

Fair and Cost-Effective

Property Tax Relief

by Daphne A. Kenyon, Ph.D.,
and Adam H. Langley

New England relies more heavily on the property tax than any other region of the United States. (See “Property Tax Nationwide.”) This reliance, which derives from the importance New England places on local government, provided critical revenue stability in the recession. Yet many homeowners feel overburdened by property taxes, especially families of limited means whose property taxes have risen faster than their incomes, or families whose incomes have declined because of layoffs, retirement, divorce, or illness.

Is there a cost-effective policy option for targeting property tax relief to low- and moderate-income households facing the heaviest burdens? Consider how the property tax circuit breaker can work.¹

Property tax circuit breakers provide households with direct property tax relief for a given property tax bill, relief that increases as income declines. Property tax circuit breakers aim at keeping taxpayers from being overburdened, just as electrical circuit breakers keep circuits from being overloaded by current. The District of Columbia and 33 states, including all the New England states, use circuit breakers. (See “New England Circuit Breaker Programs, 2009.”) But although they have great potential for helping those most in need, many states’ programs are not ideal and should, in our view, be reformed.

Property tax circuit breakers provide targeted, rather than broad-based, tax relief, so they are relatively inexpensive. A simulation using data on household income and property taxes shows that three well-designed circuit breaker programs for Massachusetts, say, would cost between 5.0 percent and 8.0 percent of total property tax collections.² The authors’ recommendations follow.

Provide Adequate State-Funded Relief

In our view, many circuit breakers are too restrictive to provide adequate tax relief. New Hampshire is unique in providing circuit breaker benefits for state property taxes only. Unfortunately, since state property taxes account for only 12 percent of state and local property tax revenues, many taxpayers who are overburdened by property taxes will not receive adequate relief through New Hampshire’s program.³

In nearly all states with circuit breakers, programs are funded by the state. Some states with state-funded circuit breakers, such as Rhode Island, allow local-option enhancement of circuit breaker relief. Local-option relief has several inherent flaws, however. When overburdened taxpayers are concentrated in a community with a meager tax base, locally funded tax relief is not feasible. In addition, only a state-funded program will ensure that households with the same income and property tax burdens receive the same property tax relief no matter where they live in the state.

Cover Nonelderly and Renters

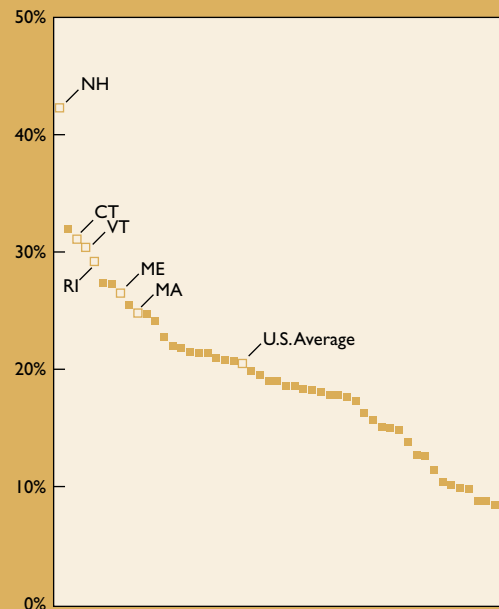
Across the country, more than two-thirds of states provide circuit breaker programs only for the elderly. In New England, Connecticut and Massachusetts limit circuit breaker relief to the elderly, but the other states provide tax relief benefits to households of all ages. The logic is that once all costs of homeownership 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. In the states concerned about that, circuit breakers automatically target tax relief to households paying a disproportionate share of income in property taxes regardless of age.

New Hampshire and seven other states limit circuit breaker eligibility to homeowners. However, we believe renters should also be eligible because they pay property taxes indirectly, in the form of higher rent. Most states that offer benefits for renters estimate their property taxes by specifying the percentage of rent assumed to be property tax. The most common figure is 20 percent.

Property Tax Nationwide

Property tax as a share of total own-source state and local revenues (2007)



Source: 2007 Census of Government Finance.

Use a Multiple-Threshold Formula

The circuit breaker formulas used in New England fall into two categories: *threshold* and *sliding scale*. A *single-threshold* circuit breaker provides a benefit for the portion of a claimant's property tax that exceeds a given percentage of income. The taxpayer covers the entire tax bill up to this threshold (10 percent in Massachusetts, for example), and the circuit breaker provides tax relief equal to the amount of the property tax above the threshold.

Many states use a *multiple-threshold* formula, with threshold percentages that increase from the lowest income bracket to the highest. In contrast, a sliding-scale circuit breaker reduces property taxes by a given percentage depending on income, with the same percentage reduction in property taxes for all eligible taxpayers within an income bracket regardless of whether their property taxes are high or low. Threshold circuit breakers do the best job of targeting tax relief to heavily burdened households, because these formulas calculate benefits based on property taxes as a share of income—the best measure of a household's ability to pay. Of the two types of threshold formulas—single and multiple—multiple-threshold circuit breakers target the greatest proportion of total tax relief to needy taxpayers.

Set Appropriate Income Ceilings and Benefit Limits

Most state programs use income ceilings and restrictions on maximum benefits to control state costs and avoid providing tax relief to upper-income households. States should avoid setting limits that are too low and do not provide meaningful tax relief to those in need. The low ceilings on income in Connecticut, New Hampshire, and Rhode Island exclude a large number

of middle-income households from circuit breaker eligibility. Similarly, Rhode Island's maximum benefit of \$300 seems inadequate given that, according to the American Community Survey, the state's median property tax bill exceeded \$3,000 in 2006.

However, very generous programs impose higher costs on state government. In addition, broadly available property tax relief can shield taxpayers from the cost of expanded services, contributing to overspending. In Vermont, middle-income households may be eligible for extraordinarily generous benefits. States with generous circuit breakers should consider a copayment requirement. For example, Michigan's threshold circuit breaker has a copayment of 40 percent, meaning the state relieves 60 percent of property tax above the threshold, while the taxpayer must pay 40 percent of total liability.

Maximize Timeliness and Visibility

States use three administrative arrangements to deliver circuit breaker benefits: property tax exemptions and credits, income tax credits, and direct rebate checks. The timeliness and visibility of property tax relief are maximized when benefits are extended using either a property tax exemption to reduce the property's assessed value or a credit to reduce the tax bill based on full assessed value. Such arrangements mean that homeowners who have paid their property tax bill do not have to wait until they file their income taxes to receive a partial refund, which may be perceived as income tax relief instead of property tax relief. Renters should receive relief through direct rebate checks. In New England, only Connecticut and Vermont use this two-pronged approach.



New England Circuit Breaker Programs, 2009

State and program name	Eligible groups	Type of circuit breaker	Income limit	Max. benefit	Program cost (2006)*	
					\$ Millions	As share of total property tax collections
Connecticut						
Homeowner's elderly/disabled circuit breaker tax relief program	Homeowners, 65+ or disabled	Sliding scale	\$30,500 to \$37,300	\$1,000 - \$1,250	\$40.6	0.54%
Renters' rebate for elderly/disabled	Renters, 65+ or disabled	Single threshold (5%)	\$30,300 to \$37,500	\$700 - \$900		
Maine						
Property tax and rent refund program: General Refund Program	Homeowners and renters; all ages	Single threshold	\$61,400 to \$81,850	\$1,600	\$42.8	1.94%
Property tax and rent refund program: Senior Refund Program	Homeowners and renters, 62+ or 55+ if disabled	Sliding scale	\$13,900 to \$17,200	\$400		
Massachusetts						
Real estate tax credit for persons age 65 and older	Homeowners and renters, 65+	Single threshold (10 %)	\$51,000 - \$77,000	\$960	\$29.8	0.28%
New Hampshire						
Low- and moderate-income homeowner's property tax relief program	Homeowners, all ages	Sliding scale	\$20,000 to \$40,000	Applies to state property tax only	\$3.3	0.12%
Rhode Island						
Rhode Island Property Tax Relief Credit	Homeowners and renters, all ages	Multiple threshold	\$30,000	\$300	\$14.1	0.75%
Vermont						
Homestead Property Tax Income Sensitivity Adjustment	Homeowners and renters, all ages	Combination single and multiple threshold	\$47,000 to \$90,000	\$8,000	\$137.6	11.98%

Note: Threshold circuit breakers (single or multiple) specify a threshold percentage of income paid in taxes that must be exceeded before any tax relief is available. Sliding scale circuit breakers define several income brackets. All eligible claimants within an income bracket qualify for the same percentage reduction in taxes regardless of the amount of their property tax bill.

Source: Various state sources

*All cost data are from 2006 except for Connecticut (2009) and Rhode Island (2007).

Do Public Outreach

Circuit breaker programs should be accompanied by outreach to ensure that those eligible for their state's program are aware of it. States may choose from a wide range of outreach options: speaking tours, public service announcements, newspaper ads, and brochures. Nonprofits can help government agencies to provide information. For example, the Gerontology Institute at the University of Massachusetts has worked with a range of aid programs for seniors to promote the state's circuit breaker.

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, including one for Massachusetts.⁴ Clearly written, well-organized, and frequently updated, it provides comprehensive information on a wide range of resources. The property tax circuit breaker is one entry in the category of tax benefits. The site, which provides information

in English, Spanish, and Portuguese, allows the user to download applications and provides phone numbers for users who need personal assistance.

Even with a resumption of economic growth, state and local government revenues are likely to suffer for another year or two. In this climate, reducing reliance on the property tax, the most stable of the major revenue sources, is unlikely. But well-designed property tax relief programs are essential to help households facing the heaviest burdens. New England states should take a close look at their circuit breaker programs to make sure the relief they offer is as fair and cost effective as possible.

Daphne A. Kenyon, a visiting fellow at the Lincoln Institute of Land Policy in Cambridge, Massachusetts, serves on the New Hampshire State Board of Education. **Adam H. Langley** is a research analyst at the Lincoln Institute of Land Policy.

Acknowledgments

The authors wish to thank Bethany Paquin and Joan Youngman for helpful comments on drafts of this article.

Endnotes

- ¹ See John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany Paquin, *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers* (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2008).
- ² Daphne Kenyon and Adam Langley, "Property Tax Relief in New England: The Case for Circuit Breakers" (presentation to the New England Study Group, Federal Reserve Bank of Boston, September 23, 2009).
- ³ Computed from New Hampshire Department of Revenue data, www.nh.gov/revenue/munc_prop/2008.htm.
- ⁴ See www.massresources.org.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at www.bos.frb.org/commdev/c&b/index.htm.