



State of Wisconsin • DEPARTMENT OF REVENUE

DIVISION OF RESEARCH AND POLICY

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M E M O R A N D U M

December 14, 2004

TO: Mary Matthias
Legislative Council

FROM: Dennis Collier
Department of Revenue

SUBJECT: Legislative Council Special Committee on Tax Exemptions for Residential Property

This memo provides answers to two questions asked by members of the Legislative Council Special Committee on Tax Exemptions for Residential Property at its November 8, 2004, meeting:

- 1) What percent of statewide total exempt real property is residential?
- 2) If the residential exemption were eliminated for retirement home and other categories, some individuals currently in exempt housing would newly qualify for homestead. If the homestead credit was also expanded to increase the income ceiling and maximum property tax, what would the additional cost of the homestead program be relative to the additional property tax that could be realized?

First, exempt residential property accounted for 14.2% of total exempt real property in the 2001/02 tax levy year. This includes 5.3% for nursing homes, 4.3% for retirement homes and 4.6% for other housing. These percentages appear in the property tax chapter of *the Summary of Tax Exemption Devices 2003-05*, published in February 2003, specifically in "Table 1: Estimated Value of Exempt Private Real Property, 2002" of that chapter.

That table, a copy of which is attached, also provides information that was requested at the hearing relating to the categories of property for which data are collected; the table identifies the six major categories and subcategories within four of the categories.

Also attached is the "Taxation District Exemption Summary Report" summarizing data for the municipalities that filed Taxation District Exemption Summary Reports with the Department of Revenue by August 1, 2002. About 370 municipalities had not filed by that date. This table shows the number of parcels in each value category by type of exempt purpose.

In response to the second question, property taxes on retirement homes and "other housing" would exceed by \$3.3 million to \$10.3 million annually the increase in Homestead Credit expenditures from credit on this newly taxed property and from raising the credit's income ceiling and maximum eligible property tax.

This estimated impact, summarized on the table on the next page, consists of three separate changes:

- Elimination of the property tax exemptions,
- Provision of Homestead Credits to residents of this newly taxed property because they meet the other eligibility criteria for Homestead, and
- Increases in the Homestead income ceiling to \$27,430 and the maximum eligible property tax to \$1,620 for claims filed in 2006.

**SUMMARY OF FISCAL IMPACT OF ELIMINATING PROPERTY TAX EXEMPTIONS
FOR SELECTED RESIDENTIAL PROPERTY AND INCREASING
HOMESTEAD CREDIT**

Tax/Credit Change	Amount (\$ millions)
Property tax shifted due to exemptions:	
Retirement homes	\$16.2
Other housing	17.7
Total property tax shift	\$33.9
Homestead credit increases	
Credits on previously exempt property	\$9.0 to \$15.0
Increase in income ceiling and maximum property tax	14.6 to 15.6
Total increase in Homestead Credit	\$23.6 to \$30.6
Property tax shift less Homestead Credit increase	\$3.3 to \$10.3

The property tax change shown in the table is an estimate of the amount currently shifted to other property owners from exempt retirement homes and "other" housing. Local taxing jurisdictions could experience, but not necessarily would experience this amount as a tax increase. That depends on the budgetary decisions of local taxing jurisdictions – with the new tax base, they could increase spending or they could lower taxes on other property owners, or they could do some of both.

If retirement homes and "other" housing become subject to the property tax, their residents could claim the Homestead Credit, presuming they meet other eligibility requirement. In the fiscal estimate for Senate Bill 512, which was enacted as 2003 Wisconsin Act 195, the Department of Revenue estimated that Homestead Credits for residents of "other" housing would equal 45.2% of the \$17.7 million of taxes on that housing, or approximately \$8 million.

Using that same percentage, which is the Homestead Credit as a percent of rent constituting property taxes for Homestead claims filed in 2003, yields an estimated \$7 million in credits for residents of retirement homes. However, many residents of retirement homes are likely to have income in excess of the \$24,500 ceiling above which no credit is provided. Assuming that credit is paid on only about 5% of the rent constituting property taxes on retirement homes, the estimated additional credit would be about \$1 million.

Assuming that Homestead Credits for residents of newly taxed retirement homes ranged from \$1 million to \$7 million and credits for residents of "other" housing totaled \$8 million, the increase in Homestead Credit expenditures for these persons would be \$9 million to \$15 million.

As indicated in the memo the Department provided for the November 8 meeting, increasing the income ceiling to \$27,430 and the maximum eligible property tax to \$1,620 for claims filed in 2006 would increase Homestead expenditures by \$13.6 million, which is about a 12% increase in Homestead spending. Assuming that the \$9 million to \$15 million in Homestead credits for

residents of retirement homes and "other" housing also would rise by 12%, or by about \$1 million to \$2 million, raising these parameters would increase Homestead expenditures by \$14.6 million to \$15.6 million.

Thus, the total increase in Homestead expenditures would range from \$23.6 million to \$30.6 million, and the amount of the local property tax shift in excess of these Homestead increases would be \$3.3 million to \$10.3 million.

The estimates in this memo were based on data reported in exemption summary reports filed with the Department in 2002 and are subject to the data limitations that we have discussed in previous communications with the committee.

TABLE 1
ESTIMATED VALUE OF EXEMPT PRIVATE REAL PROPERTY, 2002

Purpose of Property	Percent of Total		Exempt Value (\$ millions)	
CHURCH/RELIGIOUS:				
Place of Worship	33.1 %		\$6,159	
Church--Other	5.0%		\$932	
SUBTOTAL CHURCH/RELIGIOUS		38.1%		\$7,091
HOUSING:				
Nursing Home, incl. religious	5.3%		\$993	
Retirement Home, incl. religious	4.3%		\$790	
Housing--Other	4.6%		\$862	
SUBTOTAL HOUSING		14.2%		\$2,645
EDUCATIONAL, INCL. RELIGIOUS:				
Grades K-12	8.2%		\$1,528	
Private College	8.3%		\$1,557	
Other--Educational	3.4%		\$628	
SUBTOTAL EDUCATIONAL		19.9%		\$3,713
MEDICAL FACILITY:				
Non-profit Hospital, incl. religious	11.7%		\$2,172	
Medical Research Foundation	.4%		\$73	
Medical--Other	1.1%		\$196	
SUBTOTAL MEDICAL FACILITY		13.2%		\$2,441
PUBLIC BENEFIT		10.2%		\$1,849
OTHER		4.6%		\$847
TOTAL		100.0%		\$18,586

Note: Columns may not sum to totals due to rounding.

This table and the form on the next page are from the *Summary of Tax Exemption Devices 2003-05*. February 2003.

TAXATION DISTRICT EXEMPTION SUMMARY REPORT FOR 2002 (S. 70.337(2), Wis. Stats.)

See instructions on bottom of form.

CO _____ MUN _____ FOR _____ T-V-C _____ OF _____ NAME OF TAXATION DISTRICT _____ NAME OF COUNTY _____

INDICATE NUMBER OF PROPERTIES BY PURPOSE OF PROPERTY WITHIN EACH VALUE CATEGORY									
PURPOSE OF PROPERTY	\$1-\$10,000	\$10,001-\$100,000	\$100,001-\$200,000	\$200,001-\$500,000	\$500,001-\$1,000,000	\$1,000,001-\$3,000,000	\$3,000,001-\$6,000,000	\$6,000,001-\$12,000,000	Total No. of Properties
WORSHIP	234	1,120	880	1,153	881	931	185	48	5,460
CHURCH-OTH	564	1,218	526	187	100	78	15	7	2,703
EDU, K-12	62	162	57	124	102	158	53	24	759
COLLEGE	27	107	55	34	19	27	34	20	352
EDU-OTH	84	223	84	112	62	54	12	8	645
HOSPITAL	12	72	55	24	17	24	15	23	295
MED RSCH	1	6	1	3	2	3	1	1	19
MED-OTH	24	162	24	24	18	20	6	1	281
NURSING	17	11	9	5	12	29	25	23	151
RETIRE	3	41	45	31	30	66	30	17	271
HOUSE-OTH	93	857	668	215	105	71	25	2	2,042
BENEFIT	448	1,051	296	268	145	145	50	13	2,434
OTHER	1,026	1,160	273	186	76	64	10	4	2,808
TOTAL NO. OF PROPERTIES	2,595	6,190	2,973	2,366	1,569	1,670	461	191	18,220

NAME OF CLERK (please print) _____ TELEPHONE NUMBER () _____

INSTRUCTIONS

Enter the number of exempt properties in your municipality in each value range by purpose or use of property. You can gather this information from the PC-220 forms which are filed by the property owner. A parcel with more than 1 building and more than 1 use should be recorded for each use. Example: For a parcel with a church valued at \$500,000 and a personage valued at \$150,000 enter 1 property in the 1st value category under WORSHIP and enter 1 property in the 1st value category under HOUSE-OTH.

Enter the total number of properties by organization category in the right hand column.

Enter the total number of properties within each value range in the total line at the bottom.

Enter the name and telephone number of the person completing this form.

P-C 228 (R. 7-01)

Note: You should send form PC-227 to organizations reporting to be subject To taxation under sections 511 to 515 of the IRC (see s. 70.339, Wis. Stats.).

Complete and mail this form by July 1 to:

Wisconsin Department of Revenue
Bureau of Local Financial Assistance
P. O. Box 8933
Madison, WI 53708-8933