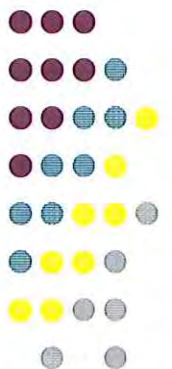




Homestead Tax Credit

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Introduction

The homestead tax credit program directs property tax relief to low-income homeowners and renters. The program is often referred to as a "circuit breaker" since it is intended to provide relief once property taxes exceed a taxpayer's ability to pay them. Relief is provided as a credit reducing individual income tax liability or as a cash refund if the credit exceeds income tax due; the homestead credit is referred to as a refundable credit due to this characteristic. Credits are limited to Wisconsin residents 18 years of age or older. Homestead credits of \$128.5 million were paid in 2010 for property taxes or rent accrued in 2009. These credits were provided to approximately 247,000 households.

This paper provides the following: (1) a description of the formula used to determine the credit and eligibility requirements; (2) historical data regarding annual claims and program expenditures; (3) information regarding characteristics of program participants; and (4) a discussion of the program's effectiveness as a means for providing property tax relief.

Homestead Tax Credit Formula

The amount of the credit received by claimants depends on the interaction of household income and allowable property taxes or rent under the three primary homestead tax credit formula factors: the income threshold; the maximum income level; and the maximum property taxes or rent constituting property taxes. Under 2009 Act 28, beginning with tax year 2010, the three formula factors are indexed annually by comparing the 12-month average of the Consumer Price Index from August through July of the prior year to the

comparable average from August, 2007, through July, 2008. For tax year 2011, indexing will increase the income threshold from \$8,060 to \$8,160, the maximum income level from \$24,680 to \$24,990, and the maximum property taxes or rent constituting property taxes from \$1,460 to \$1,480.

For claimants with incomes below the income threshold, the credit is equal to 80% of their property taxes or rent constituting property taxes up to the maximum in property taxes or rent. Rent constituting property taxes is 25% of rent if payment for heat is not included in rent and 20% of rent if payment for heat is included. The maximum credit for 2011 is \$1,184 (80% of \$1,480).

In 2011, for claimants with household income exceeding \$8,160, the credit is calculated by first taking 8.794% of income in excess of \$8,160 and subtracting it from allowable property taxes. The credit, then, is 80% of this amount. In the form of a mathematical equation, the homestead credit formula is as follows:

$$\text{2011 Credit} = 80\% \times [\text{Property Taxes} - 8.794\% \times (\text{Household Income} - \$8,160)]$$

In 2011, for households with property taxes or rent equal to or exceeding the \$1,480 maximum, the credit becomes zero when income reaches \$24,990. For households with property taxes or rent less than \$1,480, the credit will become zero at a lower income level. Figure 1 provides examples of the computation of the homestead tax credit for two hypothetical households. Table 1 shows the homestead tax credit available to claimants at various levels of income and property taxation.

Figure 1: 2011 Homestead Tax Credit Computation

Example A: For a claimant with household income less than the income threshold (\$8,160).

Calculation of homestead tax credit for a claimant with \$6,000 of household income and property taxes of \$800.

$$\begin{aligned} \text{Homestead tax credit} &= \text{Property taxes} \times 80\% \\ &= \$800 \times 80\% \\ &= \$640^* \end{aligned}$$

Example B: For a claimant with household income greater than the income threshold (\$8,160).

Calculation of homestead tax credit for a claimant with \$12,000 of household income and property taxes of \$1,480.

$$\begin{aligned} \text{Homestead tax credit} &= 80\% \times [\text{Property taxes} - 8.794\% \times (\text{Income} - \$8,160)] \\ &= 80\% \times [\$1,480 - 8.794\% \times (\$12,000 - \$8,160)] \\ &= 80\% \times [\$1,480 - 8.794\% \times \$3,840] \\ &= 80\% \times [\$1,480 - \$338] \\ &= 80\% \times \$1,142 \\ &= \$914^* \end{aligned}$$

*The actual credit received may be slightly different because the credit is read off of a table supplied with the homestead tax credit form rather than being computed by formula for every income and property tax combination.

Table 1: 2011 Homestead Tax Credit (Based on Various Levels of Income and Taxes)

Household Income	Homeowners' Property Taxes								Renters' Monthly Rent**				
	\$800	\$900	\$1,000	\$1,100	\$1,200	\$1,300	\$1,400	\$1,500*	\$100	\$200	\$300	\$400	\$500*
\$0 to 8,000	640	720	800	880	960	1,040	1,120	1,184	240	480	720	960	1,184
9,000	581	661	741	821	901	981	1,061	1,125	181	421	661	901	1,125
10,000	511	591	671	751	831	911	991	1,055	111	351	591	831	1,055
11,000	440	520	600	680	760	840	920	984	40	280	520	760	984
12,000	370	450	530	610	690	770	850	914	0	210	450	690	914
13,000	300	380	460	540	620	700	780	844	0	140	380	620	844
14,000	229	309	389	469	549	629	709	773	0	69	309	549	773
15,000	159	239	319	399	479	559	639	703	0	0	239	479	703
16,000	88	168	248	328	408	488	568	632	0	0	168	408	632
17,000	18	98	178	258	338	418	498	562	0	0	98	338	562
18,000	0	28	108	188	268	348	428	492	0	0	28	268	492
19,000	0	0	37	117	197	277	357	421	0	0	0	197	421
20,000	0	0	0	47	127	207	287	351	0	0	0	127	351
21,000	0	0	0	0	57	137	217	281	0	0	0	57	281
22,000	0	0	0	0	0	66	146	210	0	0	0	0	210
23,000	0	0	0	0	0	0	76	140	0	0	0	0	140
24,000	0	0	0	0	0	0	10	70	0	0	0	0	70
Over 24,990	0	0	0	0	0	0	0	0	0	0	0	0	0

*Only the first \$1,480 of property taxes or rent constituting property taxes is considered in determining the amount of the credit.

**Assumes no heat included in rent; rent constituting property taxes equals 25% of gross rent for the year.

Note: If the amount of credit determined by the formula is more than \$0 and less than \$10, the amount of the credit equals \$10.

Application Requirements

A claimant must meet each of the following eligibility conditions to qualify for the homestead credit:

1. Age. The claimant must have been 18 years of age or older by December 31 of the year for which the claim is filed. For example, an applicant must have reached 18 years of age by December 31, 2010, in order to file a claim based on 2010 taxes.

2. Dependent Status. The claimant cannot have been claimed as a dependent for federal income tax purposes in the year to which the claim relates, except for persons 62 years of age or older.

3. Residency. The claimant must have been a legal resident of Wisconsin for all of the preceding year.

4. Nursing Home Residents. At the time of filing the claim, the claimant may not be a nursing home resident participating in the medical assistance program.

5. Public Assistance Recipients. A credit cannot be received for any month that the claimant received \$400 or more of cash benefits under a county relief program. Further, a credit cannot be received for any month that the claimant participated in a community service job or transitional placement or received a grant as the custodial parent of an infant under the Wisconsin Works (W-2) program. A claimant can receive a prorated credit for each month not affected by these restrictions.

6. Farmland Preservation Participants. The claimant cannot receive a homestead tax credit in a year in which a farmland preservation tax credit is received.

7. Tax-Exempt Housing Residents. The claimant cannot have lived the entire year in

housing that is exempt from property taxes (unless the housing is owned and operated by a housing authority that makes payments in lieu of property taxes). Persons who live in tax-exempt housing and who still own their former home may claim a credit based on property taxes accrued on their former home for up to one year if the claimant has attempted to sell the home, but has not rented or leased the home. A prorated credit can be received for the portion of the year that a claimant resided in housing subject to property taxation.

8. Due Date for Filing Claims, Penalties, and Administration. Eligible households are required to file a claim for the homestead credit with the Department of Revenue. Claims are generally due on the 15th of April four years after the 15th of April following the year to which the claim relates (for example, the deadline for filing a 2010 homestead credit form is April 15, 2015). State law specifies that individuals who file fraudulent or excessive claims could be found guilty of a Class H felony and may be fined not more than \$10,000 or imprisoned for not more than six years (three years in prison and three years of extended supervision), or both, and would be required to pay the costs of prosecution. Income tax provisions related to assessments, appeals, and collection apply to the homestead credit.

Household Income and Property Taxes

Household Income. Household income includes only the income of the claimant and his or her spouse. There is no test for total wealth or assets owned by claimants.

Household income is broadly defined to reflect most cash resources available to claimants, and includes all income that is taxable for Wisconsin income tax purposes. It also includes the full amount of income sources that are only partially taxable by Wisconsin, such as social security benefits, unemployment compensation, and capital gains. Finally, certain items that are excluded from taxation are included in the definition of household

income, such as excluded dividends and interest, contributions to IRAs, and child support. The Appendix lists all of the income sources included in household income.

A downward adjustment is made to household income for family size. Beginning in tax year 2010, the adjustment equals \$500 for each dependent who lives with the claimant for more than six months during the year (prior to 2010, the adjustment was \$250 per dependent). This provision helps target funds to families with dependents.

Property Taxes. In determining the homestead credit, eligible households can claim up to a maximum (\$1,480 for 2011) in property taxes or rent constituting property taxes. This is the claimant's property tax levy, or rent, exclusive of special assessments, delinquent interest, and charges for services. Property taxes include any municipal permit fees assessed on mobile and manufactured homes. For farmers, the credit can be claimed on property taxes or rent accrued on up to 120 acres of land contiguous to the claimant's principal residence.

For renters, rent constituting property taxes is equal to 25% of actual rent if payment for heat is not included in the rent payment and 20% of actual rent if payment for heat is included. This rent may include the value of utilities if utility payments are included in gross rent paid to the landlord. Rent includes any rent paid to a landlord for the parking of a mobile or manufactured home and any municipal fee assessed on a rented mobile or manufactured home. A certificate filed by the landlord documents rent payments and adjusts gross rent to exclude nonoccupancy services.

Program Expenditures and Participation

The annual cost of the homestead program grew from \$2 million at its inception in 1964 to \$10 million by 1972-73. In 1973, the program was ex-

panded to include any person age 18 or older who satisfied income and other eligibility requirements. Lowering the age restriction more than doubled the program participants and contributed to an increase in program costs to \$35 million in 1973-74 (changes in formula factors also increased program costs). The program experienced steady growth throughout the rest of the 1970s, reflecting further increases in the formula factors. By 1980, the annual cost exceeded \$90 million.

The credit's parameters remained unchanged from 1990 through 1998. During this time, the number of claimants fell by 35% and expenditures declined by 32%. This trend reflected growth in personal income compared to constant formula factors. In other words, the value of the maximum income amount (\$19,154 at that time) became smaller each year in real terms leaving fewer individuals eligible for the credit. The decrease also occurred due to significant increases in state support for public schools, which had a stabilizing or downward effect on property taxes in many jurisdictions.

1999 Act 9 increased the maximum income level for claims under the credit from \$19,154 to \$20,290 for tax year 1999 and to \$24,500 for tax year 2000 and thereafter. Credit expenditures and the number of claimants have increased in recent years, initially due to the expanded credit under Act 9. In 2001-02, the credit and number of claims increased further due to lower income levels resulting from the recession of 2001. Despite stronger income levels statewide and no change in the formula factors, the number of claimants and the total amount of claims increased each year from 2000 through 2004. It is generally believed that these increases were due to greater outreach efforts on the part of the Department of Revenue relative to the credit, and due to increased electronic filing of taxes, which prompts filers to apply for the credit. Table 2 shows homestead credit expenditures, by fiscal year, since 2000-01, and the percentage change between years.

Table 2: Homestead Tax Credit Expenditures

Fiscal Year	Amount (Millions)	% Change
2000-01	\$99.6	
2001-02	104.4	4.8%
2002-03	113.4	8.6
2003-04	119.8	5.6
2004-05	126.9	5.9
2005-06	122.4	-3.5
2006-07	117.5	-4.0
2007-08	125.1	6.5
2008-09	124.6	-0.4
2009-10	129.2	3.7

Table 3 shows the number of credit claimants, amount claimed, average credit, and major formula factors for the homestead program since 2000. Total expenditures in Table 2 differ from the amounts shown in Table 3 because Table 2 shows fiscal year data and Table 3 shows expenditures by tax year, using annual, aggregate statistics.

The number of claimants increased each tax year from 2000 through 2004, before declining in consecutive years in 2005 and 2006. Claimants then rose again in 2007, which resulted in an increase in total credits. While the number of claimants and total credits declined in 2008, both claimants and total credits rose sharply in 2009 due to lower incomes and higher property taxes. The average

credit amount increased from a low of \$487 in 2000 to a high of \$525 in 2008 during the 10-year period.

Characteristics of Program Participants

Tables 4 and 5 provide descriptive information about characteristics of homestead credit claimants, based on 2009 aggregate statistics. Table 4 shows the distribution of homestead credits by household income. The majority of claimants were in the middle of the homestead income distribution (57.8% had household income between \$7,500 and \$17,500). This volume of claimants resulted in the group receiving 65.1% of the total credits claimed despite the higher income levels within the group (\$17,500-\$20,000) having lower average credits than the average for all claimants. While not shown in the table, claimants with incomes below the income threshold (\$8,000) represented 15.4% of total claimants and received 24.5% of the total credits.

In 2009, the amount of credits received by renters exceeded the amount received by homeowners. Renters totaled 145,989 claims (59.1%) and received a total of \$73.4 million (57.2%) in credits. Homeowners totaled 101,022 claims (40.9%) and received a total of \$55.0 million (42.8%) in credits.

Table 3: Homestead Tax Credit Participation and Formula Factors by Tax Year

Tax Year	Count	% Change	Amount (Millions)	% Change	Average Credit	% Change	Maximum Income*	Maximum Property Taxes	Income Threshold
2000	203,700		\$99.2		\$487		\$24,500	\$1,450	\$8,000
2001	212,900	4.5%	103.9	4.7%	488	0.2%	24,500	1,450	8,000
2002	226,605	6.4	112.8	8.6	498	2.0	24,500	1,450	8,000
2003	235,807	4.1	118.7	5.2	504	1.2	24,500	1,450	8,000
2004	249,097	5.6	125.7	5.9	504	0.0	24,500	1,450	8,000
2005	239,546	-3.8	121.9	-3.0	509	1.0	24,500	1,450	8,000
2006	233,070	-2.7	119.4	-2.1	512	0.6	24,500	1,450	8,000
2007	236,193	1.3	122.0	2.2	517	1.0	24,500	1,450	8,000
2008	231,124	-2.1	121.4	-0.5	525	1.5	24,500	1,450	8,000
2009	247,011	6.9	128.5	5.8	520	-1.0	24,500	1,450	8,000

*Household income was reduced by \$250 for each dependent through tax year 2009.

Table 4: Distribution of Total Homestead Tax Credit Payments by Household Income (Tax Year 2009)

Household Income	Count of Claimants	Percent of Claimants	Cumulative Percent of Claimants	Total Credits	Percent of Credits	Cumulative Percent of Credits	Average Credit
Less than \$2,500	11,113	4.5%	4.5%	\$10,152,054	7.9%	7.9%	\$914
2,500 - 4,999	8,030	3.3	7.7	6,370,472	5.0	12.9	793
5,000 - 7,499	14,214	5.8	13.5	11,215,928	8.7	21.6	789
7,500 - 9,999	37,622	15.2	28.7	26,589,134	20.7	42.3	707
10,000 - 12,499	36,875	14.9	43.7	22,728,134	17.7	60.0	616
12,500 - 14,999	35,111	14.2	57.9	19,180,622	14.9	74.9	546
15,000 - 17,499	33,224	13.5	71.3	15,110,166	11.8	86.7	455
17,500 - 19,999	30,238	12.2	83.6	10,385,104	8.1	94.8	343
20,000 - 22,499	26,276	10.6	94.2	5,602,848	4.4	99.1	213
22,500 - 24,500	<u>14,308</u>	<u>5.8</u>	100.0	<u>1,121,918</u>	<u>0.9</u>	100.0	78
Total	247,011	100.0%		\$128,456,380	100.0%		\$520

Table 5 shows the distribution of homestead credits by age for 2009. Claimants over age 65 represented 30.8% of total claimants and received 26.4% of total credits. Conversely, only 10.2% of all claimants were 25 years old or younger and these individuals received 10.0% of total credits.

Table 5: Homestead Tax Credits by Age (Tax Year 2009)

Age	Claimants		Credits Claimed		
	Count	% of Total	Amount	% of Total	Average Credit
Unknown	3,753	1.5%	\$2,048,940	1.6%	\$546
18 - 25	25,280	10.2	12,856,286	10.0	509
26 - 35	34,768	14.1	19,136,132	14.9	550
36 - 45	30,310	12.3	17,471,886	13.6	576
46 - 55	41,820	16.9	24,110,612	18.8	577
56 - 65	34,917	14.1	18,902,954	14.7	541
Over 65	<u>76,163</u>	<u>30.8</u>	<u>33,929,570</u>	<u>26.4</u>	445
Total	247,011	100.0%	\$128,456,380	100.0%	\$520

Although not shown in the tables, social security, supplemental security income (SSI), and railroad retirement payments made up 45.1% of total household income for all homestead credit claimants combined. Overall, nontaxable income (income not included in adjustable gross income) comprised 71.3% of total household income. The remaining 28.7% of household income was taxed.

Formula Changes and Program Participation

Beginning with tax year 2010, the homestead tax credit formula factors are now indexed each year. However, even with these annual formula changes, homestead participation and credit amounts change over time in three major ways. First, rising income will cause some claimants to exceed the adjusted maximum income level (\$24,990 for 2011). Second, other claimants' income may rise above the adjusted income threshold (\$8,160 for 2011), resulting in diminished credits or no credits. Third, rising property taxes or rents may increase credits, until the tax bill or rent exceeds the adjusted maximum (\$1,480 for 2011).

The net impact on a claimant's credit depends on the interaction of changes in the claimant's income and property taxes. Over time, as overall income and property tax levels change, policymakers have responded by making or proposing changes in the five formula factors:

Percent of Property Taxes Reimbursed. Increasing this percentage (currently 80%) will increase credits for all claimants. This will not affect the distribution of benefits or the number of claimants.

Property Tax Limit. Increasing just this limit

(\$1,480 for 2011) targets the expansion to those claimants with property taxes, or rent constituting property taxes, that exceed the current limit. Claimants with relatively low property tax amounts will either be unaffected or experience a decrease in their homestead credits depending on changes to the other formula factors.

Reduction Rate for Excessive Income. If the reduction percentage (8.794% for 2011) in the phase-out range for the credit is lowered and the maximum property tax and income threshold are left unchanged (this would also imply an increase in the maximum income level due to the interdependence of the formula factors), benefits to all claimants with incomes above the income threshold (\$8,160 for 2011) will increase. Also, there will be an increase in the number of eligible claimants.

Maximum Income Level. Increasing this level (\$24,990 for 2011) while holding the maximum property tax and income threshold constant (this would imply a lower reduction rate for excessive income) will also expand benefits to all claimants above the threshold factor and will increase the number of eligible claimants.

Income Threshold. Increasing this factor (\$8,160 for 2011) along with the maximum income level, while holding the maximum property tax and reduction rate constant, will extend maximum benefits (80% of eligible property taxes) to all claimants between the old and new thresholds. All claimants above the new threshold will also receive increased credits.

Homestead as a Mechanism for Property Tax Relief

In 1964, Wisconsin pioneered the circuit breaker approach to property tax relief by establishing the homestead tax credit to relieve low-income homeowners and renters aged 65 or older of

excessive property taxes. The homestead tax credit program targets property tax relief to low-income households through the income-based formula. The program attempts to address the property tax "burden" on an individual household. For affected households, the homestead credit introduces an ability-to-pay factor into the property tax system. Property tax relief programs paid directly or indirectly to municipalities cannot achieve such income-based targeting.

In 1966, the Wisconsin Supreme Court ruled that the homestead program was a relief program, since it considered the individual's income and needs, was available to renters as well as homeowners, and was not linked to the property tax administrative system. This finding was central to the Court's decision that the program did not violate uniformity requirements of the State Constitution (Harvey v. Morgan, 1966). This ruling has not been subsequently changed.

The homestead program grants relief solely to residential property owners and renters, unlike property tax relief programs paid directly or indirectly to municipalities. Credits paid to local governments benefit all property owners, but do not directly benefit renters. Renters may indirectly benefit from these credits (lower property taxes may result in smaller rent increases), but landlords are not required to pass along these savings.

Since homestead credits are paid directly to individuals and are not provided to all property owners, it is more difficult for local governments to increase spending to "capture" these credits. Taxpayers who receive these credits may offer less resistance to property tax increases, but spending increases would result in higher gross property tax levies and taxpayers not receiving homestead credits would pay higher net taxes.

The homestead program cannot address other objectives frequently cited in property tax relief discussions. For example, it cannot reduce overall municipal tax rates or levies, or equalize tax bases

among municipalities. If funds are distributed through the homestead program rather than through credits to local governments, the net nonresidential property tax will increase, although this type of property may also need relief. Finally, since

homestead credits are not automatically applied to tax bills, but must be claimed on an individual basis, it is likely that some individuals who are eligible for these credits will not receive relief.

APPENDIX

Sources of Income Included in "Household Income" Under the Homestead Tax Credit Program

Household income means Wisconsin adjusted gross income (AGI) plus the following amounts to the extent not included in Wisconsin AGI:

- Support money
- Cash public assistance (not including credits from this program or amounts granted under the community options program for long-term support) and cash benefits paid under county relief programs
- Maintenance payments (except that foster care maintenance and supplementary foster care payments are excludable)
- Gross amount of any pension or annuity
- Railroad retirement benefits
- Social security benefits
- Veterans disability pensions
- Nontaxable interest received from the federal government, or any of its instrumentalities
- Nontaxable interest received on state and municipal bonds
- Worker's compensation
- Unemployment compensation
- Gross amount of "loss of time" insurance
- Compensation and other cash benefits received from the United States for past or present services in the armed forces
- Scholarship and fellowship gifts or income
- Capital gains
- Gain on the sale of a personal residence that is excluded from taxable income
- Dividends
- Income of a nonresident or part-year resident who is married to a full-year resident
- Housing allowances provided to members of the clergy
- Amount by which a resident manager's rent is reduced
- Nontaxable income of an American Indian
- Nontaxable income from sources outside this state
- Nontaxable deferred compensation
- Intangible drilling costs
- Depletion allowances and depreciation
- Amortization
- Contributions to individual retirement accounts
- Contributions to Keogh plans
- Net operating loss carry-forwards
- Capital loss carry-forwards