on circuit breakers used in 33 states and the District of Columbia in 2008.

Before describing various formulas, it is useful to explain the basic rationale for a circuit breaker. Suppose a particular household pays $8,000 in property taxes. Is this too much? Would a tax relief program limiting property tax bills to $4,000 or less be sensible? Although an $8,000 property tax bill may sound large to most people, whether this is an unacceptable property tax burden likely depends on the household's ability to pay taxes. A household with an income of $400,000 might find a property tax payment of $8,000 well within its means; a household with an income of $40,000 would likely find that tax bill onerous. For this reason, circuit breakers consider property tax payments in relation to a household's income, but they do this in different ways.

Illustrating the effects of alternative circuit breaker formulas, table 3.1 assumes that three taxpayers—low-, moderate-, and middle-income—pay a $2,000 property tax bill before circuit breaker relief. Thus, before the circuit breaker, the lower the income, the higher property taxes are as a percentage of income.

THRESHOLD CIRCUIT BREAKERS

Threshold circuit breakers are the classic type, specifying a threshold percentage of income that property taxes must exceed before any tax relief is available. This percentage can be thought of as an "acceptable" level of property tax. Relief is equal to the amount by which the property tax bill exceeds the threshold. The theory of a single-threshold circuit breaker is that property tax payments are burdensome when they exceed some particular percentage of a household's income.

Single-Threshold Formulas

The simplest circuit breaker uses only one threshold percentage, for example 5 percent of income for all taxpayers as shown in table 3.1. Focusing on the low-income household, the initial gross property tax is $2,000. The net property tax liability after the circuit breaker is $500, which is 5 percent of the $10,000 household income. The circuit breaker reduces this household's property tax liability by $1,500.

The 5 percent single threshold permits higher dollar property tax payments for moderate- ($1,000) and middle-income ($2,000) households, since the maximum property tax for all households is 5 percent of income. Because the middle-income taxpayer in the example initially paid 5 percent of his income in property taxes, this single-threshold circuit breaker provides him no tax relief.

Only a few states use a single-threshold circuit breaker for homeowners; more states use them for renters. Massachusetts uses this formula for elderly homeowners and renters, set at 10 percent of income. West Virginia has a single-threshold circuit breaker that provides relief to homeowners paying more than 4 percent of income in property taxes. There seems to be no guideline regarding the best percentage of income to choose in designing a single-threshold property tax circuit breaker. However, the higher the threshold set, the less generous the tax relief and the less expensive the program in terms of potential lost tax revenue.

TABLE 3.1
Benefit Determination Under Alternative Circuit Breaker Formulas, Assuming $2,000 Property Tax Bill for Each Household

	Low Income $10,000	Moderate Income $20,000	Middle Income $40,000
Each household pays $2,000 in property tax before circuit breaker			
Property Tax	$2,000	$2,000	$2,000
Tax as % of Income	20.0	10.0	5.0
Single Threshold **Property tax capped at 5% of income**			
Tax Due	$500	$1,000	$2,000
Tax Relief (Credit)	$1,500	$1,000	$0
Tax as % of Income	5.0	5.0	5.0
Multiple Threshold **No property tax allowed for first $5,000 income; capped at 2% of income for income from $5,001–$10,000; capped at 4% for $10,001–$20,000 income; capped at 6% for $20,001–$40,000 income**			
Tax Due	$100	$500	$1,700
Tax Relief (Credit)	$1,900	$1,500	$300
Tax as % of Income	1.0	2.5	4.25
Sliding Scale **Credit = (Property Tax) x (Relief Percentage)**			
Relief Percentage	75.0	50.0	25.0
Tax Due	$500	$1,000	$1,500
Tax Relief (Credit)	$1,500	$1,000	$500
Tax as % of Income	5.0	5.0	3.75

Note: Fisher (2009) notes that in 2007 the median homeowner paid $1,728 in property taxes.

Multiple-Threshold Formulas

The pattern of property tax relief provided by a circuit breaker can be made more progressive (more favorable to those with lower incomes) by employing several threshold percentages such as:

- Zero for the first $5,000 of income;
- 2 percent for the next $5,000 of income;
- 4 percent for the next $10,000 of income; and
- 6 percent for income above $20,000.

As with most multiple-threshold circuit breakers the thresholds apply incrementally; that is, a different threshold percentage applies to each block of a taxpayer's income. In this way, all eligible claimants, regardless of total income, benefit from the lower threshold percentages for their first dollars of income.

If the thresholds were not applied incrementally, moving to a higher income bracket would mean the higher threshold would apply to all of the household's income. So all of the income of a taxpayer earning $30,000, for example, would be subject to the 6 percent threshold. Nonincremental multiple-threshold formulas create situations in which one dollar of extra income can cause a dramatic loss in tax relief (see chapter 5).

In the example in table 3.1, before the circuit breaker the low-income family pays 20 percent of its income in property taxes, the moderate-income family pays 10 percent, and the middle-income family pays 5 percent. After applying the multiple-threshold circuit breaker, the low-income family pays 1 percent of its income, the moderate-income family pays 2.5 percent, and the middle-income family pays 4.25 percent. Compared with the single-threshold circuit breaker, the low- and moderate-income households have significantly lower property tax bills, while the middle-income household pays slightly less in property taxes.

The multiple-threshold approach is more popular among states than the single-threshold approach for homeowners. A Maryland circuit breaker uses four threshold percentages: zero for the first $8,000 income; 4 percent for the next $4,000; 6.5 percent for the next $4,000; and 9 percent for income amounts above $16,000. The thresholds apply incrementally; all eligible claimants, regardless of total income, benefit from the lower threshold percentages for their first dollars of income.

SLIDING-SCALE CIRCUIT BREAKERS

Sliding-scale circuit breakers are nearly as common as multiple-threshold models. This approach defines several income brackets, and all claimants within an income bracket qualify for the same percentage reduction in taxes, regardless of how high or low their property tax bills. These relief percentages decline with each step to a higher income bracket, so low-income households receive the highest percentage reduction in property taxes.

The number of income brackets varies among states, but most sliding-scale circuit breakers have three to six; South Dakota is an exception with 25. The simplified example in table 3.1 assumes three income brackets. After the sliding-scale circuit breaker, the net property tax is 5 percent of income for both the low-income and moderate-income families, and 3.75 percent for the middle-income family. Whether a sliding-scale formula channels greater tax relief to lower-income households than a multiple-threshold formula depends on both the thresholds set and the tax relief percentages.

A Connecticut sliding-scale circuit breaker, for example, defines five brackets and tax relief percentages for married homeowners: first $15,200 of income, 50 percent; $15,201–$20,500 income, 40 percent; $20,501–$25,600, 30 percent; $25,601–$30,500, 20 percent; and over $30,500 but less than $37,300, 10 percent.

HYBRID AND QUASI CIRCUIT BREAKERS

Several states combine elements of threshold and sliding-scale circuit breakers; these hybrid formulas sometimes are complex (e.g., Minnesota) and are summarized in the Appendix.

Quasi circuit breakers use multiple income brackets to target aid to low-income households. However, unlike a threshold or sliding-scale system, benefits are determined without reference to a claimant's property tax bill, except that they cannot exceed the actual property tax paid.

In most states, quasi circuit breakers use multiple income brackets with benefits declining as income rises. For example, Utah uses seven income brackets, with relief declining from a maximum of $816 in the lowest income bracket (under $9,369) to $100 in the highest income bracket ($24,802–$27,557). Colorado and Wyoming do not use income brackets; instead their quasi circuit breakers start with a maximum benefit that declines by the percent that a claimant's income exceeds a given level. For example, Colorado has a maximum benefit of $600 that is reduced by 10 percent of income over $6,000 for single taxpayers and $9,700 for married taxpayers.

Not all analysts define property tax circuit breakers in the same way; some prefer a narrow circuit breaker definition, while others focus on a broader category of tax relief mechanisms they label as income-conditioned property tax relief (see box 3.1).

TABLE 3.2
Benefit Determination Under Alternative Circuit Breaker Formulas, Assuming Property Tax Bill Equal to 10 Percent of Income for Each Household

	Low Income $10,000	Moderate Income $20,000	Middle Income $40,000
Each household pays 10% of income in property taxes before circuit breaker			
Property Tax	$1,000	$2,000	$4,000
Tax as % of Income	10.0	10.0	10.0
Single Threshold **Credit offsets any property tax above 5% of income**			
Tax Due	$500	$1,000	$2,000
Tax Relief (Credit)	$500	$1,000	$2,000
Tax as % of Income	5.0	5.0	5.0
Multiple Threshold **No property tax allowed for first $5,000 income; capped at 2% of income for income from $5,001–$10,000; capped at 4% for $10,001–$20,000 income; capped at 6% for $20,001–$40,000 income**			
Tax Due	$100	$500	$1,700
Tax Relief (Credit)	$900	$1,500	$2,300
Tax as % of Income	1.0	2.5	4.25
Sliding Scale **Credit = (Property Tax) x (Relief Percentage)**			
Relief Percentage	75.0	50.0	25.0
Tax Due	$250	$1,000	$3,000
Tax Relief (Credit)	$750	$1,000	$1,000
Tax as % of Income	2.5	5.0	7.5

Note: Fisher (2009) concludes that property taxes are approximately the same proportion of income for most taxpayers. In some high property tax states, a significant proportion of homeowners pay 10 percent or more of their income in property taxes (Allen and Woodbury 2006).

AN ALTERNATIVE EXAMPLE

Table 3.2 shows a different pattern of property tax liabilities, where all households pay 10 percent of their income in property taxes before a circuit breaker is applied.

Under a 5 percent single-threshold circuit breaker, each household pays 5 percent of its income in property taxes, the same outcome as in table 3.1, despite different starting points. Although the resulting net property tax liabilities are the same as in table 3.1, the dollar tax relief is much more skewed toward higher-income households. This skewing of property tax relief arises because the original pattern of property tax liabilities is also

BOX 3.1

Definitions of Circuit Breaker and Other Types of Direct Property Tax Relief

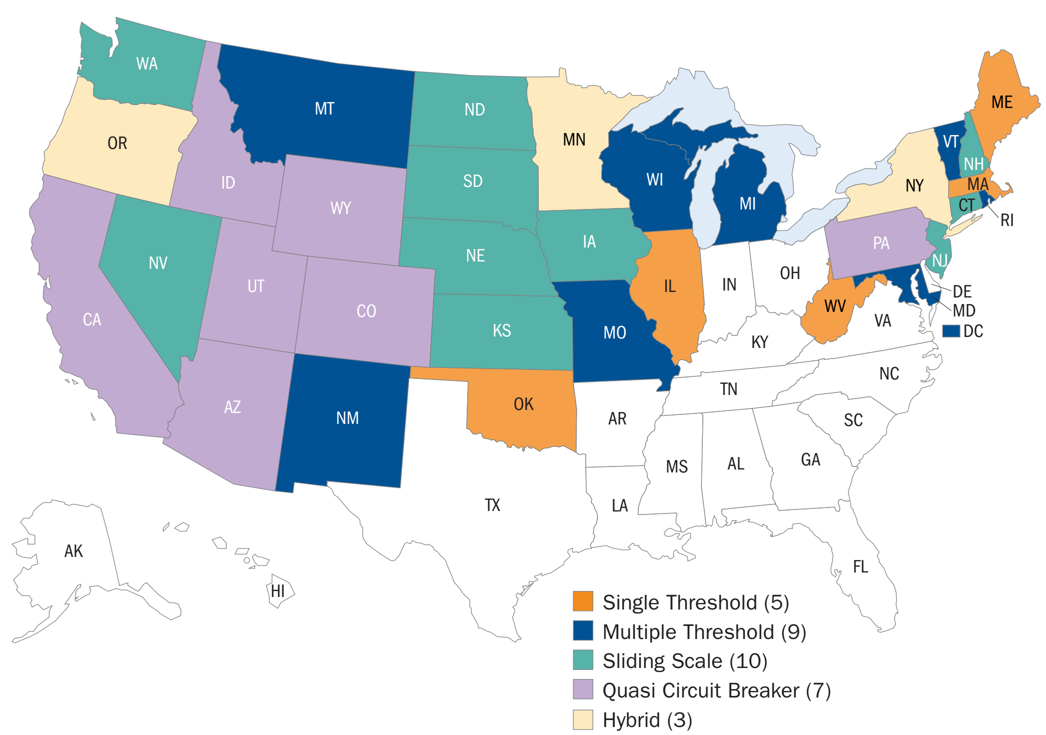
The Center on Budget and Policy Priorities (CBPP) counts only 18 circuit breaker states because it defines circuit breakers to include only threshold formulas. According to CBPP, "If the value of the rebate is driven by a family's income rather than the share of the family's income that goes toward paying the property tax, the program is not considered a circuit breaker" (Lyons, Farkas, and Johnson 2007).

This report defines circuit breakers as direct property tax relief to households that increases as household income declines, for a given property tax bill. This definition encompasses threshold circuit breakers, but also includes other types of tax relief as described in this chapter. Figures 3.1 and 3.2 show which states use each of these formulas for elderly and nonelderly homeowners.

An even broader type of direct property tax relief to households is income-targeted property tax relief. Some income-targeted homestead exemptions or credits set an income ceiling above which no relief is given and below which full benefits are available. These mechanisms do not qualify as circuit breakers according to this report because they do not exhibit the necessary inverse relationship between income and tax relief amounts over a significant range of income.

FIGURE 3.1

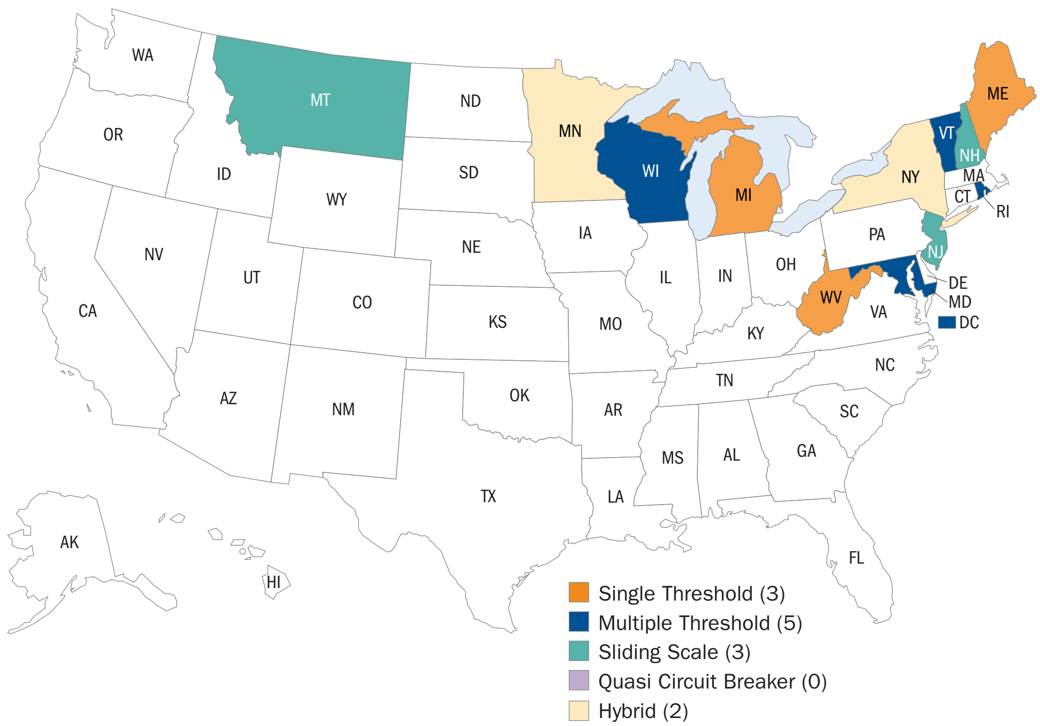
Type of Primary Circuit Breaker Program by State for Elderly Homeowners (2008)



Note: Oregon program is for elderly renters instead of homeowners.

BOX 3.1
Definitions of Circuit Breaker and Other Types of Direct Property Tax Relief (continued)

FIGURE 3.2
Type of Primary Circuit Breaker Program by State for Nonelderly Homeowners (2008)



much more skewed to higher-income households than in the original table 3.1 example.

After implementing the multiple-threshold circuit breaker, the net property tax is 1 percent of income for the low-income family; 2.5 percent for the moderate-income family; and 4.25 percent for the middle-income family—the same outcome as in table 3.1. Again, the dollar amounts of property tax relief are more skewed toward higher-income households than in table 3.1.

After applying the sliding-scale circuit breaker, the net property tax is 2.5 percent of income for the low-income family, 5 percent for the moderate-income family, and 7.5 for the middle-income family. This pattern of final property tax liability is different from that for the sliding-scale circuit breaker in table 3.1. Here a proportional property tax has been converted into a progressive tax, whereas in table 3.1, the sliding-scale circuit breaker converted a regressive tax into a much less regressive tax. Under a proportional tax, every income group pays the same percentage of income in taxes; under a progressive tax, higher-income taxpayers pay a higher percentage of income in tax than lower-income households; under a regressive tax, higher-income taxpayers pay a lower percentage of income in tax than lower-income taxpayers.

CHAPTER 4

Additional Features of Property Tax Circuit Breakers

Beyond their variety of types and formulas, property tax circuit breakers differ in their cost or generosity, as well as in program design features such as income ceilings and benefit limits.

CIRCUIT BREAKER COSTS

Of 14 states where data on tax expenditures are easily accessible, the cost of circuit breakers ranges from about $100,000 in Oklahoma to over $1 billion in New Jersey (see table 4.1). Measured as a share of total property tax collections, these costs range from .004 percent in Oklahoma to 6.3 percent in Michigan. Average benefits also range widely, from just over $100 in New York to almost $1,000 in New Jersey.

Because data on circuit breaker costs are not available for all states, another approach for estimating circuit breaker costs uses the American Community Survey, a nationally representative survey conducted by the U.S. Census Bureau. It presents data on more than one million households and is used here to simulate the cost of the basic circuit breaker types discussed in chapter 3. Table 4.2 shows that these programs are relatively inexpensive. When made available to households of all incomes, including renters, the total cost ranges from 5.2 to 7.8 percent of total property tax collections (Langley 2009).

TABLE 4.1
Cost of Selected State Circuit Breaker Programs for Selected Years

State	Year	Age for Eligibility	Beneficiaries/ Claimants	Average Benefits	Total Program Cost ($ millions)	Program Cost as Percent of Property Tax Collections
MA	2006	65+			$29.8	0.28
MD	2006	All Ages/ 60+	56,818	$851/$265	$42.5	0.71
ME	2006	All Ages	92,000	$443	$42.8	1.94
MI	2005	All Ages	1,488,757	$544	$809.4	6.27
MN	2006	All Ages	301,406	$630	$190.0	3.56
MT*	2005	62+	24,424	$474	$11.6	1.16
NJ	2006	All Ages	1,106,871	$966	$1,069.0	5.20
NM	2005	65+	20,228	$193	$3.9	0.45
NY	2005	All Ages	275,000	$109	$30.0	0.09
OK	2006	65+			$0.1	0.004
PA	2007	65+	417,052	$489	$203.8	1.43**
RI	2007	All Ages	50,964	$277	$14.1	0.75**
VT	2005	All Ages	34,534	$712	$30.3	2.87
WI	2006	All Ages	239,546	$509	$121.9	1.52

* Montana figures are for elderly homeowner/renter programs only; 10,638 additional property tax credits/exemptions were issued through the property tax assistance and disabled veterans circuit breaker programs.

** 2007 total property tax collections figures are not yet available from the Census. This table uses 2006 figures.

Source: Reports from various state sources.

TABLE 4.2
Estimated Cost of Four Property Tax Relief Programs, Measured as a Percent of Total Property Tax Collections (2006)

			Proportion of Total Cost to Cover Housing Group	
	Specifics of Formula	**Total Cost**	**Homeowners**	**Renters**
Single-Threshold Circuit Breaker	Credit offsets any property tax above 5% of income	7.3%	72.6%	27.4%
Multiple-Threshold Circuit Breaker	Credit offsets any property tax for first $5,000 of income; offsets property tax above 2% of income for $5,001 to $10,000; above 4% for $10,001 to $20,000; above 6% for $20,001 to $40,000; above 8% for $40,001 to $60,000; above 10% for $60,001 and above*	7.8%	63.1%	36.9%
Sliding-Scale Circuit Breaker	Credit equals property tax multiplied by relief percentage, which varies by income bracket as follows: 75% for $0 to $10,000; 50% for $10,001 to $20,000; 25% for $20,001 to $40,000; 10% for $40,001 to $60,000; 5% over $60,001	5.2%	59.1%	40.9%
Homestead Exemption	First $45,000 of assessed value is exempt from property taxes	7.6%	100.0%	0.0%

*Brackets are applied incrementally, as under a graduated income tax.

Source: Langley (2009).

If circuit breaker programs are limited to incomes in the bottom half of the income distribution, the cost ranges from 3.9 to 6.3 percent of total property tax collections (not shown in table).

The estimates reported in table 4.2 are for homeowners and renters of all ages nationally; results for each state would depend on income and property taxes in that state. The three circuit breakers in table 4.2 are the same as the hypothetical examples in chapter 3, except that additional income brackets have been added to the multiple-threshold and sliding-scale circuit breakers to estimate the cost of providing circuit breaker benefits to all income groups. For example, the added income brackets for the multiple-threshold program are an 8 percent threshold for households with incomes between $40,001 and $60,000, and a 10 percent threshold for households with incomes over $60,000. The estimates assume 50 percent program participation rates for circuit breaker programs, which is at the upper end of existing estimates (see chapter 6).

The distribution of tax relief varies markedly among the four programs. As noted in chapter 1, a smaller proportion of benefits goes to low- and moderate-income households under the homestead exemption than under any of the circuit breaker programs. Specifically, households in the lower half of the income distribution receive only 37 percent of the benefits under the homestead exemption, compared to 64 percent under the single-threshold circuit breaker, 81 percent under the multiple-threshold circuit breaker, and 75 percent under the sliding-scale circuit breaker.

One important factor in this distribution of benefits is that only homeowners are eligible for homestead exemptions, whereas both homeowners and renters are eligible for circuit breakers. But even when looking solely at homeowners, the three circuit breakers provide median tax cuts from 25 to 100 percent larger than the homestead exemption for homeowners in the bottom quarter of the income distribution. Note also that among the three circuit breaker programs, the multiple-threshold circuit breaker targets the largest proportion of total benefits to low- and moderate-income households.

INCOME CEILINGS

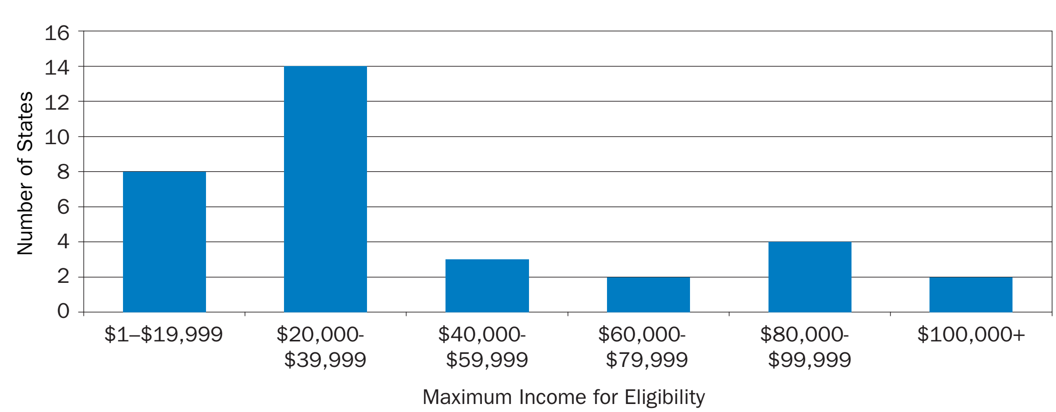
Almost all circuit breakers incorporate income ceilings, but because states define income differently, dollar values of income ceilings are not always strictly comparable. Oklahoma is one state with a very low income ceiling of $12,000, which falls below the poverty line for a family of two (see figure 4.1). This helps to explain the low cost of Oklahoma's circuit breaker, which provides relief for only 0.004 percent of total Oklahoma property taxes. Most states set their income ceilings between the poverty line and median income, and a few states have much higher income ceilings. New Jersey's, at $150,000, is the highest, and Michigan, Vermont, and Minnesota have income ceilings that exceed $80,000.

Despite the fact that most states use income ceilings, the case for their use is not clear-cut. The basic argument in their favor is that they restrict tax relief to those who truly need it. This argument relies on the notion that above some income level property tax relief is not needed. An income ceiling also holds down program costs, but the cost reductions may be less than expected. Even without an income ceiling, circuit breakers concentrate tax relief on those with lower incomes; in part, this is because housing consumption (home value) is a smaller percentage of income at higher income levels.

Even without an income limit, the number of upper-income households eligible for circuit breaker benefits is small, because few of these households have property tax bills above the threshold level. For example, Langley (2009) finds that only 9 percent of households in the top 10 percent of the income distribution are eligible for relief under the single-threshold program, compared to 80 percent of households in the lowest 10 percent of the income distribution.

In the case of sliding-scale circuit breakers, income limits are inherent. These circuit breakers apply a schedule of property tax relief percentages within a framework of several defined income ranges or brackets; each bracket has a unique tax relief percentage, and these percentages decline for higher income brackets. The upper limit of each income bracket is an income ceiling for the

FIGURE 4.1
Maximum Income for Circuit Breaker Eligibility: Elderly Homeowners, Married Couples (2008)



Note: The counts of states are based on the maximum income for each state's specific income definition without attempting to adjust the maximum income for states with a narrow definition of income (i.e. excluding Social Security benefits). AZ and NJ exclude 100% of Social Security benefits; KS and PA exclude 50%; NH excludes only the portion not included in federal AGI. West Virginia has no income ceiling.

relief percentage of that range of income. Although the highest income bracket could be open-ended, in practice this is not done.

If income limits are employed, they should be adjusted upward over time. For example, if a circuit breaker is designed to benefit taxpayers with median incomes and below, the income limit should increase as median income increases.

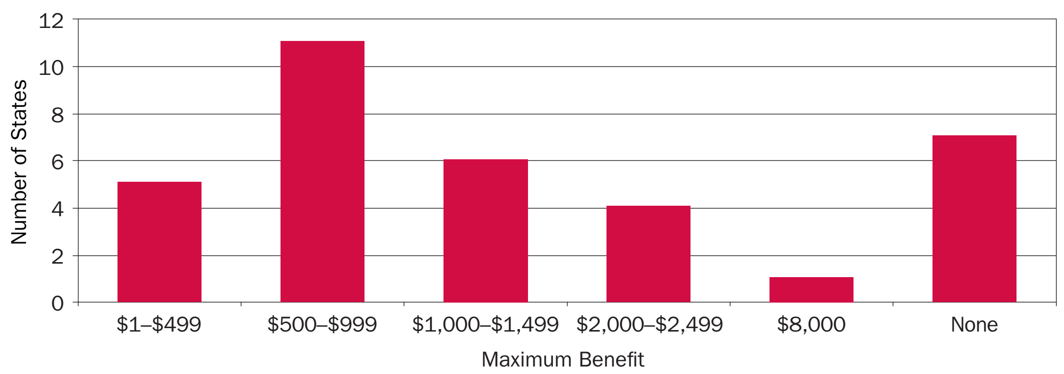
West Virginia offers a cautionary example of problems that can result when such adjustments are not made. The state adopted a circuit breaker in 1972, during the decade in which 24 states adopted this new form of property tax relief. The program targeted seniors and established a $5,000 income limit, with income defined very broadly. Dollar amounts were not adjusted over the years to reflect changing price levels and rising incomes, so the program gradually became irrelevant. Given the low income ceiling and the fact that the maximum allowable benefit was $93.80, it was no mystery why no one applied for tax relief under the program for many years.

In 2007 West Virginia changed course and enacted a new single-threshold property tax circuit breaker targeted to those paying more than 4 percent of their incomes in property tax, with a maximum benefit of $1,000 (Bowman 2007).

BENEFIT LIMITS

Circuit breaker benefit limits serve one or more objectives: limiting program costs; avoiding large subsidies for high-value housing; and retaining an incentive for taxpayers to scrutinize tax increases. The most common benefit limits are maximum benefit provisions, which cap relief. Other benefit limits are copayment or coinsurance requirements, which relieve only a portion of the tax above the threshold amount, or caps on property tax relief for very high-value homes.

FIGURE 4.2
Maximum Circuit Breaker Benefit: Elderly Homeowners, Married Couples (2008)



Note: There are no states with a maximum between $1,500 and $1,999. Seven states have a lower benefit ceiling for residents who are non-elderly (NY), renters (CA, CT, MD, MN, ND), or single (CT, WY); Pennsylvania has lower benefits outside of Philadelphia, Pittsburgh, and Scranton. Four states with no cap on the dollar value of benefits restrict benefits indirectly by setting a maximum home value considered.

Maximum Benefit Provisions

Most states have a maximum benefit, with the level ranging from $200 in Oklahoma to $8,000 in Vermont (see figure 4.2). Given that the median U.S. homeowner had annual property taxes of $1,728 in 2007, maximum benefit levels set below $500 can be considered low (Fisher 2009). Five states—Maine, New Jersey, Oregon, Minnesota and Vermont—set maximum benefits at $2,000 or higher, and seven states have no benefit limit. A few states have multiple benefit limits that use income brackets, where the maximum benefit declines with income. Connecticut sets a maximum benefit for each of five brackets, from $1,250 in the lowest-income bracket to $250 in the highest.

Table 4.3 shows the effects of a $1,000 benefit limit under the multiple-threshold circuit breaker originally shown in table 3.2, where initial property tax bills are set at 10 percent of income. In this case, the $1,000 limit has no effect on the low-income taxpayer, who still receives $900 in tax relief. However, the $1,000 limit reduces the tax relief for the moderate-income taxpayer by $500 and for the middle-income taxpayer by $1,300.

Without benefit limits, a single-threshold formula reduces property taxes to the threshold percentage of income for all successful claimants; a multiple-threshold formula with incremental application of the thresholds creates a progressive pattern of net property

TABLE 4.3
Circuit Breaker Benefits with Benefit Limit

	Low Income $10,000	**Moderate Income $20,000**	**Middle Income $40,000**
Each household pays 10% of income in property taxes before circuit breaker			
Property Tax	$1,000	$2,000	$4,000
Tax as % of Income	10.0	10.0	10.0
Multiple Threshold **Credit offsets any property tax for first $5,000 of income; property tax above 2% of income for $5,001–$10,000; above 4% for $10,001–$20,000; and above 6% for $20,001–$40,000 income**			
Tax Due	$100	$500	$1,700
Tax Relief (Credit)	$900	$1,500	$2,300
Tax as % of Income	1.0	2.5	4.25
Multiple Threshold with $1,000 Benefit Limit **Maximum tax relief is $1,000**			
Tax Due	$100	$1,000	$3,000
Tax Relief (Credit)	$900	$1,000	$1,000
Tax as % of Income	1.0	5.0	7.5

tax burdens relative to income; and a sliding-scale circuit breaker simply reduces all recipients' property taxes by various percentages. Differences in the effects of the circuit breaker types are undermined by benefit limits that cap total benefits for any one claimant at some specified dollar level, with the effect being greater when the cap is lower.

Copayment Requirements

In circuit breaker formulas that include copayment requirements, the state offsets part of a claimant's property tax above the threshold level and the taxpayer is responsible for a certain percentage above the threshold. Without copayment requirements, taxpayers above the threshold level are insulated from any property tax increase. Copayment requirements seek to ensure taxpayers receiving circuit breaker benefits continue to scrutinize local tax increases. Michigan is an example of a state with a copayment requirement and a maximum benefit provision. For nonelderly claimants, the state relieves 60 percent of the tax above the 3.5 percent threshold amount and limits relief to $1,200.

Table 4.4 shows the effects of a 40 percent copayment requirement. By definition, a single copayment requirement will reduce all claimants' benefits by the same proportion, while multiple copayment requirement levels will cause a larger reduction in tax relief for higher-income households.

Limit Tax Relief for High-Value Homes

A third type of benefit cap limits tax relief to some maximum home value. One approach makes people ineligible if their home value exceeds the limit, as in Kansas where the limit is $350,000. A more common approach allows owners of high-value homes to participate, but considers the tax on only part of the total value. Maryland uses this approach, considering the tax on only the first $300,000 of market value.

TABLE 4.4

Circuit Breaker Benefits with Copayment Requirement

	Low Income $10,000	Moderate Income $20,000	Middle Income $40,000
Each household pays 10% of income in property taxes before circuit breaker			
Property Tax	$1,000	$2,000	$4,000
Tax as % of Income	10.0	10.0	10.0
Multiple Threshold Credit offsets any property tax for first $5,000 of income; property tax above 2% of income for $5,001–$10,000; above 4% for $10,001–$20,000; and above 6% for $20,001–$40,000 income			
Tax Due	$100	$500	$1,700
Tax Relief (Credit)	$900	$1,500	$2,300
Tax as % of Income	1.0	2.5	4.25
Multiple Threshold with 40% Copayment Requirement Tax relief covers only 60% of the property tax above the threshold			
Tax Due	$460	$1,100	$2,620
Tax Relief (Credit)	$540	$900	$1,380
Tax as % of Income	4.6	5.5	6.55

TABLE 4.5

Circuit Breaker Benefits with Maximum Property Value Considered

	No Maximum Property Value Considered	Includes Maximum Property Value Considered
Single Threshold Tax threshold is 5% of income; Credit offsets property tax above this threshold		
Income	$40,000	$40,000
Tax Threshold	$2,000	$2,000
Maximum Property Value Considered Only the property tax due on the first $300,000 in property value is considered in formula		
Full Value of Property	$500,000	$500,000
Tax Rate on this Property	1%	1%
Tax Due on Full Value of Property	$5,000	$5,000
Property Value Considered	$500,000	$300,000
Tax Rate on this Property	1%	1%
Tax Bill Considered	$5,000	$3,000
Calculation of Tax Relief Tax relief equals the amount that the tax bill considered exceeds the tax threshold		
Tax Relief (Credit)	$3,000	$1,000
Tax Due	$2,000	$4,000
Tax as a % of Income	5.0%	10.0%

Table 4.5 shows the calculation of circuit breaker benefits when the maximum property value considered is $300,000. Before property tax relief, the household faces a property tax bill of $5,000, which is the full property value ($500,000) multiplied by the 1 percent tax rate. The single-threshold circuit breaker offsets any property tax above 5 percent of income, thereby providing $3,000 in property tax relief. However, when only the property tax due on the first $300,000 in property value is considered, the household's tax relief is limited to $1,000.

A variation on the Maryland approach would provide no tax relief for the proportion of home value that exceeds the median value of homes in the state by some multiple, say 1.5 or 2.0. For example, if state law capped property tax relief at double the median home value and the state's median home value was $200,000, the tax on up to $400,000 of market value could be considered in the tax relief formula. Such a limit avoids making large payments to people with very expensive homes who are likely to be able to borrow against their home equity to pay taxes. In addition, by linking the limit to some multiple of the median value of homes, the limit automatically adjusts for increasing home values.

The Appendix provides a more comprehensive listing of circuit breaker features, two of which bear mentioning here. One feature limits eligibility to homeowners who have lived in their state for some minimum amount of time. The other limits the amount of land that can be considered part of a taxpayer's homestead. The taxpayer described in box 4.1 could receive very different treatment if circuit breaker benefits were limited to one or two acres of this rural homeowners' holdings; currently she would be eligible for property tax relief on all of her land if she met the income requirements.

CONCLUDING COMMENTS

Circuit breaker costs vary greatly, depending upon program provisions such as threshold percentages or income limits. Of the 14 states for which tax expenditure data are readily available, Michigan provides the most generous property tax circuit breaker, when cost is measured as a percentage of total property tax collections (6.3 percent of property tax collections). American Community Survey data were used to estimate circuit breaker costs for all states. This approach found that three typical property tax circuit breakers available to homeowners and renters of all ages would cost between 5.2 and 7.8 percent of U.S. property tax revenues if 50 percent of those eligible claim the relief. This range includes Michigan's current share.

The most common features added to a basic circuit breaker formula are limits on the amount of income a claimant can have and on the benefit that any claimant can receive. If limits are included, it is important to adjust them periodically. Automatic annual indexation that changes specified dollar amounts in line with inflation is preferable to ad hoc adjustments. If ad hoc adjustments are not made, or are too small, the circuit breaker program can become inadequate or even irrelevant.

BOX 4.1

Taxpayer Profile: A Rural Homeowner and Landowner

Donna and her mother sought solitude when they purchased 68 acres of land with an unfinished home set deep in the woods in rural New Hampshire 25 years ago. They finished the house, a large but modest two-story home with an attached two-car garage and an apartment over the garage.

Twenty-five years ago Donna's annual property tax liability was under $3,000; this year she will pay $7,100. Donna lives on retirement income, which includes about $27,000 a year from her pension and an additional $4,500 from Social Security. She pays approximately 23 percent of her income in property taxes.

To stretch her income as far as possible, Donna has made several lifestyle changes. During the heating season she moves from the main house into the apartment over the garage, which costs less to heat. Donna maintains the property herself. The house badly needs painting inside and out, but with her finances so tight repainting is out of the question.

To make ends meet Donna has had to borrow against the value of her home with a home equity line of credit, which she has increased repeatedly. She said she will have to continue borrowing against her equity until she is able to sell some land. About a year ago, she put a 5.5 acre parcel on the market, but it has not sold.

So far Donna is ineligible for what little property tax relief may be available from her state or town. Her income exceeds the state threshold of $20,000 for a circuit breaker for the statewide portion of the property tax (about 14 percent of Donna's total property tax bill). She said the town offers property tax assistance only to residents who earn less than $12,000 per year.

CHAPTER 5

Pitfalls to Avoid In Designing a Circuit Breaker

Property tax circuit breakers differ considerably among states, and policy makers can learn from this variety of experiences to select desirable features while avoiding others (see table 5.1).

INADEQUATE TAX RELIEF

Many circuit breakers provide inadequate tax relief because they are too restrictive, as the discussion of circuit breaker cost in chapter 4 revealed. For example, Oklahoma's $12,000 income ceiling and maximum

TABLE 5.1
Common Pitfalls in Circuit Breaker Design

Pitfall	Examples	Result	Reason	Solution
Overly Restrictive	Massachusetts, New Hampshire, New York, Oklahoma	Circuit breaker does not provide sufficient tax relief for targeted population	Depends: benefit limit or income ceiling could be set too low; threshold percentage could be too high	Adjust formula to expand tax relief to targeted population
Uncertain Funding	California, Iowa	Benefits are less than formula-based amounts; tax relief is unpredictable from year to year	Funding suspended or program funding is set in budget as opposed to being guaranteed in formula, and benefits reduced if claims exceed budget	Circuit breaker benefits funded like an entitlement as opposed to a budget appropriation
Favoring the Elderly	Massachusetts, New Mexico	Inequity: Younger household with heavy tax burden receives no tax relief, while identical elderly household receives benefits	Need often is greater among nonelderly, who are more likely to have a mortgage and live under the poverty line	Make all ages eligible
Defining Income Too Narrowly	Kansas	Inequity: Two households with identical incomes receive different tax relief because one household has a larger share of income from a source excluded from the definition	Importance of various income sources differs across households	Define income to include all money income, including Social Security, pensions, and cash assistance
Excluding Renters	Idaho, Oklahoma	Inequity: Renters face higher rent payments due to high property taxes, but receive no tax relief	Renters pay property taxes indirectly since landlords pass on a share of taxes in the form of higher rent	Legislature sets a property tax rent equivalent, which is the percentage of rent assumed to be from property taxes
Not Adjusting/ Indexing to Inflation	West Virginia (1972–2006)	Over time tax relief becomes inadequate and fewer households qualify for benefits	Dollar amounts—income ceilings, income brackets, etc.—are eroded by inflation	Index all specific dollar amounts to inflation for automatic annual adjustment
Local Funding	Virginia	Relief from onerous property taxes available unevenly across localities	Some localities will not adopt and/or cannot afford adequate tax relief	Adopt statewide property tax relief funded at the state level
Notch Effect	New York, Rhode Island	A small increase in income causes a much larger benefit drop	Threshold percentage brackets are not applied incrementally, or too few brackets are used for sliding-scale formulas	Apply threshold brackets incrementally, or use many brackets for a sliding-scale circuit breaker
Not Linking to Property Tax Payment	Pennsylvania, Utah	Benefits are not targeted to those who pay a large share of their income in property taxes	Quasi circuit breakers set benefits with minimal reference to actual tax or rent paid	Benefits determined with reference to actual tax bill or rent payment (threshold and sliding-scale programs)
Adverse Incentives	Massachusetts	Some tax relief recipients have no incentive to oppose property tax increases; overspending by local governments	Any property tax increase above the threshold percentage is entirely offset by circuit breaker benefits	Threshold program—use copayment requirements; Sliding-scale program—avoid 100% tax relief

benefit of $200 make it clear that many needy taxpayers would not be eligible for tax relief, and even if they were, the amount of relief would not be substantial.

States could reform their circuit breakers to make them more generous, as Maine did in 2005. The state's property tax reform law (LD1) raised the maximum circuit breaker benefit from $1,000 to $2,000 and expanded income limits. The state estimated that the changes doubled the number of eligible households (Maine Revenue Services 2007). One study estimates the percentage of households paying at least 6 percent of their income in property taxes declined from 19 percent with the pre-LD1 circuit breaker to 11 percent with the LD1 circuit breaker expansion. The same study shows the greatest impacts were for households with the highest tax burdens (Allen and Woodbury 2006).

UNCERTAIN STATE FUNDING

Some states calculate property tax relief according to a prescribed formula, but then appropriate a fixed amount in the budget that may not cover the cost of all claims filed. In such cases, qualified claimants receive less property tax relief than specified in the law. Additionally, tax relief may be unpredictable from year to year, which can cause difficulty for beneficiaries who may have been counting on formula-determined relief. The primary reason to appropriate fixed funding for a circuit breaker program is to control costs. However, if the relief is targeted to households most in need, the program generally will be a small portion of the state budget.

FAVORING THE ELDERLY

In the late 1950s, states began to adopt elderly-only property tax relief programs. Wisconsin's pioneering circuit breaker in 1964 also restricted eligibility to the elderly, although it later expanded coverage to all ages. In 2008, 21 states restricted programs to the elderly; six others covered all ages, but provided more generous benefits for the elderly. In short, old age tends to be viewed as a proxy for low income and an indication of financial need.

However, the assumption that property

TABLE 5.2

Major Exclusions from Circuit Breaker Income Definitions, by State (2007)

State	Social Security	Cash Benefits	Disability Benefits	Other
AZ	100% excluded	Workers' compensation, unemployment benefits, welfare benefits	Veterans' disability payments	Railroad retirement benefits
CO		Public assistance designated for dependent children		
ID			Military disability benefits	Medical expenses, prepaid funeral expenses
KS	50% excluded		Excluded	
MA				Medical and health savings account contributions; self-employed health insurance
MI				Payments into IRAs, health insurance premiums
MO			VA benefits with 100% disability tied to military service	
MT	Nontaxable Social Security excluded			Income definition used is federal AGI
NE		Cash benefits (except unemployment benefits)		Medical expenses in excess of 4% of income
NH	Nontaxable Social Security excluded			Income definition used is federal AGI
NJ	100% excluded	Excluded		Other nontaxable income sources
ND		Workers' compensation	Certain disability benefits	Medical expenses
OR				Payments into IRAs, medical and health savings accounts; self-employed health insurance
PA	50% excluded	Supplemental Security Income	Certain disability benefits	Losses on sale of home (up to annual income)
SD				Property tax on homestead (up to $400)
VT				Payments for foster care
WA				Health insurance premiums; medical expenses
WV		Cash benefits (except workers' compensation)		Nontaxable income except Social Security, interest, and workers' compensation

Notes: Montana refers to veterans only. Ohio had a circuit breaker in 2007, but it was repealed so the state is not included here. Standard deductions or exclusions for spouse or dependents are not included in this table.

Source: Bowman (2008a, table A-2).

taxes impose a greater burden on senior citizens is not necessarily true. Relative to the population under age 65, senior citizens are less likely to live in poverty and much less likely to hold a mortgage. More important, comparing the economic well-being of broad age groups is unnecessary, because there is no need to use a proxy for property tax burdens. The two criteria typically used to determine circuit breaker benefits—income and property taxes—ensure tax relief is targeted to those paying a disproportionate share of their income in taxes regardless of age.

DEFINING INCOME TOO NARROWLY

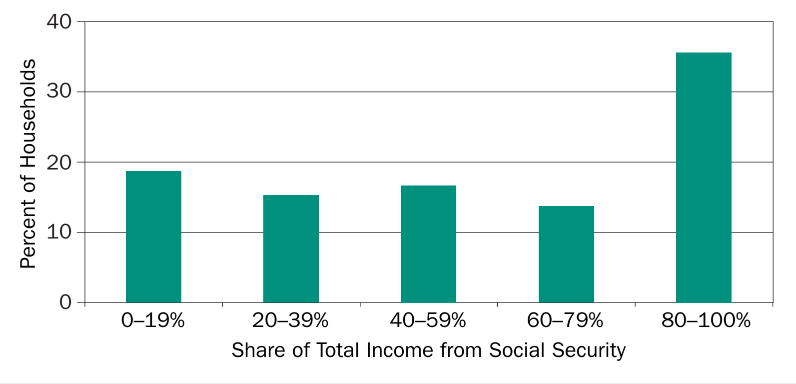
Because circuit breakers use income to determine property tax relief amounts, it is important that states use a broad definition of income. Money from Social Security, private pensions, and public cash assistance should all be included. Historically, nearly all circuit breaker states have done this, but some states have moved away from this broad definition of income (table 5.2).

Excluding some income sources distorts property tax relief, and may provide dramatically different relief to households paying identical shares of their income in property taxes, or even give more relief to households that are better off than to those that are worse off. All money "spends equally well," whether from earnings or Social Security. Providing additional tax relief to claimants for whom a large share of income is excluded means less relief is available for others, given a limited total amount available for tax relief.

Excluding Social Security from the definition of income is a particular problem. Figure 5.1 shows that the share of total income from Social Security ranges widely among seniors. While 35.6 percent receive 80 percent or more of their income from Social Security, 18.7 percent receive less than 20 percent. Social Security Administration (2009) data show that in 2006, 28.4 percent of seniors with Social Security benefits had less than $15,000 in what SSA terms "total money income" (including Social Security payments, earnings, pensions, and other assets), compared to 47.3 percent for those without Social Security benefits. But when Social Security benefits were not counted in income, 68.0 percent of seniors with those benefits appear to have less than $15,000 income. Pretending Social Security benefits are not income makes the group that is better off look as if it is worse off, thereby qualifying it for a larger slice of the property tax relief pie.

In 2007 Kansas removed half of Social Security benefits from consideration in determining circuit breaker claimants' income. The governor noted that this would qualify

FIGURE 5.1
Share of Total Money Income from Social Security for Seniors (2006)



Source: Social Security Administration (2009, table 8.A1).

seniors for more property tax relief. It does this, but in a very uneven and unfair way. For example, imagine three Kansas households that each has total income of $20,000 and pays $1,000 in property taxes, but whose Social Security benefits constitute none, half, and all of their total income respectively. Under Kansas law in 2007, these three households with identical incomes and property tax bills would have received tax relief worth $280, $448, and $588 respectively.

EXCLUDING RENTERS

Most states offer circuit breaker benefits for renters as well as owners, but eight states exclude renters, and some that cover renters provide less generous benefits for renters than for homeowners (see figure 5.2). As discussed in chapter 2, renters indirectly pay property taxes as a part of their rent and generally have lower incomes than home-owners; they should be included in needs-based property tax relief programs.

BOX 5.1

Estimating Property Taxes Paid by Renters

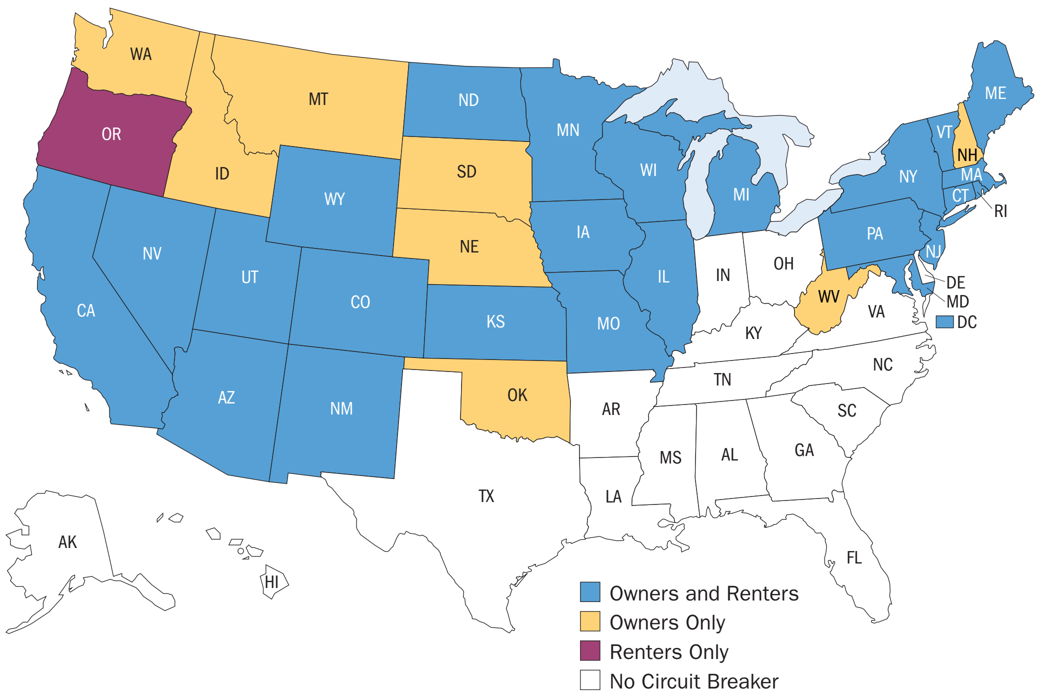
Economic theory assumes the property tax in any municipality can be divided into two components: the national average tax rate, plus or minus the local difference from this average. Landlords are able to shift almost the entire tax burden that reflects the national average onto renters, because renters cannot move to avoid this portion of the property tax. However, landlords' ability to shift the additional burden or savings resulting from local differences depends on whether renters are able to move to similar municipalities in the area with lower tax rates.

For example, someone who wants to rent an apartment in the center of a large city cannot escape paying the tax rate in that city: moving a few blocks away or even to a different neighborhood will not change the tax rate. In this case, landlords will be able to pass on most of the property tax burden to renters in the form of higher rent. Alternatively, someone who wants to rent an apartment in the suburbs generally can choose to locate in one of several similar municipalities, and thus live in a town with lower property taxes. In this case, landlords are largely compelled to pay the property tax differential themselves, because raising rents will cause tenants to choose an apartment in a nearby municipality with lower taxes (Fisher 2007, 350–357; Orr 1968).

The Minnesota Department of Revenue (2005) conducted a study that estimated the property tax as a percentage of residential rent. The department assumed property owners shift 100 percent of property taxes onto renters, which will tend to make estimates of property tax as a percentage of residential rent higher than if an alternative assumption were used. Statewide, the property tax as a share of rent averaged 11.7 percent, with 91 percent of rental units falling under 15 percent. However, there were large discrepancies based on the region and the number of units in the building. Renters in Minneapolis faced the highest taxes as a proportion of rent (17.6 percent), while renters in the suburbs faced the lowest (10.4 percent), and renters in the nonmetropolitan area were in the middle (12.3 percent). The study also showed that tenants in buildings with one to three units paid much higher taxes on average (18.1 percent of rent) than tenants in buildings with four or more units (10.8 percent of rent).

The evidence from Minnesota, along with other information that owners may not be able to shift the entire burden of property taxes onto renters, suggests the property tax rent equivalent used by most states (well over 15 percent) may be set too high. The Minnesota study concluded that property taxes exceeded 15 percent of rent for only 9 percent of renters. By assuming renters pay higher property taxes than they actually do pay, states are effectively providing a rental subsidy. This subsidy may be justified because renters as a group have lower incomes than owners and do not qualify for the federal mortgage interest deduction available to homeowners. However, addressing this concern through a circuit breaker is questionable.

FIGURE 5.2
States Circuit Breakers Covering Owners and Renters, 2008



Because renters do not pay property taxes directly, it is necessary to estimate their taxes to determine their benefits. Most states estimate these taxes by specifying the percentage of rent assumed to be property tax, which can be termed a property tax rent equivalent. The most common figure is 20 percent, but the range is from 6 percent to 35 percent. A property tax rent equivalent of 20 percent, for example, means that a renter with an annual rent of $10,000 would be assumed to pay $2,000 in property taxes. Arizona and Vermont take an alternative approach and ask landlords to allocate a portion of the total property tax on a building to an individual's rental unit. Whether common state practice is sensible can be examined using both economic theory and an empirical study from Minnesota, a state whose dependence on property tax revenues is only slightly lower than the U.S. average (see box 5.1).

NOT ADJUSTING FOR INFLATION

All circuit breaker programs include provisions set at specific dollar amounts, such as income brackets, maximum benefits, and income and wealth ceilings for eligibility. Unless these dollar values increase with inflation, benefits will lose their value over time and fewer taxpayers will qualify for relief. Sliding-scale, multiple-threshold, and quasi circuit breaker programs use a schedule of income brackets with different property tax relief for each. Several states have adopted automatic indexation for their circuit breakers, but many have not. At the extreme, circuit breaker benefits can become meaningless as they are eroded by inflation, as in the case of West Virginia (see chapter 4).

FUNDING AT THE LOCAL LEVEL

In nearly all states with circuit breakers, programs are funded by the state. While in practice this differentiates circuit breakers from other forms of residential property tax relief, it is not because circuit breakers are inherently state funded. In Virginia, for example, all residential property tax relief is determined by local option. Most of the state's

134 counties and independent cities have adopted such tax relief, and many have opted for circuit breaker programs (Knapp, Shobe, and Kulp 2007). In addition, some states with state-funded circuit breakers, such as Rhode Island, allow local-option enhancements of circuit breaker tax relief.

A major problem with locally funded property tax relief arises because disparities across municipalities in per capita tax base and public service needs mean some local governments are much better able to provide property tax relief for residents than others. A related problem is that the percentage of local residents needing assistance with their taxes is higher in some jurisdictions than in others. Because of these disparities, programs such as property tax relief that redistribute income can be performed better by the state than by localities.

NOTCH EFFECTS

Circuit breakers and other forms of property tax relief for which income is a consideration can create what is known as a notch effect—a situation in which a small change in income causes a much larger change in tax relief. Notch effects can result from two components used in circuit breaker design: income ceilings and income brackets.

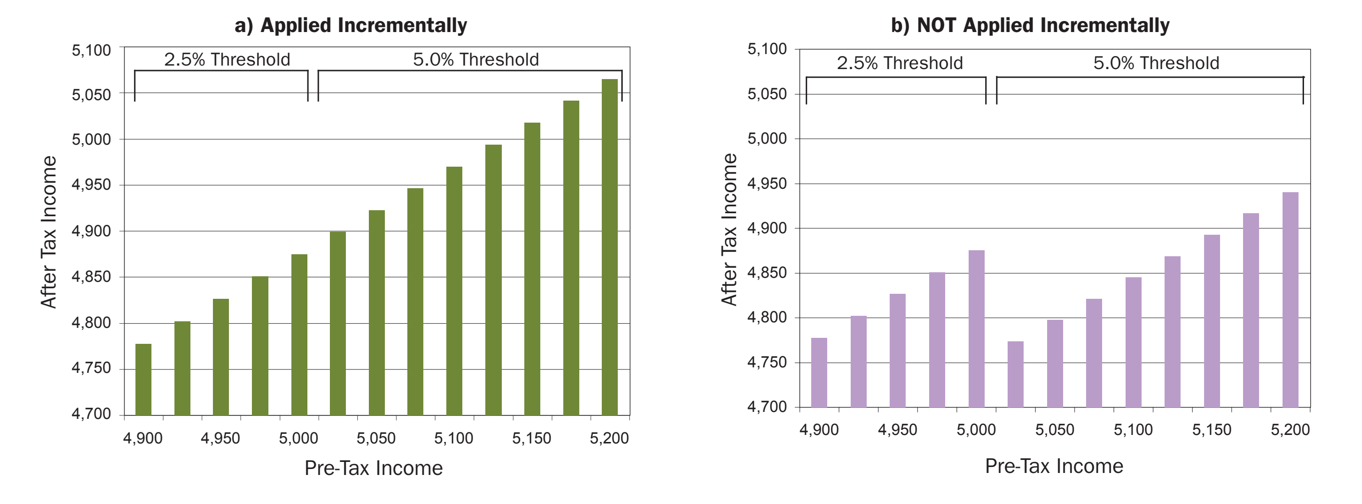
Income ceilings produce notch effects when full circuit breaker benefits are available up to the ceiling but are eliminated immediately above the ceiling, as opposed to being reduced gradually. The rationale for income ceilings is that they help to control program costs and avoid providing tax relief to upper-income taxpayers. It is possible to maintain an income ceiling and avoid notch effects by adopting a gradual phase-out of benefits over an income range near the ceiling. Michigan takes this approach.

Income brackets create notch effects for sliding-scale, quasi circuit breaker, and multiple-threshold programs if the thresholds are not applied incrementally. In practice, most states with sliding-scale programs create a schedule of income brackets, with lower brackets receiving a higher percentage reduction in property taxes. Consequently, a slight increase in income that pushes an individual into a higher bracket could result in a significant drop in tax relief. For example, if 30 percent of property tax is relieved when income is below \$20,000, but only 20 percent if income is above \$20,000, a claimant with a \$1,000 property tax bill loses \$100 of tax relief if income rises from \$20,000 to \$20,001. Two claimants with nearly identical incomes will receive significantly different property tax relief.

Notch effects can be minimized in sliding-scale and quasi circuit breaker programs by adopting many narrow income brackets with very small changes in tax relief between brackets. Notch effects can be completely

FIGURE 5.3

Threshold Percentage Brackets Applied Incrementally vs. NOT Applied Incrementally: After-Tax Income Under a Multiple-Threshold Circuit Breaker



eliminated if tax relief is determined without brackets. For example, a simple equation can be used that provides 100 percent tax relief to those with no income and phases out benefits completely at $40,000. The relief percentage declines one percentage point for each $400 increase in income, but there are no sudden drops in benefits because there are no brackets.

Multiple-threshold programs can create notch problems if the threshold brackets are not applied incrementally, which is a problem in Rhode Island and New York. The other states with multiple-threshold circuit breakers do apply the thresholds incrementally. Regardless of total income, each claimant moves through the lower brackets and benefits from the lower threshold percentages, thus eliminating notches between brackets.

Figure 5.3 provides a hypothetical example to illustrate the problem that arises under a multiple-threshold program when brackets are not applied incrementally. This example assumes that property tax payments before circuit breaker benefits equal 10 percent of a taxpayer's income. Both figures 5.3a and 5.3b have a 2.5 percent threshold for those with incomes up to $5,000, and a 5 percent threshold for those with incomes above $5,000. The key difference is that figure 5.3a has brackets applied incrementally, while figure 5.3b does not. Consider particularly individuals with pre-tax incomes of $5,000 and $5,025. Under the example in figure 5.3b, this $25 increase leads to a $126.25 decline in circuit breaker benefits. This means that earning $25 more creates a situation in which after-tax income actually declines $101.25.

NOT LINKING TO THE PROPERTY TAX PAYMENT

Seven states, including Arizona, California, and Pennsylvania, use quasi circuit breaker programs that provide circuit breaker benefits without a clear link to the actual property tax (or rent) paid. Instead, these programs typically use multiple income brackets with a specified amount of relief for each bracket, with the benefits declining for each successively higher income bracket. The only real link to the property tax is that tax relief normally cannot exceed a taxpayer's actual property tax bill. This loose connection to the property tax is why quasi circuit breaker programs are considered circuit breakers in this report.

If the objective of circuit breaker programs is to provide relief for households facing particularly onerous property taxes, specifically those paying a high percentage of their income in taxes, then the amount of property tax should be considered in relation to income. Quasi circuit breaker programs cannot target these households, because they do not use property tax payments as a determinant of tax relief. Despite the fact that taxpayers in the same income bracket may face dramatically different property taxes, they all receive the same amount of property tax relief. Quasi circuit breaker formulas are similar to low-income tax credit programs, such as the federal Earned Income Tax Credit.

ADVERSE INCENTIVES

Circuit breakers can lead to overspending by local governments, because some taxpayers will vote for additional public services knowing that higher property taxes will be entirely offset by circuit breaker benefits. Sliding-scale programs that provide 100 percent relief of property taxes and threshold programs that offset 100 percent of property taxes above a threshold level both result in a marginal property tax liability of zero.

Any resident with a zero property tax above a certain level has little or no incentive to oppose any increase in taxes above this level, no matter how small the prospective benefit. This adverse incentive undermines voter accountability and creates a bias in favor of higher spending.

Adverse incentives are diminished by not granting 100 percent relief from property taxes in sliding-scale circuit breakers, and including a coinsurance or copayment requirement in threshold programs. Michigan's nonelderly threshold circuit breaker has a copayment of 40 percent: the state relieves 60 percent of property tax above the threshold, while the resident must pay 40 percent. This requirement promotes taxpayer scrutiny of how increased tax dollars would be spent.

CONCLUDING COMMENTS

Concern for equity across the population of those in need of property tax relief is a common thread running through the first nine pitfalls discussed. The last one addresses a different concern—voter accountability for efficient use of tax dollars, which diminishes for individual voters whose property taxes rise very little or not at all when a higher tax rate is voted.

Many of the equity-eroding pitfalls arise because the provisions that create them seem warranted by political considerations. Examples include the basic matters of circuit breaker coverage and comparative benefit levels, which states have decided in ways that generally favor the elderly over the nonelderly and often favor homeowners over renters. Providing relief equitably requires that homeowners and renters of all ages be covered. States should also avoid using a narrow definition of income, such as excluding Social Security benefits. All income should be counted, because it all can be spent. The specific source of income is an irrelevant consideration.

CHAPTER 6

Administration, Participation, and Outreach

Carefully designed and sufficiently funded property tax circuit breakers also must be administered properly. Because low participation rates can undercut their effectiveness, and administration and outreach can impact participation rates in important ways, the three topics of administration, program participation, and outreach are analyzed together.

ADMINISTRATION

States use one of three administrative arrangements to deliver property tax relief to the intended recipients. The first sets up a separate process for paying out property tax relief through a direct rebate check; the second links the circuit breaker to the state income tax through an income tax credit; and the third directly reduces a taxpayer's property tax liability through an exemption or credit. In some states, two of these arrangements are used for a single circuit breaker program (see table 6.1).

Direct Rebate Check

Many states have opted for a separate refund process to handle circuit breaker claims. New Hampshire's circuit breaker program provides relief only for the state property tax, not local property taxes. The one-page form bases income eligibility on Adjusted Gross Income (AGI) from the federal income tax. Claims are accepted only in May and June, and it typically takes four months from the time the claim is submitted to the date of the refund. Therefore, the earliest date when a household could receive a partial refund of its December 2008 property tax payment would be in September 2009.

Colorado's program provides more timely relief. If homeowners apply by March 10, 2009, for a partial refund for 2008 taxes, they can receive a direct deposit as early as April. Colorado does not use federal AGI as its income definition. In addition to relieving up to $600 in property tax or rent payments, the program refunds up to $192 in heating expenses.

A separate refund process may work well for states without an income tax or those that want to avoid placing too many demands on local assessors' offices. Some states that use an income tax credit for most filers use a direct rebate check for applicants who do not file a state income tax return. This process can transfer money to claimants in a timely fashion or not, depending on the procedures used. If the program bases its income definition on federal AGI, claimants may need to wait until April 15 to file for a partial refund of the prior year's property taxes; alternatively, income for the prior year can be used.

TABLE 6.1
Administrative Approaches Used in the States (2008)

Direct Rebate Check	Income Tax Credit	Property Tax Exemption or Credit
California	Arizona	Connecticut (Owners)
Colorado	District of Columbia	Idaho
Connecticut (Renters)	Massachusetts	Iowa (Owners)
Illinois	Michigan	Maryland (Owners)
Iowa (Renters)	Missouri	Montana (Under 62 and Disabled Veterans programs)
Kansas	Montana (Elderly)	Nebraska
Maine	New Mexico	North Dakota
Maryland (Renters)	New York	Utah
Minnesota	Oklahoma	Vermont (Owners)
New Hampshire	Rhode Island	Washington
New Jersey	Wisconsin	
Nevada	West Virginia	
Oregon		
Pennsylvania		
South Dakota		
Vermont (Renters)		
Wyoming		

Sources: Lyons, Farkas, and Johnson (2007); Significant Features of the Property Tax (2009); and state sources.

Income Tax Credit

State-funded circuit breakers are often administered as a refundable credit against the state income tax. That is, a claimant's income tax bill is reduced by the amount of the circuit breaker credit when the annual income tax return is filed. If the credit results in a negative income tax bill, the difference is refunded to the taxpayer. In the case of Michigan, the circuit breaker is set up as an income tax credit, although taxpayers have the option of using the same schedule to apply for property tax relief even if they do not file state income taxes. In addition, income eligibility is not based on AGI, but on a much broader measure of income.

One advantage of providing circuit breaker tax relief through an income tax credit is that a separate tax relief program need not be established. Thus, both administrative costs and the paperwork burden faced by taxpayers are likely to be reduced. One difficulty is that circuit breaker claimants have to pay their full property tax bills when due, and then wait for relief until filing their income tax returns. Second, this form of property tax relief may not be perceived as such because it is so closely linked to the income tax, and thus might not do much to satisfy public demand for property tax relief. In other words, when a property tax refund is incorporated into an income tax refund, the taxpayer may not recognize or remember that he is receiving property tax relief.

Property Tax Exemption or Credit

Some states extend circuit breaker property tax relief directly through the property tax to avoid the income tax credit problems just discussed and/or because there is no state income tax. This is done either by using an exemption to reduce the property's assessed value or by using a credit to reduce the tax bill based on full assessed value.

When circuit breaker relief is extended by reducing assessed value, the circuit breaker works as an exemption, as in Washington. Such exemptions differ from more common

homestead exemptions because a circuit breaker formula determines the exempt amount to be targeted based on income. When relief is extended by reducing the gross tax bill calculated using unreduced assessed value, the circuit breaker works as a property tax credit. This approach is used in Connecticut and six other states. Both exemption and credit approaches directly reduce the property tax bill for which the taxpayer is responsible.

A principal advantage of working through the property tax is that relief is timely; claimants do not have to pay property taxes and wait for tax relief through a separate process. For example, Idaho taxpayers can use their 2008 income to file for relief from 2009 property taxes by April 15. If approved, their property tax reduction appears on their December 2009 property tax bill.

In addition, taxpayers are more likely to recognize this approach as property tax relief. Because the property tax typically is administered at the local level, applications logically would be made through the local assessor's office. If the local property tax office is expected to do more than simply receive circuit breaker applications, it could place significant additional demands on that office, as the applications require income information that otherwise would not be of concern for property tax administration. This arrangement also requires state-local coordination and cooperation, including reasonably prompt reimbursement of local governments for property taxes foregone because of the state-funded circuit breaker.

PARTICIPATION RATES

One significant problem with many state circuit breaker programs is that households eligible for tax relief do not apply. A study in Maine found only 41 percent of eligible households successfully applied for the state's circuit breaker program (Harkness 2006). Similarly, the Wisconsin Department of Revenue (2004) estimated only 43 percent of eligible households received circuit breaker benefits.

An AARP study used two methodologies for estimating the participation rates for property tax credit programs, which include both circuit breaker and homestead credit programs (Baer 1998). According to a telephone survey of AARP members, only 2.5 percent of respondents who would be eligible for such a program had applied. Just over 30 percent were aware they were eligible, and 8.1 percent of them applied. The top reasons given for not applying were: respondents did not think they needed the assistance; they were not aware of the program; or they did not think they would qualify. The second methodology combined a telephone survey of state offices with Census-based estimates of eligible populations to estimate state-specific property tax credit participation rates. Participation rate estimates ranged from a low of 13 to 15 percent in Rhode Island to a high of 72 to 100 percent in the District of Columbia. The median rate was 40 percent.

Other reasons that eligible households may not apply for circuit breaker benefits are that taxpayers may view the tax relief as insignificant or the paperwork as too burdensome, or they may think that revealing detailed income information is too intrusive.

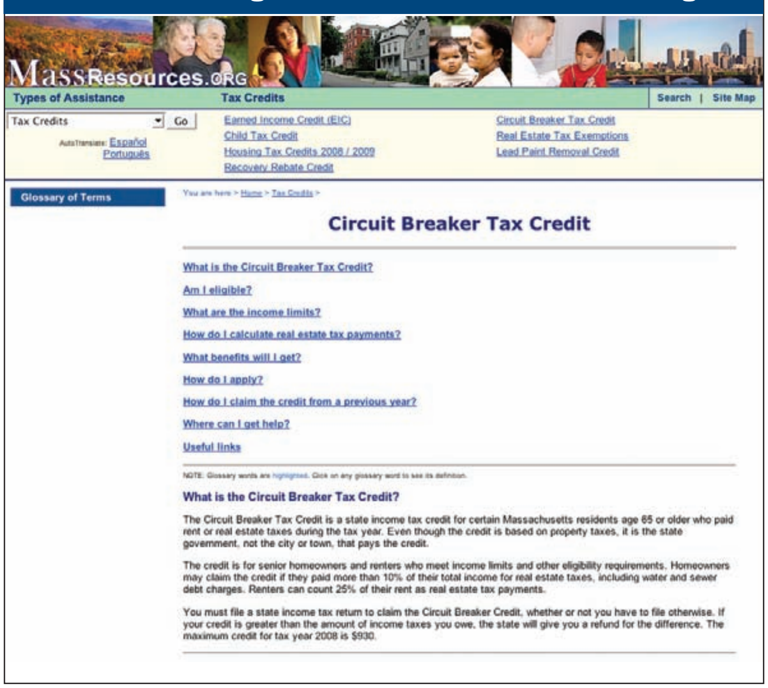
While there is no study comparing participation rates under the three administrative approaches discussed in this chapter, one property tax circuit breaker study claims that administering the program as an income tax credit is most likely to reduce the problem of nonparticipation because most low-income families do file income taxes (Lyons, Farkas, and Johnson 2007, 265).

OUTREACH

It is crucial that any circuit breaker program be accompanied by an outreach effort to ensure that those eligible for their state's program are aware of it. In addition to state-led campaigns, local governments have a particular incentive to inform households about available circuit breaker benefits since a state-funded circuit breaker essentially replaces local revenues with state revenues. The federal Earned Income Tax Credit (EITC) provides a good example of a successful outreach effort. Besides the Internal Revenue Service, local governments, community organizations, and employers have worked to raise awareness of the EITC, which has resulted in notable increases in the participation rate (Bosland 2002). Researchers have concluded that currently most people who are eligible do receive the EITC (Zedlewski, et al. 2006, 18).

There is a wide range of options for property tax circuit breaker program outreach: speaking tours, public service announcements, newspaper ads, and brochures. Nonprofits can work with government agencies to provide information. For example, the Gerontology Institute at the University of Massachusetts

FIGURE 6.1
MassResources.Org Circuit Breaker Tax Credit Web Page



Source: www.massresources.org

has been working to promote use of the state's property tax circuit breaker together with other aid programs for seniors (Moskowitz 2008).

Participation in a circuit breaker program also can be increased by making the application process as user-friendly as possible. Both Maine and New Hampshire use a direct rebate check system, for example, but their application processes differ. New Hampshire requires a paper application as well as copies of an income tax form and property tax bill submitted between May 1 and June 30 of the year following the property tax payment. Application forms can be obtained from local or state offices or via the Internet.

Maine allows online applications, noting that applicants may have to provide a copy of their property tax bills. The state will calculate the refund; the applicant need only enter basic identifying information as well as income and property tax payment amounts. The application window in Maine runs from August 1 of the year following the property tax payment until the end of June in the next year. Furthermore, a full-page advertisement for the circuit breaker program is included in the instructions for Maine's income tax form, and taxpayers can check a box on their Maine

TABLE 6.2

Overview of Three Administrative Approaches

Concerns	Direct Rebate Check	Income Tax Credit	Property Tax Exemption or Credit
Voter awareness of property tax relief	Moderate	Minimal	Highest
Impact on program participation	Depends on simplicity of application process and outreach	Likely to maximize participation	Depends on simplicity of application process and outreach
Can be administered in states with no income tax	Yes	No	Yes
Paperwork burden on taxpayers	Taxpayers need to document both their income and property tax bill through a separate form	Taxpayers filing an income tax return add an additional schedule; for those who do not, same as other options	Taxpayers need to document their income for local assessor or other administrative office
Administrative costs for local governments	Depends on whether state or local governments process applications	None	Moderate: need to document income
Administrative costs for state government	Need to establish a separate refund process	Varies: minimal for states with same definition of income used for income tax; higher for states that use different income definitions for circuit breaker relief and income tax	Need to assist local governments with administration and ensure prompt reimbursement for foregone taxes
Timeliness of relief	Depending on state procedures, there may be only a short delay between payment of property tax and when circuit breaker benefits are received	Longer delay between payment of property tax bill and when circuit breaker benefits are received	No delay for owners since circuit breaker directly reduces property tax bill; longer delay for renters who need separate refund process

income tax form to have a circuit breaker tax refund application mailed to them.

The Internet is a particularly useful tool for providing information about circuit breaker programs. Community Resources Information, Inc. (CRI) is a nonprofit organization dedicated to developing Web sites on state and local resources for low- and moderate-income families, such as one for Massachusetts (see figure 6.1). This is a clearly written, well-organized, frequently updated, and comprehensive source for information on a wide range of resources. The property tax circuit breaker page is one entry in the general category of tax credits, and it presents information on eligibility and likely benefits. It allows the user to download forms and provides phone numbers for users who may need personal assistance. The information on the Web site is readily available in Spanish, Portuguese, or English. The template used for Massachusetts has been used to set up a similar Web site for New Mexico.

CONCLUDING COMMENTS

Table 6.2 provides an overview of the benefits and drawbacks of the three administrative approaches. Different people will attach different significance to the various criteria, and there are often tradeoffs. For example, reducing administrative and compliance costs by using an income tax credit is likely to reduce voter awareness of property tax relief.

This report favors the property tax exemption or credit approach for owners and a direct rebate check for renters for three reasons. This combination is most likely to satisfy the public demand for property tax relief; it avoids delays between property tax payments and receipt of circuit breaker benefits; and it can be used even if the state does not levy an income tax. No matter which administrative approach is employed, a vigorous outreach effort is needed to ensure that eligible households are aware of available circuit breaker relief.

CHAPTER 7

Conclusions and Recommendations

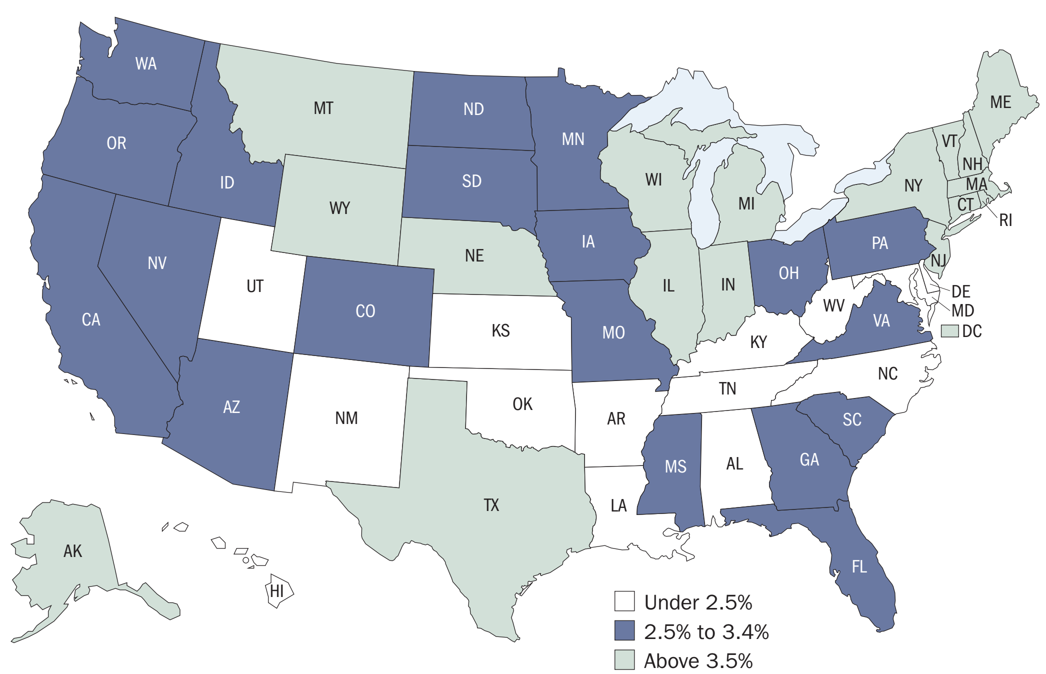
Property tax circuit breakers can be used to increase tax equity by reducing the most onerous property tax burdens, measured in relation to income. By targeting property tax relief to those most in need of relief, circuit breakers promote tax equity at minimal cost to the budget while preserving the basic nature and strengths of the property tax. Although circuit breakers have great potential for improving property tax fairness, the programs employed by many states fall short of ideal, as discussed in chapter 5.

Recommendations for the best design for property tax circuit breakers are described below (see also Bowman 2008b). Property tax circuit breakers are particularly important for states with especially high property taxes (see figure 7.1). However, the best circuit breaker for a particular state depends not only on how high the state's property taxes are, but on the state's tax structure and the division of governmental responsibilities between the state and local governments.

Provide Adequate Tax Relief and Reliable Funding

Without adequate and reliable funding, property tax circuit breakers cannot provide meaningful tax relief. Consider two states with above average property taxes as a percent of personal income. In New York the average benefit is $109 and the total cost of the program is 0.09 percent of property tax

FIGURE 7.1
Property Tax as a Percent of Personal Income in the States (2006)



Sources: U.S. Census Bureau (2006b); U.S. Department of Commerce, Bureau of Economic Analysis (2006).

collections. In Michigan, the average benefit is $544, with program costs equal to 6.27 percent of collections. It is no surprise that New York policy makers are currently considering a complete overhaul of their circuit breaker program.

Cover Owners and Renters of All Ages

Property taxes are paid by people of all ages and by renters (indirectly) as well as by homeowners. States should not exclude residents from the possibility of circuit breaker property tax relief simply because they have not become old enough to qualify; nor should they be excluded if they do not own their homes.

Use a Broad Definition of Income

Ignoring income from some sources, such as Social Security, clearly creates inequities among potential claimants. It results in those with income from the favored sources appearing poorer than they are, causing them to receive a larger portion of total property tax relief expenditures. If tax administrators feel that a comprehensive definition of income would pose too many administrative or compliance problems, policy makers could ensure that at least all Social Security income was included in the circuit breaker income definition.

Use a Multiple-Threshold Formula, with Brackets Applied Incrementally

A multiple-threshold formula defines several ranges of income and assigns a threshold percentage to each income bracket; the threshold percentage for each income bracket is higher than the one below it. For example, Maryland has a zero threshold for the first $8,000 of income, 4 percent for the next $4,000 of income, 6.5 percent for the next $4,000, and 9 percent for income over $16,000. Such a formula causes net property tax burdens to rise with income. Applying brackets incrementally avoids notch effects.

Consider a Copayment Requirement

States with generous threshold circuit breakers may want to consider a copayment requirement so the program does not promote excessive spending. For example, Michigan's threshold circuit breaker for the nonelderly has a copayment of 40 percent. The state relieves 60 percent of property tax above the threshold, while the taxpayer must pay 40 percent. Without a copayment requirement, taxpayers whose property tax bills exceed the threshold level are insulated from any property tax increases and may be inclined to automatically favor increased spending. States with generous circuit breakers that cover many property taxpayers should be most concerned about this issue.

Limit Tax Relief for Very High-Value Homes

It is sensible to limit tax relief to the property tax on the portion of one's home value that is below some ceiling amount; one possibility is an amount equal to twice the statewide median home value. For example, if the median house value is $200,000, only the property tax on the first $400,000 of value for any house would be taken into account when computing tax relief. Such a limit avoids making large payments to people with very expensive homes who are likely to be able to borrow against their home equity to pay taxes, if necessary.

Consider Placing No Other Limits on Income, Benefits, or Net Worth

Threshold property tax circuit breakers automatically limit tax relief for high-income households because housing consumption and property taxes typically do not increase at the same rate as household income. In the case of multiple-threshold programs, income limits are even less essential because threshold percentages increase as income increases. Limits other than those

on very high-value homes may not be necessary and sometimes can be harmful. For example, some states have placed nominal dollar limits on income, which they have not increased over time. West Virginia's $5,000 income limit may have been sensible in 1972 when the circuit breaker program was created, but over time fewer and fewer households fell below that level of income.

Use State Funding

The proportion of taxpayers needing tax relief and the ability to fund it can vary dramatically across localities. When overburdened taxpayers are concentrated in a community with low fiscal capacity, locally funded property tax relief is not feasible. State funding also promotes equity by providing the same property tax relief for households of the same income, no matter where they live within the state. The greater the number of local governments, the more important this recommendation becomes.

Use Property Tax Credits for Homeowners and Rebate Checks for Renters

With state-reimbursed property tax credits, the local tax bill for homeowners is reduced directly and the state reimburses local governments for the amount of the tax reduction. This form of tax relief is most timely, and most likely to be perceived as a form of property tax relief.

Because renters do not receive property tax bills, an alternative system is required for them. State-issued checks based on a separate application process are better than income tax credits, for two reasons: the income definition for a circuit breaker program may be broader than for the state income tax, and tax relief provided outside of the income tax program is more likely to be perceived as property tax relief.

Simple Application System

By properly designing a circuit breaker and making use of the capabilities of Web sites and direct-deposit banking, the state can reduce administration and compliance costs while encouraging participation. If the circuit breaker process is opaque and cumbersome, fewer eligible taxpayers will apply, and adequate property tax relief will not be channeled to needy households.

Outreach

Because program participation tends to be low for circuit breaker programs, it is essential to establish and fund an outreach program to make them more accessible and effective. The good news is that various nonprofits may be willing to take on the task. Outreach efforts for other programs, such as the Earned Income Tax Credit, can be used as models.

APPENDIX
Property Tax Circuit Breaker Features

Property Tax Circuit Breaker Features for Applications as of September 1, 2008

Program Name	Eligible Groups	Sub-Group	Formula Type	Income Ceiling	Maximum Benefits	Other Notes
ARIZONA						
Property Tax Refund Credit	Homeowners and renters, 65+ or disabled	Living with spouse or dependents	Quasi Circuit Breaker: 21 brackets, with maximum relief ranging from: *Lowest Bracket:* $502 if income under $2,501 *Highest Bracket:* $56 if income $5,351–$5,500	$5,500	Lesser of $502, property tax bill or designated rent	
		Living alone	Quasi Circuit Breaker: 21 brackets, with maximum relief ranging from: *Lowest Bracket:* $502 if income under $1,751 *Highest Bracket:* $56 if income $3,651–$3,750	$3,750		Landlord designates the percentage of rent attributable to property taxes
CALIFORNIA						
Homeowner and Renter Assistance	Homeowners and renters, 62+ or disabled	Homeowners	Quasi Circuit Breaker: 38 brackets, with maximum relief ranging from: *Lowest Bracket:* $472.60 if income up to $10,691 *Highest Bracket:* $20.40 if income $40,988–$42,770	$44,096	Lesser of $472.60 or property tax bill	Funding for this program was suspended due to budget constraints; 2008 claims will not be processed
		Renters	Quasi Circuit Breaker: 38 brackets (Same income range as above, but different benefits) *Lowest Bracket:* $347.50 *Highest Bracket:* $15	$44,096	Lesser of $347.50 or property tax rent equivalent	
COLORADO						
Property Tax/ Rent Rebate	Homeowners and renters; 65+, disabled, or 58+ if surviving spouse	Married	Quasi Circuit Breaker: Formula is used instead of brackets Tax relief is $600 minus 10% of income above $9,700	$15,700	Lesser of $600, property tax bill (owners), or 20% of rent (renters)	Property tax rent equivalent is 18% if heat included; There is an additional income targeted program for heat payments with up to $192 in benefits
		Single	Quasi Circuit Breaker: Formula is used instead of brackets Tax relief is $600 minus 10% of income above $6,000	$12,000		
CONNECTICUT						
Homeowners' Elderly/Disabled Circuit Breaker Tax Relief Program	65+, disabled, or 50+ and surviving spouse of someone who received benefits at death	Married Homeowners	Sliding Scale: 5 brackets, with tax relief percentage ranging from: *Lowest Bracket:* 50% if income under $15,200 *Highest Bracket:* 10% if income $30,500–$37,300	$37,300	$1,250	
		Single Homeowners	Sliding Scale: 4 brackets, with tax relief percentage ranging from: *Lowest Bracket:* 40% if income under $15,200 *Highest Bracket:* 10% if income $25,600–$30,500	$30,500	$1,000	
Renters' Rebate for Elderly/ Disabled		Married Renters	Single Threshold: 5% (Assumes property tax is 35% of rent)	$37,500	$900	
		Single Renters		$30,300	$700	

Property Tax Circuit Breaker Features for Applications as of September 1, 2008						
Program Name	**Eligible Groups**	**Sub-Group**	**Formula Type**	**Income Ceiling**	**Maximum Benefits**	**Other Notes**
DISTRICT OF COLUMBIA						
Homeowner and Renter Property Tax Credit	Homeowners and renters	62+ or disabled	Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 1% first $4,999 income *Highest Bracket:* 2.5% if income $15,000–$20,000	$20,000	$750	Assumes property tax is 15% of rent
		Under 62	Multiple Threshold: 6 brackets and thresholds: *Lowest Bracket:* 1.5% first $2,999 income *Highest Bracket:* 4% if income $15,000–$20,000	$20,000	$750	Copayment of 5% for lowest bracket; 25% for the other five brackets; Assumes property tax is 15% of rent
IDAHO						
Property Tax Reduction Program	Homeowners; 65+, disabled, widows or widowers, and former POWs		Quasi Circuit Breaker: 36 brackets with maximum relief ranging from: *Lowest Bracket:* $1,320 first $11,720 income *Highest Bracket:* $150 if income $27,491–$28,000	$28,000	Lesser of $1,320 or property tax bill	State often pays 100% of property tax bill, because there is no copayment requirement
ILLINOIS						
Circuit Breaker Tax Grant	Homeowners and renters, 65+ or disabled		Threshold: Tax relief is the lesser of the following formulas: If income $14,000 or lower: 1) Relief = (Prop Tax) – (3.5% x Income) 2) Relief = $700 – (4.5% x Income) If income $14,001+: 1) Relief = (Prop Tax) – (3.5% x Income) 2) Relief = $70	$36,740 (3+ people)	$700	Income ceiling based on # of occupants: $22,218 (Live Alone) $29,480 (2 people) $36,740 (3+ people); Assumes property tax is 25% of rent
IOWA						
Disabled and Senior Citizens Property Tax Credit and Rent Reimbursement	65+ or disabled	Homeowners and Renters	Sliding Scale: 6 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income under $10,047 *Highest Bracket:* 25% if income $17,139–$19,503	$19,503		Maximum rent considered is $1,000; Assumes property tax is 23% of rent
KANSAS						
Homestead Refund	55+, disabled, or have dependent child in home under 18	Homeowners	Sliding Scale: 23 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% first $6,000 income *Highest Bracket:* 5% if income $26,001–$29,700	$29,700	$700	Maximum home value considered is $350,000
		Renters				Assumes property tax is 15% of rent
MAINE						
Property Tax and Rent Refund Program: General Refund Program	All ages	Homeowners	Threshold: Relieves 50% of tax above 4% of income (Copayment = 50%) Relieves 100% of tax above 8% of income (No copayment)	$60,000 1 person or $80,000 2+ people	$2,000	Maximum property tax considered is $3,350 (1 person) or $4,400 (2+ people)
		Renters				Maximum rent considered is $16,750 (1 person) or $22,000 (2+ people); Assumes property tax is 20% of rent
Property Tax and Rent Refund Program: Senior Refund Program	Homeowners and renters; 62+, or 55+ if disabled	Living with spouse or dependents	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $14,900 *Highest Bracket:* 25% if income $16,301–$16,800	$16,800	$400	
		Living alone	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $12,400 *Highest Bracket:* 25% if income $13,201–$13,600	$13,600		Assumes property tax is 25% of rent

Property Tax Circuit Breaker Features for Applications as of September 1, 2008

Program Name	Eligible Groups	Sub-Group	Formula Type	Income Ceiling	Maximum Benefits	Other Notes
MARYLAND						
Homeowners' Property Tax Credit	Homeowners, all ages		Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 0% first $8,000 income *Highest Bracket:* 9% if income over $16,000	$60,000		Maximum property tax considered is on first $300,000 in value; Maximum net worth is $200,000 (Excludes residence, IRA, and retirement accounts)
Renters' Tax Credit	Renters	60+ or disabled	Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 0% first $8,000 income *Highest Bracket:* 9% if income over $16,000		$750	Assumes property tax is 15% of rent; Maximum net worth is $200,000 (Excludes IRA and retirement accounts)
		Under 60 with at least 1 dependent under age 18		Varies with household size	$750	
MASSACHUSETTS						
Real Estate Tax Credit for Persons Age 65 and Older	Homeowners and renters; 65+		Single Threshold: 10% of income (Amount of property tax plus half of water and sewer bill that exceeds 10%)	$49,000 (Single); $62,000 (Head); $74,000 (Married)	$930	Maximum home value considered is $793,000; Assumes property tax is 25% of rent
MICHIGAN						
Homestead Property Tax Credit	Homeowners and renters	65+ or disabled	Multiple Threshold: 5 brackets and thresholds: *Lowest Bracket:* 0% first $3,000 income *Highest Bracket:* 3.5% if income $6,000–$82,650	$82,650	$1,200	Credit is reduced 10% for each $1,000 of income above $73,650; Assumes property tax is 20% of rent
		Under 65	Single Threshold: 3.5% of income Relief = 60%; Copayment = 40%	$82,650	$1,200	
MINNESOTA						
Property Tax Refund	All ages	Homeowners	Hybrid: Elements of all formula types • Multiple Threshold: 27 brackets and thresholds: *Lowest:* 1% first $1,489 income *Highest:* 3.5% if income $67,250+ • Sliding Scale: 8 copayment rates *Lowest:* 15% if income up to $4,490 *Highest:* 50% if income $67,250+ • Quasi Circuit Breaker: Maximum benefit depends on income *Lowest:* $2,310 if income up to $2,980 *Highest:* $460 if income $93,310+	$96,940 plus allowances	$2,310	Income ceiling includes allowances: $3,500 if spouse is 65+ or disabled, $4,900 per dependent up to 5 dependents
		Renters	Hybrid: Elements of all formula types • Multiple Threshold: 29 brackets and thresholds: *Lowest Bracket:* 1% first $5,989 income *Highest:* 3.5% if income $44,830+ • Sliding Scale: 10 copayment rates *Lowest:* 5% if income up to $4,490 *Highest:* 50% if income $46,330+ • Quasi Circuit Breaker: Maximum benefit depends on income *Lowest:* $1,490 if income up to $41,840 *Highest:* $150 if income $50,810+	$52,300 plus allowances	$1,490	Income ceiling includes allowances: $3,500 if spouse is 65+ or disabled, $4,900 per dependent up to 5 dependents

Property Tax Circuit Breaker Features for Applications as of September 1, 2008						
Program Name	**Eligible Groups**	**Sub-Group**	**Formula Type**	**Income Ceiling**	**Maximum Benefits**	**Other Notes**
MISSOURI						
Property Tax Credit Claim	65+, disabled, or 60+ and receiving Social Security Surviving Spouse Benefits	Homeowners	Multiple Threshold variant: 40+ brackets and thresholds: *Lowest Bracket:* 0% if income up to $14,300 *Highest Bracket:* 2.5% if income $24,701–$25,000	$25,000 plus $2,000 deduction for spouse	$750	Maximum property tax considered for determination of benefits is $1,100
		Renters				Assumes property tax is 20% of rent; Maximum rent constituting property taxes of $750 is considered for benefit determination
MONTANA						
Elderly Homeowner/ Renter Credit	Homeowners and renters, 62+		Multiple Threshold: 12 brackets and thresholds: *Lowest Bracket:* 0% first $1,999 income *Highest Bracket:* 5% if income $12,000+	$45,000 plus $6,300 standard income exclusion	$1,000	Benefits phased out in five steps after $35,000 with copay requirements (60% copay to 100% copay at $45,000); Assumes property tax is 15% of rent
Property Tax Assistance Program	Homeowners, all ages	Married or head of household	Sliding Scale: 3 brackets with tax relief percentage ranging from: *Lowest Bracket:* 80% if income up to $10,270 *Highest Bracket:* 30% if income $17,974–$25,676	$25,676		
		Single	Sliding Scale: 3 brackets with tax relief percentage ranging from: *Lowest Bracket:* 80% if income up to $7,703 *Highest Bracket:* 30% if income $11,812–$19,257	$19,257		
Disabled American Veterans Exemption	Homeowners who are 100% disabled veterans	Married	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $40,861 *Highest Bracket:* 50% if income $47,672–$51,076	$51,076		There is a companion program for unremarried surviving spouses of a person killed in active duty; the details are the same except income cut points for brackets are different
		Single	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $34,051 *Highest Bracket:* 50% if income $40,862–$44,266	$44,266		
NEBRASKA						
Homestead Exemption	Homeowners, 65+	Married	Sliding Scale: 6 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $27,901 *Highest Bracket:* 25% if income $33,801–$35,301	$35,301		Maximum home value considered is $95,000 or 200% of the county-wide average single-family residential assessed value; Maximum exemption value is the greater of $40,000 or countywide average single-family residential assessed value
		Single	Sliding Scale: 6 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $23,801 *Highest Bracket:* 25% if income $28,701–$30,001	$30,001		
	Homeowners, disabled	Married	Sliding Scale: 6 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income up to $30,601 *Highest Bracket:* 25% if income $36,501–$38,001	$38,001		Maximum home value considered is $110,000 or 225% of the county-wide average single-family residential assessed value; Maximum exemption value is the greater of $50,000 or 120% of countywide average single-family residential assessed value
		Single	Sliding Scale: 6 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% income up to $26,701 *Highest Bracket:* 25% if income $31,701–$32,901	$32,901		

Property Tax Circuit Breaker Features for Applications as of September 1, 2008						
Program Name	**Eligible Groups**	**Sub-Group**	**Formula Type**	**Income Ceiling**	**Maximum Benefits**	**Other Notes**
NEVADA						
Senior Citizens' Property Tax / Rent Rebate	Homeowners and renters, 62+		Sliding Scale: *Lowest Bracket:* 100% tax relief if income below federal poverty level for a household of one (single) or two (married) Relief percentage declines as income rises, but details are determined administratively	$27,863	$500	Maximum home value for eligibility is $200,000; Maximum liquid assets for eligibility is $150,000; Assumes 8.5% of rent is property tax
NEW HAMPSHIRE						
Low and Moderate Income Homeowner's Property Tax Relief Program	Homeowners, all ages	Married	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income under $25,000 *Highest Bracket:* 20% if income $35,000–$40,000	$40,000		Circuit breaker applies only to statewide portion of property tax; Maximum home value considered is $100,000 times current equalization rate
		Single	Sliding Scale: 4 brackets with tax relief percentage ranging from: *Lowest Bracket:* 100% if income under $12,500 *Highest Bracket:* 20% if income $17,500–$20,000	$20,000		Same as for married homeowners
NEW JERSEY						
Homestead Credit/Rebate Program	Homeowners	65+	Sliding scale: 3 brackets with tax relief percentage ranging from: *Lowest Bracket:* The greater of 20% of property tax or $1,000–$1,200 if income $70,000 or less *Highest Bracket:* The greater of 10% of property tax or $500 if income $125,000–$150,000	$150,000	$2,000	Maximum property tax considered is $10,000 Benefits often change year-to-year based on budget language without any statutory changes
		Under 65	Sliding scale: 2 brackets with tax relief percentage ranging from: *Lowest Bracket:* 20% if income under $100,000 *Highest Bracket:* 10% if income $100,001–$150,000			
	Renters	65+ or disabled	Single Threshold up to an income limit, then a flat amount: *Lowest Bracket:* 5% if income under $70,000 (married) or $35,000 (single) with minimum benefit of $160 *Highest Bracket:* Relief is $160 if income over $70,000 (married) or $35,000 (single)	$100,000	$860	Assumes property tax is 18% of rent; Benefits often change year-to-year based on budget language without any statutory changes
		Under 65	Relief is flat $80	$100,000	$80	
NEW MEXICO						
Property Tax Rebate for Persons 65 or Older	Homeowners and renters, 65+		Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 0.5% if income $1,001–$9,000 *Highest Bracket:* 3% if income $15,001–$16,000	$16,000	$250	Property tax assumed equal to 6% of rent Benefit is flat $20 if income under $1,000

Property Tax Circuit Breaker Features for Applications as of September 1, 2008

Program Name	Eligible Groups	Sub-Group	Formula Type	Income Ceiling	Maximum Benefits	Other Notes
NEW YORK						
Real Property Tax Credit for Homeowners and Renters	Homeowners and renters	65+	Hybrid: Elements of all formula types • Multiple Threshold: 7 brackets and thresholds: *Lowest:* 3.5% if income under $3,000 *Highest:* 6.5% if income $14,001–$18,000 • Sliding Scale: Copayment equals 50% • Quasi Circuit Breaker: Maximum benefit depends on income *Lowest:* $375 if income under $1,000 *Highest:* $86 if income $17,001–$18,000	$18,000	$375	Maximum property value for eligibility is $85,000 (includes all real estate owned); Maximum monthly rent for eligibility is $450; Assumes property tax is 25% of rent
		Under 65	Hybrid: Elements of all formula types • Multiple Threshold: Same as 65+ • Sliding Scale: Copayment equals 50% • Quasi Circuit Breaker: Maximum benefit depends on income *Lowest:* $75 if income under $1,000 *Highest:* $41 if income $17,001–$18,000	$18,000	$75	
NORTH DAKOTA						
Property Tax Credit for North Dakota Homeowners	65+ or disabled	Homeowners	Sliding Scale: 5 brackets and tax relief percentages: *Lowest Bracket:* Taxable valuation reduced by 100% if income up to $10,000 *Highest Bracket:* Taxable valuation reduced by 20% if income $16,000–$17,500	$17,500		Ceilings on reductions range from $75,000 to $15,000 of market value; Wealth ceiling on assets is $50,000 (excluding up to $100,000 unencumbered home equity)
		Renters	Single Threshold: 4%	$17,500	$240	Assumes property tax is 20% of rent
OKLAHOMA						
Oklahoma Claim For Credit or Refund of Property Taxes	Homeowners, 65+ or disabled		Single Threshold: 1%	$12,000	$200	
OREGON						
Oregon Elderly Rental Assistance Program	Renters, 58+		Relief is higher of 2 amounts: 1) Single Threshold: Relief equals amount of rent that exceeds 20% of income; OR 2) Quasi Circuit Breaker: 20 income brackets with maximum relief ranging from: *Lowest Bracket:* $250 if income up to $499 *Highest Bracket:* $18 if income $9,500–$9,999	$9,999	$2,100	Maximum rent payment considered is $2,100; Maximum assets of $25,000 for claimants age 58-64
PENNSYLVANIA						
Property Tax/ Rent Rebate Program	65+, widows or widowers 50+, or disabled persons 18+	Homeowners	Quasi Circuit Breaker: 4 brackets with maximum relief ranging from: *Lowest Bracket:* $650 if income up to $8,000 *Highest Bracket:* $250 if income $18,001–$35,000	$35,000	Lesser of $650 or property tax	
		Renters	Quasi Circuit Breaker: 2 brackets with maximum relief ranging from: *Lowest Bracket:* $650 if income up to $8,000 *Highest Bracket:* $500 if income $8,001–$15,000	$15,000	Lesser of $650 or 20% of rent	
		Special cases	50% higher rebates for residents of Philadelphia, Pittsburgh or Scranton; or other areas where property tax is over 15% of income	$30,000	Lesser of $975 or property tax	

Property Tax Circuit Breaker Features for Applications as of September 1, 2008

Program Name	Eligible Groups	Sub-Group	Formula Type	Income Ceiling	Maximum Benefits	Other Notes
RHODE ISLAND						
Rhode Island Property Tax Relief Credit	Homeowners and renters, all ages	Single-person household	Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 3% for first $6,000 of income *Highest Bracket:* 6% if income $12,001–$30,000	$30,000	$300	Maximum benefit is scheduled to rise, in stages, to $500
		Households of two or more	Multiple Threshold: 4 brackets and thresholds: *Lowest Bracket:* 3% for first $6,000 of income *Highest Bracket:* 6% if income $15,001–$30,000			
SOUTH DAKOTA						
Sales and Property Tax Refund for Senior & Disabled Citizens	Homeowners, 65+ or disabled	Single-person household	Sliding Scale: 25 brackets with tax relief percentage ranging from: *Lowest Bracket:* 35% for first $4,000 of income *Highest Bracket:* 11% for income $9,981–$10,250	$10,250	No limit, but benefits may be pro-rated if too little money is appropriated for the program	
		Households of two or more	Sliding Scale: 19 brackets with tax relief percentage ranging from: *Lowest Bracket:* 55% for first $6,750 of income *Highest Bracket:* 19% for income $12,888–$13,250	$13,250		
UTAH						
Property Tax Circuit Breaker	65+	Homeowners	Quasi Circuit Breaker: 7 brackets with maximum relief ranging from: *Lowest Bracket:* $816 if income up to $9,368 *Highest Bracket:* $100 if income $24,802–$27,557	$27,557	The lesser of $816 or property tax bill	Relief is lesser of maximum credit or actual tax on 35% assessed value
		Renters				Relief is lesser of maximum refund or a portion of rent that declines from 9.5% –2.5% as income rises
VERMONT						
Homestead Property Tax Income Sensitivity Adjustment	All ages	Homeowners	Two part calculation: Single Threshold: 2% adjusted to reflect the district's per pupil spending, with higher thresholds for districts with higher spending Multiple Threshold: 3 brackets and thresholds: *Lowest Bracket:* 2% for income up to $9,999 *Highest Bracket:* 5% for income $25,000–$47,000 Includes a minimum benefit based on education taxes on up to $15,000 of housesite value	$90,000 for single threshold $47,000 for multiple threshold	$8,000	For single threshold calculation, applies to education taxes on dwelling and up to 2 acres For multiple threshold calculation, applies to all property taxes net of education tax circuit breaker reduction for taxes on dwelling and up to 2 acres
		Renters	Multiple Threshold: 3 brackets and thresholds: *Lowest Bracket:* 2% for income up to $9,999 *Highest Bracket:* 5% for income $25,000–$47,000	$47,000	$8,000	Taxes based on claimant's option: either taxes on rental property as allocated by landlord or 21% of total rent payments
WASHINGTON						
Property Tax Exemption for Senior Citizens and Disabled Homeowners	Homeowners; Retired senior citizens (61+), disabled, or veterans with 100% service-related disability		Sliding Scale variant: 3 brackets *All Brackets:* Income under $35,000: Assessed value is frozen as of January 1995 or first year of eligibility, and exempt from excess levies that require voter approval. *Lowest Bracket:* Income under $25,000: Exemption for all brackets, plus relieves all levies on greater of the first $60,000 of assessed value or 60% of value *Highest Bracket:* Income of $30,001–$35,000: Exemption for all brackets only	$35,000		Property Tax Assistance Program for Widows or Widowers of Veterans provides supplemental benefits to some qualifying unremarried spouses of veterans

Property Tax Circuit Breaker Features for Applications as of September 1, 2008						
Program Name	**Eligible Groups**	**Sub-Group**	**Formula Type**	**Income Ceiling**	**Maximum Benefits**	**Other Notes**
WEST VIRGINIA						
Refundable Personal Income Tax Credit for Real Property Tax Paid	Homeowners, all ages		Single Threshold: 4%		$1,000	Owners who are 65+ or disabled must choose between this circuit breaker and the Refundable Homestead Exemption. The Exemption is the better option for almost all 65+ or disabled.
WISCONSIN						
Homestead Credit Program	Homeowners and renters age 18+		Multiple Threshold: 2 brackets and thresholds: *Lowest Bracket:* 0% first $8,000 income *Highest Bracket:* 8.788% if income $8,001–$24,500 20% copayment applies	$24,500 plus $250 income deduction per dependent	$1,160	Maximum property tax payment or rental equivalent considered is $1,450; Assumes property tax is 25% of rent or 20% of rent including heat
WYOMING						
Tax Rebate to Elderly and Disabled Program	Homeowners and renters 65+, or disabled if at least 18	Married	Quasi Circuit Breaker: Maximum refund is reduced by the percentage by which income exceeds $16,000	$28,500	Lesser of $900 or property tax bill	Wealth ceiling on real property and most personal property is $25,000 per adult household member but excludes one vehicle, pension, IRA, life insurance policies. Program is for “sales, use, property tax and utility cost relief” (Not only property tax)
		Single	Quasi Circuit Breaker: Maximum refund is reduced by the percentage by which income exceeds $10,000	$17,500	Lesser of $800 or property tax bill	

Notes: (1) The following 16 states have no property tax circuit breaker program: Alabama, Alaska, Arkansas, Delaware, Florida, Georgia, Hawaii, Indiana, Kentucky, Louisiana, Mississippi, Ohio, South Carolina, Tennessee, Texas, and Virginia. (2) North Carolina recently enacted a type of multiple threshold program called the Homestead Circuit Breaker, which is effective January 2009. (3) The column entry for “maximum benefits” notes the maximum dollar benefit for any taxpayer, thus, depending upon an applicant’s income level or other characteristics, their personal maximum benefit may be less than the number indicated in the “maximum benefit” column. (4) Most information in this table is from Table A-1 in Bowman (2008a), which was developed primarily by obtaining information online about property tax relief programs and categorizing certain programs as circuit breakers. For this report the table was then reformatted, program names were added, and it was sent to state officials for corrections and 2008 updates. Responses were received from 47 states. Three of the states that did not respond did not have circuit breaker programs listed in Table A-1; Web sources were used to update Montana.

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113 Brattle Street
Cambridge, MA 02138-3400 USA

Phone: 617-661-3016 or 800-526-3873

Fax: 617-661-7235 or 800-526-3944

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Property Tax Circuit Breakers

Fair and Cost-Effective Relief for Taxpayers

Recommended Design Features for Property Tax Circuit Breakers	
Recommended Feature	**Reason for Recommendation**
Provide adequate tax relief and reliable funding	Without both adequate relief and funding, circuit breakers cannot provide meaningful tax assistance to those in need
Cover owners and renters of all ages	Renters pay property taxes indirectly, and excessive tax burdens are not limited to the elderly
Use a broad definition of income, including Social Security benefits	Avoids providing different tax relief to households with similar property tax burdens
Use a multiple-threshold formula; Apply brackets incrementally	Targets property tax relief to those with greatest need; prevents notch effects
For generous threshold circuit breakers, include a copayment requirement	Without a copayment, taxpayers whose property tax bills exceed the threshold level are insulated from any property tax increase; can promote excessive spending
Set a limit on the maximum property value considered in the circuit breaker formula	Limits the tax relief sent to those with very expensive homes
Consider placing no other limits on income, benefits, or net worth	Other limits are not necessary with a properly designed circuit breaker; also they can impose unintended changes in distribution of benefits
Provide funding by the state	Local funding is problematic due to the wide range in local fiscal capacity and mobility of taxpayers
Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters	Provides timely and highly visible property tax relief
Set up a simple, streamlined application system	Will maximize participation and reduce administration and compliance costs
Establish and fund an outreach program	Participation rates will likely be low without outreach efforts

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