

AN INFORMATION REPORT

Property Tax Circuit- Breakers: Current Status and Policy Issues



Advisory Commission on Intergovernmental Relations
WASHINGTON, D.C. 20575 • FEBRUARY 1975

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PREFACE

In 1967 the Commission first went on record calling for property tax relief for low-income families. In the intervening seven years, the "circuit-breaker" approach has become the most popular single program for providing this relief, and indeed, one of the most popular state programs of any type. This publication represents an attempt to report the "state of the art" in circuit-breaker design and use.

The steady stream of requests for ACIR publications on circuit-breaker programs has greatly increased in the past few months as more and more state legislatures explore property tax relief plans. It is hoped that this report will satisfy these demands for accurate and up-to-date information on this particularly popular form of tax relief.

Robert E. Merriam
Chairman

ACKNOWLEDGEMENTS

This study was carried out by the taxation and public finance staff under the general supervision of John Shannon, assistant director. John H. Bowman assumed major responsibility for preparation of this report; he was assisted by Michael Veseth. The manuscript was typed by Phyllis E. Evans.

Special thanks go to the many state tax officials who responded to an ACIR questionnaire which provided the cost and participation statistics presented herein.

Full responsibility for content and accuracy rests, as always, with the Advisory Commission on Intergovernmental Relations.

Wayne F. Anderson
Executive Director

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Property Tax Circuit-Breakers: Current Status and Policy Issues

The last decade has witnessed tremendous growth in the number of property tax relief programs for householders. An observer in 1965 noted that “. . . at present property tax concessions are offered to the aged in only six states,”¹ By 1970, 28 states had on the books some sort of property tax relief program for the elderly, and now all 50 states and the District of Columbia have such programs (several of which include the non-elderly).

The most rapidly growing form of property tax relief is the “circuit-breaker.” Wisconsin pioneered this type of property tax relief in 1964; today there are 25 circuit-breaker programs, most of which extend coverage to renters as well as owners.² Four of these adoptions came in 1974, bringing to 13 the number of new circuit-breakers in the last two years.

¹Yung-Ping Chen, “Present Status and Fiscal Significance of Property Tax Exemptions for the Aged,” *National Tax Journal*, XVIII (June 1965), p. 162.

²As of January 1974, residential property tax relief was also available at least to elderly homeowners on the following bases: state-mandated, state-financed programs in eight states; state-mandated, locally-financed programs in 14 states (two 1974 circuit-breaker enactments will replace two of these programs); and state-authorized, locally-financed programs in six states. Three of the states in this last category permit local adoption, administration, and funding of circuit-breakers: such programs are to be found in some jurisdictions in New York and Rhode Island and in a number of Virginia jurisdictions. This report is limited to state circuit-breakers chiefly because information on local programs is quite difficult to collect. In addition, however, there is greater interest on the part of policymakers in the state programs, and the trend is toward a greater state role in property tax relief.

WHAT IS A CIRCUIT-BREAKER?

Property tax circuit-breakers are tax relief programs designed to protect family income from property tax "overload" the same way that an electrical circuit-breaker protects the family home from current overload.

When the property tax bill (or the tax equivalent for renters) exceeds a set percentage of household income, the circuit-breaker goes into effect and relief is granted from the "excess" taxes. A number of states use a somewhat different approach by granting tax relief equal to a given percentage of the property tax bill, whether large or small, with the percentage depending upon the household income level. Relief usually takes the form of a direct reduction in the property tax bill, a refundable credit against state income taxes, or a cash refund.

How the Circuit-Breaker Works

The circuit-breaker generally is part of the state income tax process—although several states administer it separately.

In the classic form, an applicant files a supplemental statement to his income tax return, listing all forms of money income including Social Security, Railroad Retirement, and veterans' benefits. The state income tax administration then computes the excessive amount of property tax. It either credits the amount of relief against the applicant's state income tax liability (if he has sufficient income to produce a liability) or—as more frequently is the case—sends a refund check to the applicant. This method is not only efficient, its confidentiality preserves the dignity of the recipient.

Several states administer the program separately from the income tax and send cash refunds to all recipients. Most of these states do have income taxes, but their procedures demonstrate that a state income tax is not a prerequisite to the adoption of a circuit-breaker.

A third possible approach is to work through the local property tax collector. Under this approach, the initial bill would be reduced by the amount of the circuit-breaker credit and the locality would then bill the state for that amount. The local direct reduction has the advantage of immediate relief, but taxpayers may perceive

greater confidentiality with state-administered programs.

The principal alternative to the circuit-breaker for granting residential property tax relief is the homestead exemption.³ The exemption typically is available to all elderly owner-occupants and reduces assessed value by a specified dollar amount.

Principal Advantages of the Circuit-Breaker

While in practice the typical circuit-breaker offers many advantages over the typical homestead exemption program, the following are three fundamental advantages of the circuit-breaker:

- **The circuit-breaker can provide tax relief to those who need it most at a lower cost than the homestead exemption.** If the objective is to relieve residential property taxes that are unduly burdensome, the circuit-breaker can provide more meaningful relief at less cost because it targets relief dollars to those most in need of relief. In comparison with the circuit-breaker's "rifle" approach, which can fine tune tax relief to the particular circumstances of individuals, the homestead exemption scatters relief shotgun style to those with relatively light property taxes as well as to those truly in need of relief, thereby needlessly sacrificing property tax revenues and driving up the costs of tax relief.
- **In contrast to homestead exemptions, renters as well as homeowners can be given relief under circuit-breakers.** On the assumption that landlords pass on their property taxes to renters in the form of higher rents, the majority of circuit-breaker states designate some percentage of rent as a property tax equivalent which enters the circuit-breaker calculation in exactly the same manner as owners' tax payments. Because home-

³The two do not have to be alternatives. Some states, such as Indiana, Illinois, and West Virginia, use both the circuit-breaker and the exemption.

stead exemptions reduce the property tax bill, they accrue directly to the owners. If exemptions were given to landlords, it would be difficult to assure that renters received the benefit.

- **The circuit-breaker is less likely than the homestead exemption to encounter legal obstacles.** Constitutional amendment appears to be a prerequisite for homestead exemptions in many states because of constitutional uniformity provisions. By contrast, because the circuit-breaker can grant relief from residential property taxes without adjusting taxable values or tax amounts, the several test cases on this form of relief have held that the circuit-breaker does not violate the uniformity provisions.

CURRENT STATUS OF CIRCUIT-BREAKERS

Twenty-four states and the District of Columbia have now enacted circuit-breaker programs to provide property tax relief to at least some low- and moderate-income taxpayers. (Table 1.) In all, over 3-million families now receive circuit-breaker tax relief with total annual benefits of about \$450-million. Of the states supplying information on claimants and costs (benefits paid), Connecticut grants the highest average benefit (\$317.05) and West Virginia the lowest (\$19.46). Michigan currently runs the most costly program (\$129-million) and North Dakota the least costly (\$35,000). (Table 2.)

The general circuit-breaker approach lends itself to considerable modification so that each state can structure its program to suit its particular objectives and constraints. The major similarities and differences of the 25 circuit-breaker programs can be seen from an examination of Tables 1 and 2 and Appendix A.

Coverage

One of the major differences among the various circuit-breaker programs is the coverage of different groups within the population (Table 1).

- **“Basic” circuit-breakers** are limited to elderly homeowners, typically age 65

and over. Six states have such a program at present; in addition, one state (North Dakota) has a circuit-breaker for elderly renters only.

- **“Expanded” circuit-breakers** also are restricted to elderly citizens, but renters are allowed to participate on the same basis as homeowners. Typically about 20 percent of rent is used as a property tax equivalent. This type of program effectively puts a ceiling on property taxes paid by all low-income senior citizens, and is found in 13 states.
- **“General” circuit-breakers** are comprehensive property tax relief programs that provide benefits to all overburdened taxpayers—old and young, homeowners and renters alike. Every family that meets the state income criteria may qualify for property tax relief under the general circuit-breakers.

Type of Relief Formula

All but four of the 25 circuit-breaker programs use one of two basic approaches to calculate the “excess” property tax from which relief is given. These two approaches are called the “threshold” and the “sliding-scale” approaches.

- Under the *threshold approach*, an “acceptable” tax burden is defined as some fixed percentage of household income (different percentages may be set for different income levels), and any tax above this portion of income is “excessive” and qualifies for relief. The portion of income that is deemed an acceptable tax burden is termed the “threshold” for relief. (E.g., if the threshold is set at 5 percent, the “acceptable” tax burden for a family with \$8,000 income is \$400 [$.05 \times \$8,000$]. If this family’s actual property tax bill is \$500, it qualifies for a \$100 rebate [$\500 actual tax minus \$400 acceptable tax].)
- Under the *sliding-scale approach*, no threshold is defined. Rather, a fixed per-

TABLE 1
TYPES OF STATE CIRCUIT-BREAKER PROGRAMS:
DECEMBER 1974*

"Basic" (Relief to Elderly Homeowners)	"Expanded" (Relief to Elderly Homeowners and Renters)	"General" (Relief to Eligible Homeowners and Renters Regardless of Age)
Arkansas California Idaho Kansas Ohio Oklahoma	Arizona Colorado Connecticut District of Columbia Illinois Indiana Iowa	Maine Minnesota Missouri Nevada Pennsylvania West Virginia Maryland Michigan Oregon Vermont Wisconsin
<p>* North Dakota's circuit-breaker is available only to elderly renters (there is a homestead exemption for elderly homeowners), and therefore does not fit in any of the three categories in this table.</p> <p>Source: ACIR classification based on information supplied by the states in response to an ACIR questionnaire; and Commerce Clearing House, <i>State Tax Reporter</i>.</p>		

centage of property tax (whether that tax is high or low) is rebated for each eligible taxpayer within a given income class; the rebate percentage declines as income rises. (E.g., if the rebate percentage for families in the \$7,500-\$9,999 income range is 15 percent, the family in the previous example having \$8,000 income and a \$500 property tax bill qualifies for a \$75 rebate [$.15 \times \500].)

Thirteen states currently use threshold-type formulas (Arkansas, Connecticut, District of Columbia, Illinois, Kansas, Maryland, Michigan, Missouri, Nevada, North Dakota, Oklahoma, Vermont, and West Virginia). The sliding-scale approach is now in use in eight states (Arizona, California, Idaho, Indiana, Iowa, Minnesota, Ohio, and Pennsylvania). Colorado, Maine, Oregon, and Wisconsin all use more-or-less unique formulas. (Appendix A.)

Benefit Level

Accurate figures on circuit-breaker benefits (costs) and participation levels have been unavailable because most circuit-breakers have been adopted within the past two or three years and, as Appendix A shows, the earlier programs generally have been modified at least once

since adoption. Table 2 presents data obtained through a recent ACIR questionnaire sent to state tax agencies; these data represent the first clear indication of the costs and benefits of the various circuit-breaker programs.⁴

Some of the principal findings to emerge from analysis of the questionnaire responses for 21 states are the following:

- **More than 3-million claimants are enjoying the benefits of circuit-breakers.** These claimants are estimated to represent about three-fourths of those eligible to participate.
- **Total benefits (costs) amount to nearly \$450-million, which is about \$150 per claimant.** Costs per capita (i.e., total circuit-breaker benefits divided by total state population) average \$4.41 for the 21 responding states taken as a group.
- **The level of benefits varies considerably among the states.** The average claimant receives \$200 or more (i.e., more than \$50 above the 21-state average) in three

⁴The figures presented in Table 2 and cited below are unrounded estimates, and should not be interpreted as being as precise as they appear.

TABLE 2
COSTS AND PARTICIPATION RATES OF STATE
CIRCUIT-BREAKER PROGRAMS: FY 1974*

States	Total Cost of Program (\$1,000)	Number of Claimants	Average Cost Per Claimant (\$)	Cost Per Capita (\$)	Percent of Eligible in Program (estimate)
Arkansas ¹	166	2,798	59.34	.08	54
California	61,000	302,000	201.98	2.96	80
Colorado	2,355	27,251	86.41	.96	75
Conn. ²	6,193	19,533	317.05	2.10	60
Idaho	1,871	15,924	117.49	2.42	95
Illinois	21,950	144,647	151.74	1.95	50
Indiana	1,800	44,000	40.90	.33	55
Iowa	2,540	37,000	68.64	1.26	65-70
Kansas	3,149	31,307	100.58	1.38	80
Maine	1,974	13,468	146.56	1.92	n/a
Michigan	129,000	810,000	159.25	14.26	80
Minnesota	10,010	110,000	91.00	2.56	n/a
Missouri	4,709	58,031	81.14	.98	n/a
Nevada	80	1,994	40.12	.14	90
N. Dakota	35	5,052	70.00	.55	50
Ohio ²	33,000	264,300	124.86	3.20	74
Oregon	70,730	509,000	138.95	31.78	85
Penn.	56,100	410,000	136.82	4.71	n/a
Vermont	4,731	16,400	288.47	10.19	97 ³
W. Virginia ³	166	8,529	19.46	.09	15
Wisconsin	35,411	189,521	186.84	7.75	80
All States	446,970	3,020,755	147.97	4.41	76
General C-B States only	239,872	1,524,921	157.30	13.90	82
Elderly C-B States only	207,098	1,495,834	138.45	2.46	69

*Data not available for Arizona, District of Columbia, Maryland, and Oklahoma.

¹Calendar year 1973 data.

²Fiscal year 1975 estimate.

³Fiscal year 1973 data.

Source: ACIR staff compilation based on questionnaire responses.

states, while the average benefit per claimant is less than \$100 in nine states. Connecticut (\$317.05), Vermont (\$288.47), and California (\$201.98) give the highest average relief from property taxes, while the programs in West Virginia (\$19.46), Nevada (\$40.12), and Indiana (\$40.90) provide the least.

- **The cost of circuit-breakers expressed on a per capita basis ranges widely among the states.** Per capita costs more than double the 21-state average of \$4.41 are found in three general-circuit-breaker states: Oregon (\$31.78), Michigan (\$14.26), and Vermont (\$10.19). In 12 states, including Connecticut—which has the highest average per-claimant benefits—per capita costs are less than half the 21-state average. The lowest cost states have per capita costs below \$.10—Arkansas (\$.08) and West Virginia (\$.09).
- **General circuit-breakers clearly cost more than programs restricted to the elderly.** The bulk of circuit-breaker costs and benefits are concentrated in the four states which currently have general circuit-breaker programs in operation: Michigan, Oregon, Vermont, and Wisconsin (the Maryland program is not yet in effect). The per capita cost of tax relief in these four states is much higher (\$13.60) than in states offering tax relief to elderly claimants only (\$2.46). The most comprehensive program is in the state of Oregon where, out of a total population of 2.2-million, over 500,000 families currently are getting some relief from property taxes. The per capita cost of such a broad program is understandably high (\$31.78), much higher even than in the other general-circuit-breaker states: Michigan (\$14.26), Vermont (\$10.19), and Wisconsin (\$7.75).
- **Variations in cost and benefit levels result from the complex interactions of such factors as coverage of the programs, level of participation, level of property taxes in the state, relief limits set by the legislature, availability of other property**

tax relief benefits in addition to the circuit-breaker, and income distribution—no clear pattern of influence on interstate benefit and cost variations emerges for any given variable. As a result, easy generalization is not possible, and experience of other states is of limited use to policymakers in a particular state; general applicability in one state of figures for another state may reasonably be assumed only if the states are closely similar in *all* important respects.

Aside from the difference between general circuit-breakers and programs for only the elderly, however, the significance of coverage for costs and benefits is not clear. With data for 11 of the 13 expanded-circuit-breaker states, only three show per capita costs in excess of \$2.00 (Connecticut, Minnesota, and Pennsylvania). Three of the five basic-circuit-breaker states reporting also have per capita costs in excess of \$2.00 (California, Idaho, and Ohio). Of the two states with the lowest per capita costs, one (North Dakota) has a “basic” circuit-breaker—renters only—and the other (West Virginia) an “expanded” program covering both owners and renters.

A single example comparing two states obviously does not represent exhaustive analysis, but it may underscore the conclusion that easy generalization and interstate comparisons are hazardous.

Connecticut and Iowa both limit participation in their circuit-breakers to those with less than \$6,000 income, but the average benefit in Connecticut is more than four times as high as in Iowa, and per capita costs are nearly twice as high in Connecticut. Both states have relatively high property taxes, with Iowa’s somewhat higher relative to property value, according to FHA statistics.⁵ Both allow renters to claim 20 percent of rent as the property tax equivalent. On the face of it, the Iowa relief formula appears somewhat more generous than Connecticut’s. The latter uses a threshold-type formula with a 5 percent threshold and a credit limit of \$400; Iowa uses a sliding-scale-type formula

⁵ACIR, *Federal-State-Local Finances: Significant Features of Fiscal Federalism*, M-79 (Washington: Government Printing Office, 1974), Table 103, p. 174.

with a \$600 limit on the amount of tax that may be considered, and up to 95 percent of tax is rebatable. In spite of all these considerations, Connecticut has the more costly program by a considerable margin—probably due in large part to differences in property values in the two states. Clearly, easy generalizations among states are not possible. Relative property values, income distribution patterns, and all other factors must be considered.

CHOOSING AMONG POLICY VARIABLES

Policymakers in different situations may look upon the circuit-breaker as a solution to different problems. While early circuit-breakers were designed to ease the most onerous property tax burdens of the low-income elderly, a number of states have greatly expanded the scope (and cost) of the circuit-breaker. The quantitative differences among circuit-breakers discussed above may be so great in some instances as to have taken on qualitative dimensions. A decision to extend circuit-breaker relief beyond the low-income classes may result from several considerations, of which the following are examples:

- Although a circuit-breaker program may be preferred to exemptions for various reasons, a state that already has widespread exemptions will encounter political opposition to their elimination. A low threshold of taxes relative to income for participation in the program and the absence of an income ceiling for participants both work to broaden the appeal of the circuit-breaker by reducing the number of “losers” produced by the change from exemptions. (The Michigan situation.)
- In a state making heavy use of the property tax, the absolute burden and the regressivity of the residential component can be reduced through the use of a nearly universal “general” circuit-breaker. This applies whether heavy use of the property tax results from absence from the state-local tax structure of either an income or a sales tax (the situation in

Oregon, which has no sales tax) or from a conscious decision to push up property taxes in an effort to make more effective use of exportable taxes on such things as seasonal residences, lumbering, and manufacturing.

Because cost and benefit data for existing circuit-breakers may be of limited value to policymakers in a state considering adoption of or changes in a circuit-breaker program, careful estimates based upon that state’s circumstances will be necessary. Within a particular state, the significance of variations in certain policy variables will be more predictable. The following discussion considers the implications of variations in several key features of circuit-breakers.

Coverage

It is clear that within a given state, with everything else unchanged, broader coverage will mean larger per capita costs; the influence on benefits per claimant is less obvious. Three dimensions of the choice of coverage can be identified: age, income, and occupancy status.

Age. The decision here is whether to include the non-elderly as well as the elderly. As noted, all but five states limit circuit-breaker relief to the aged only (generally defined as those aged 65 and over, although three states use age 62 and one uses 60). Because the elderly as a group have lower incomes than the non-elderly on average, limiting the coverage to the elderly will tend to increase the benefits per claimant—more of any given gross property tax bill will be rebated.

Circuit-breaker experience to date reveals a clear set of legislative priorities: relief is extended first to the low-income elderly homeowners; low-income elderly renters are the next to be brought in; and finally non-elderly owners and renters are covered.

On equity grounds, there is no clear justification for limiting property tax relief to persons on the basis of age—or any other physical characteristic.⁶ Presumably, this is done to restrict coverage to those groups most likely to need tax

⁶As shown in Appendix A, at least seven states extend benefits to the disabled as well as the elderly.

relief. An advantage of the circuit-breaker, however, is that objective criteria of need for property tax relief relating taxes to income can be applied, and relief can be targeted to those who need such relief rather than having to rely on age and other proxies for need. Younger families with low incomes may be just as deserving of relief as the elderly. Indeed, some would argue that many elderly are better off than working-age families at the same income level when consideration is given to the usually greater family responsibilities of the non-elderly, costs associated with working, double income tax exemptions granted the elderly, etc. If the objective of the circuit-breaker program is to prevent excessive property tax burdens in relation to income, there is no logical reason for limiting participation to the elderly. Equity requires that non-elderly as well be included.

Income. Until 1973, all circuit-breaker states placed an upper limit on the amount of income a household could have and remain eligible for relief under the program. Now three general-circuit-breaker states (Maryland, Michigan, and Vermont) have no income limit.⁷ The majority of states impose a limit in the range of \$5,000 to \$7,000.⁸ (Appendix A.) Total costs will rise as the income cutoff rises, but the average benefit per claimant will tend to fall as higher income families come into the program.

The rationale for an income ceiling is rather straightforward. Above some income level, the portion of the family budget that must be spent for housing declines to the point where the property tax on the dwelling need not consume an excessive portion of income.

If an income ceiling is used, it must be high enough not to exclude truly overburdened fami-

⁷Relief is not unlimited, however; these and other states set limits directly on the maximum benefit per claimant, as discussed below.

⁸The income concept that is used also has important implications for the equity of the circuit-breaker program. At least most circuit-breaker states add Social Security benefits, state-local bond interest, and other non-taxable sources of income to adjusted gross income to arrive at a total money income figure. If this were not done, the program would not be equitable because recipients of such non-taxable income payments would benefit in relation to those without such incomes.

lies from tax relief benefits.⁹ In general, the appropriate income ceiling rises as the percentage of income absorbed by the property tax (the effective property tax rate) rises. Thus, different income ceilings will be appropriate in different states; on equity grounds, different income ceilings for different communities within a state also would be called for. State policymakers may not wish to remove or reduce all interjurisdictional differences in effective property tax rates, however, because they result from differences in preferences for public services and relative reliance upon the property tax as a source of funds, as well as from differences in the level of housing costs and the per capita property tax base. Moreover, political and administrative considerations will offset at least in part any equity gains that might be made by varying the income ceiling among jurisdictions within a state.¹⁰

⁹An income ceiling is not an essential element of a circuit-breaker (three state statutes and the ACIR model statute do not include one). Such a ceiling will require periodic revision, and it may keep a few deserving families from receiving tax relief; in addition, it is unlikely to make a significant reduction in total program costs unless the ceiling is set low enough to exclude some low-income families since both types of circuit-breaker formulas—and particularly the threshold type—tend to restrict benefits primarily to low-income classes. An income ceiling nevertheless has obvious political value in a state that wishes to protect only low-income families from high effective property tax rates, since such a ceiling can completely exclude families above the stated level of income.

¹⁰In noting here and elsewhere the limitations of fine tuning circuit-breaker provisions in recognition of intrastate differences in certain variables, it may seem to the reader that a case is being made for local circuit-breaker programs. It is appropriate, therefore, to note briefly the principal arguments in favor of state—and against local—tax relief programs. Tax relief decisions generally are made by state legislatures, and fiscal responsibility suggests that those who make the expenditure decision should bear the costs. Perhaps more important is the strong equity argument in favor of state-level tax relief: because of differences in the general level of fiscal capacity and differences in the concentration of those in need of tax relief, some jurisdictions are less able to afford tax relief than others. In a jurisdiction comprised of poor families, relief would not be effective because the poor would be called upon to pay for their own tax relief.

A joint state-local circuit-breaker may warrant consideration. The state could authorize local tax relief programs (as in Virginia) and pick up a substantial share of the costs of the program (which is not done in Virginia). The state

Occupancy Status. The third dimension of the coverage issue to be considered is the question of whether renters, as well as owners, should be eligible for relief. Nineteen of the 25 circuit-breaker programs do include renters (Table 1).¹¹ On the standard assumption that landlords shift forward to their tenants the property taxes on renter-occupied dwellings, equity requires that renters be afforded relief from these taxes if such relief is available to owner-occupants. While it is clear that a circuit-breaker that includes renters will be more costly than one that does not (everything else unchanged), the effect on the benefit per claimant is not obvious.¹² To the extent that renters are more likely than owners to have low incomes (because low-income families are less able to buy homes), the relief for a given amount of property tax will tend to be greater for renters.

Type of Formula

Both the threshold and the sliding-scale approaches rest on the ability-to-pay principle of taxation in reducing the ad valorem tax burdens of low-income families. There are, however, significant differences between the two approaches. In brief:

share would have to be substantially less than 100 percent to keep a locality from increasing benefits simply as a means of getting state money, and there would have to be local leeway in program design so the potential advantages of fine tuning could be recognized.

¹¹Of these, the North Dakota program is for renters only; owners receive a homestead exemption. California, one of the six states not including renters in its circuit-breaker, has a separate credit for renters.

¹²Existence of an exemption for owners together with a circuit-breaker may alter the relative benefits for renters and owners. With data for only eight states (Illinois, Iowa, Minnesota, Missouri, Nevada, Oregon, West Virginia, and Wisconsin) divided between renters and owners, only the two with both a circuit-breaker and an exemption—Illinois and West Virginia—have higher circuit-breaker benefits for the average renter claimant than for the average owner. Renter and owner benefits compared here are for actual programs in which “everything else” is not unchanged—decisions as to the percentage of rent to be counted as property tax, for example, have been made (and they may over- or understate property taxes on renter-occupied dwellings).

- **The threshold approach**

- (a) rests solely upon the ability-to-pay concept, and can better target relief in accordance with this principle;
- (b) can make the residential property tax proportional below a given income level, or even progressive over a rather broad income range;
- (c) grants greater benefits, everything else equal, to residents of high-spending jurisdictions in comparison with low-spending jurisdictions; and
- (d) grants greater benefits, everything else equal, to occupants of high-value homes vis-a-vis low-value homes (thus, the threshold approach tends to encourage overconsumption of housing to a greater extent than the sliding-scale approach).

- **The sliding-scale approach**

- (a) maintains interjurisdictional tax differentials, consistent with the benefits-received principle of taxation (the notion that tax payments should be in proportion to benefits) where tax differentials reflect service differentials;
- (b) maintains tax differentials among occupants of homes having different values (thereby minimizing the circuit-breaker’s stimulus to housing consumption);
- (c) maintains tax differentials that arise from interjurisdictional tax base differentials (property-poor jurisdictions must levy higher tax rates than property-rich jurisdictions to provide the same level of service, and the sliding-scale approach maintains these differentials to a greater extent than the threshold approach); and
- (d) assures that the taxpayer shares in tax increases so that his share of the cost of government service increases does not go to zero (built-in “coin-

urance"¹³), thereby preserving the taxpayer's incentive to weigh the benefits of proposed increases and to consider whether he wishes to support them.

Whether the threshold or the sliding-scale type of formula will cost more depends upon the values assigned to the threshold, the rebate percentage, and so on. There is no basis for saying that one approach, per se, is more costly than the other.

If the objective of a circuit-breaker program is to assure that no taxpayer pays an excessively large portion of household income for property taxes, the threshold-type formula can achieve this objective at less cost. Use of a threshold assures that only those with taxes above the acceptable level receive relief, thereby effectively targeting relief to those most in need of it.

A sliding-scale formula, by contrast, relieves the same percentage of property tax for all eligible taxpayers within a given income class (e.g., 95 percent for those with incomes below \$1,000). Within a given income class, those with high taxes still will have high taxes (relative to other households); intraclass equity will not be improved. A sliding-scale formula may leave some low-income families with high property tax burdens relative to income while extending relief to some whose taxes may not be excessive relative to their incomes.

Proponents of the sliding-scale approach, however, may be expected to counter that the objective should not be to level all property taxes to no more than some percentage of income—that relief policies should not be based solely on ability to pay. In part, this argument rests on the fact that one cause of higher property taxes is greater consumption of housing and the notion that the circuit-breaker's inherent subsidy of housing consumption at least should be minimized. The argument for the sliding-scale approach also reflects the notion that higher tax payments translate at least roughly into higher public service benefits and, therefore, that persons paying higher property taxes are getting something in return.

The argument that public service benefits vary directly with tax rate levels will be most appropriate if only minimal disparities in per capita equalized taxable property values exist among taxing jurisdictions. It has been made abundantly clear in the course of litigation of *Serrano*, *Rodriguez*, and other school finance equal-protection cases—if it was not clear before—that some of the highest property taxes may be found in communities offering some of the lowest levels of service, simply because some communities are so property-poor that they must levy high-rate taxes to provide even minimal services. The existence of significant intercommunity tax base disparities undermines the implicit logic of the sliding-scale type of circuit-breaker formula, and strengthens the case for the threshold approach.

Threshold Level

If a threshold-type formula is used, selection of the threshold of property taxes relative to income (below which relief is not available) is of considerable importance. Lowering the threshold percentage will cause increases in the number of eligible claimants, the cost of the program, and the average benefit per claimant. This is shown in Table 3, which was constructed using nationwide data for the U.S. for 1970 to show the sensitivity to different threshold percentages of cost and eligibility levels under a hypothetical circuit-breaker of uniform nationwide applicability. The increase in cost becomes especially pronounced as the threshold approaches or drops below the average effective residential property tax rate (measured against family income). Using the figures in Table 3 for owners and renters of all age groups, dropping the threshold from 7 percent to 6 percent increases costs by 44 percent; the cost increases for 5 and 4 percent thresholds (relative to costs with the 7 percent threshold) are 116 and 204 percent, respectively.

Reference to Appendix A shows that most of the states using the threshold approach do not use a single threshold for all income classes. Rather, they set a low percentage threshold for the very lowest income groups and increase the "acceptable" tax level as income rises. This is consistent with the notion that, at some very low level of income, taxpaying capacity is lower

¹³"Coinsurance," the sharing of tax increases between the taxpayer and the state government, is discussed in a later section. As noted there, such a feature can be added to a threshold-type formula.

TABLE 3
ESTIMATED COST OF STATE "CIRCUIT-BREAKER" SYSTEMS TO REBATE TO RENTERS
AND HOMEOWNERS THEIR RESIDENTIAL PROPERTY TAXES IN EXCESS OF VARIOUS PERCENTAGES OF
HOUSEHOLD INCOME: 1970¹

Item	Total number of homeowners and renters (000)	Number of homeowners and renters and estimated cost of a "circuit-breaker" system for households with property taxes in excess of the following percentages of household income—											
		Over 4 percent			Over 5 percent			Over 6 percent			Over 7 percent		
		Homeowners & renters		Estimated cost of "circuit-breaker"	Homeowners & renters		Estimated cost of "circuit-breaker"	Homeowners & renters		Estimated cost of "circuit-breaker"	Homeowners & renters		Estimated cost of "circuit-breaker"
		Number (000)	Percent of total		Number (000)	Percent of total		Number (000)	Percent of total		Number (000)	Percent of total	
<i>All age groups</i>													
Homeowners ²	31,142	12,976	41.7	\$3,793.3	9,592	30.8	\$2,711.9	7,571	24.3	\$1,997.0	5,598	18.0	\$1,460.7
Renters ³	22,334	15,232	68.2	2,313.9	12,027	53.9	1,636.9	9,754	43.7	892.5	7,922	35.5	551.3
Total	53,476	28,208	52.7	6,107.2	21,619	40.4	4,348.8	17,325	32.4	2,889.5	13,520	25.3	2,012.0
<i>Age 65 or over</i>													
Homeowners ²	6,294	3,801	60.4	973.6	3,244	51.5	809.5	2,772	44.0	681.6	2,358	37.5	578.4
Renters ³	3,848	3,287	85.4	414.4	3,010	78.2	313.3	2,728	70.9	232.6	2,396	62.3	159.9
Total	10,142	7,088	69.9	1,388.0	6,254	61.7	1,122.8	5,500	54.2	914.2	4,754	46.9	738.3
<i>Under age 65</i>													
Homeowners ²	24,848	9,175	36.9	2,819.7	6,348	25.5	1,902.4	4,799	19.3	1,315.4	3,240	13.0	882.3
Renters ³	18,486	11,945	64.6	1,899.5	9,017	48.8	1,323.6	7,026	38.0	659.9	5,526	29.9	391.4
Total	43,334	21,120	48.7	4,719.2	15,365	35.5	3,226.0	11,825	27.3	1,975.3	8,766	20.2	1,273.7

¹ Assumes that all 50 states and the District of Columbia adopted such a plan.

² Limited to one-unit owner occupied non-farm home properties.

³ Excludes one-family homes on ten acres or more. The property tax equivalent amount is assumed to be 25 percent of gross rent.

Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census. These 1970 estimates are for one-family owner occupied homes (31.1-million) and renter-occupied units (22.3-million) due to the limitation of data. The total number of families and unrelated individuals in 1970 was 66.1-million, and is estimated to be approximately 68.5-million in 1972. The 1970 est. total "circuit-breaker" costs (in billions) of: \$6.1 @ 4%; \$4.3 @ 5%; \$2.9 @ 6%, and \$2.0 @ 7% would rise to approximately \$7.8; \$5.5; \$3.7; and \$2.6 respectively for 1972 when the universe is expanded from 53.5-million household units to 68.5-million in order to include all families and unrelated individuals.

than at slightly higher levels. Using a variable percentage threshold concept can extend greater relief to those at the lowest income levels while avoiding the cost-increasing effects of a universally lower threshold. Demonstrating the great flexibility of the circuit-breaker approach, Michigan's program uses a single threshold for the non-elderly while using a variable threshold (extending down to zero) for the elderly.

Coinsurance-Type Restriction

With a threshold-type formula, it is argued that once a taxpayer's property tax reaches the threshold level there will be no incentive for him to vote against further property tax increases since such increases will be borne by the state.¹⁴ To reduce this tendency, some states have adopted a form of "coinsurance" that requires the taxpayer to bear a part of any tax increase, even after the threshold level has been reached. This is done by rebating less than 100 percent of the amount of tax in excess of the threshold (Appendix A). The rebate percentage can be uniform as in Wisconsin (80 percent), variable according to income level as in the District of Columbia (80 percent to 60 percent), or variable according to age as in Michigan (60 percent for the non-elderly, 100 percent for the elderly). Sliding-scale formulas automatically include a coinsurance feature which varies according to income.

The need for a coinsurance feature increases as circuit-breaker coverage is broadened. A program restricted to the elderly below some very low income level is not likely to affect significantly local property taxation decisions. As the income ceiling is raised and as non-elderly families are brought into the program, however, the probability increases that there will be a great enough concentration of circuit-breaker claimants in some communities to affect the fate of local property tax increase proposals.

¹⁴A counter argument is that taxpayers with property taxes in excess of some reasonable threshold level may feel the need to oppose virtually all property tax increases, in the absence of a circuit-breaker, out of self-interest. The circuit-breaker may, therefore, be viewed as allowing the achievement of a more appropriate level of taxation and expenditure by shielding families from extraordinary tax burdens.

By reducing the benefit per claimant, coinsurance features also reduce total and per capita costs. As a cost reducing measure, coinsurance competes to some extent with reduced income limits, increased threshold levels, and reduced benefit limits (discussed below), although the rationales for these differ rather considerably.

Benefit Limit

All 25 circuit-breaker programs impose some upper limit on the amount of property tax relief that can go to any one taxpayer, although the exact benefit limits and the methods used in determining them differ. The three basic approaches to setting limits place a ceiling on one of the following:

- the amount of credit or rebate, directly;
- the dollar amount of property tax that can be considered; or
- the amount of assessed value on which the tax qualifying for relief can be based.

The first approach is the most common, and the credit limits range from \$100 (North Dakota) to \$750 (Maryland). Under the second approach, limits range from the first \$125 of tax (West Virginia) to the first \$800 of tax (Minnesota). The assessed-value-limit approach is found in only three states (Arizona, California, and Ohio), all of which use the sliding-scale approach. (Appendix A.)

A lower benefit limit obviously reduces total program costs and the average benefit per recipient (all other aspects of the circuit-breaker held constant) and tends to keep those with relatively high-value properties from reaping undue benefits. In the absence of a benefit ceiling—and in spite of a maximum income restriction, a relatively high threshold, and a coinsurance feature—circuit-breakers may bestow "too much" relief upon some.¹⁵ A properly set benefit maximum can restrict relief from taxes on homes of extraordinarily high value while not

¹⁵A net-worth test, discussed in a later section, can be added to or substituted for a benefit ceiling as a means of restricting benefits going to those who may be judged not to be overburdened even though they meet the usual tests for circuit-breaker relief.

interfering with the fundamental objective of preventing undue tax burdens for the more typical low-income family living in a more modest home. If the limit is set too low, the effect will be to deny relief to some truly in need of it, thereby undercutting the purpose of the circuit-breaker program.

The higher the level of the property tax, the higher the benefit limit will have to be set to avoid restricting relief for low-income families in average homes. Equity considerations suggest, therefore, that the benefit limit should be different in different parts of a state, reflecting the range of intrastate tax rates; this probably can be accomplished best by establishing limits in terms of equalized assessed value rather than as a dollar limit.¹⁶

Renters' Property Tax Equivalent

As Appendix A indicates, most states that include renters in the circuit-breaker define their property tax equivalent as approximately 20 percent of rent (generally adjusted to take out payments for such extras as furnishings and utilities). The lowest figures are found in Maryland (variable, up to 12 percent) and West Virginia (12 percent); the highest percentage equivalent, 25 percent, is used by four states (Arizona, Illinois, Maine, and Wisconsin). The appropriate level could be determined from data on actual property tax bills for rental housing units related to rental receipts, adjusted to reflect the shifting assumption. Thus, if it is found that property taxes average 18 percent of rental payments, the portion of rent defined as the property tax equivalent should be 18 percent if the property tax is assumed to be fully forward-shifted to tenants, less if a lesser portion of the tax is assumed to be forward-shifted.

The portion of rent constituting property

¹⁶While a benefit limit expressed as the tax on up to some amount of equalized assessed value will accommodate differences in property tax levels, it—like the flat dollar benefit limit—ignores differences in housing costs. Intra-state effective rate differences typically will exceed differences in housing costs, but failure to adjust for the latter, together with difficulties in obtaining reliable data on equalized assessed value for each property and in restricting relief to taxes paid on equalized assessed value up to some amount, will offset equity considerations at least in part.

taxes may vary among communities within a given state. If so, equity requires that the tax equivalent percentage reflect this. There will be a tradeoff between this sort of fine tuning for equity, however, and the administrative and political problems that would be encountered from using different percentages within the same state.¹⁷

CONSIDERATION OF SOME BASIC CRITICISMS OF CIRCUIT-BREAKERS

Although circuit-breaker programs enjoy wide support among theoreticians and practitioners, this support is by no means unanimous. At least four basic criticisms have been made of this type of property tax relief program.

Is The Property Tax Regressive?

The property tax has long been viewed as a regressive tax—a tax which takes proportionally more from low-income families than higher-income groups—the residential component of which falls on renters as well as owner-occupants. This regressivity argument has been a major reason for advocating circuit-breakers and other property tax relief programs (although, as noted below, the need for relief programs does not hinge on regressivity). In recent years, however, a “revisionist” school of thought has surfaced which challenges this standard view. They argue that the property tax is progressive because (a) capital is held primarily by upper-income groups and (b) the property tax is, in the broadest sense, a tax that burdens owners of capital. Thus, they conclude that there is no rationale for granting relief to low-income families—owners or renters—since it is the “rich” who bear the burden of the tax.

There are several reasons to believe that the

¹⁷In estimating the relationship between actual rental payments and property taxes on rental units, the variability of this relationship within a single community, as well as among communities, should be determined if data permit. The greater the variation within a community, the greater the inequities that will remain with any feasible program, and this may reduce the justification for going to the bother of using different percentages for different communities.

tax on residential property (with which circuit-breakers are concerned) is regressive:

1. Low-income families spend a greater portion of their current incomes on housing than high-income groups, causing a flat-rate tax on housing (the property tax) to be regressive.
2. Assessment variations may contribute to the regressivity of the tax. High-value properties often are underassessed relative to low-cost residences. Where such variation occurs the tax is made more regressive.
3. The tax may be regressive among jurisdictions as well as among individuals. If one jurisdiction consists predominately of low-income families in low-cost housing, while a second jurisdiction is characterized by higher-income families living in higher-valued residences, property tax rates must be higher in the "poor" area in order to provide the same level of services as in the "rich" jurisdiction, other things being equal. The higher rates imposed on the low-income families contribute to the overall regressivity of the property tax.
4. Recent research reaffirms the proposition that the property tax is borne in whole or in part by renters as well as by homeowners.¹⁸

Another aspect of the revisionist attack on the standard assumption of regressivity is the notion that "permanent income" rather than current income is the appropriate basis for measuring progressivity or regressivity, and that many who qualify for circuit-breaker relief on the basis of low current income would not qualify if permanent or life-cycle income were the criterion.

Available evidence clearly shows the actual residential property tax payments to be regressive in relation to current income (Table 4). Revisionist criticisms are of doubtful policy significance because they fail to come to grips with the policy reasons for using current income and the evidence of regressivity.

¹⁸Dick Netzer, "The Incidence of the Property Tax Revisited," *National Tax Journal*, XXVI (December 1973), pp. 515-36.

Revisionists argue in part that current property owners have avoided part of the burden of the property tax through two adjustment processes:

- In response to the property tax, persons have bought and built smaller homes than they otherwise would have, thereby reducing the incomes of housing industry workers and suppliers and transferring part of the burden of residential property taxes;
- Through tax capitalization,¹⁹ present owners compensated for taxes existing when they purchased their homes by offering lower prices than they would have had taxes been lower, thereby causing the burden of this level of taxes to rest with the previous owners (current owners would bear the burden only of tax increases).

Although these economic considerations—capitalization and reduced housing demand—suggest that some part of the tax load has been shifted from the purchaser (current owner), policymakers nevertheless are concerned, justifiably, with the magnitude of current tax payments in relation to current income. There is no escaping the conclusion that a homeowner paying an \$800 property tax bill out of a \$3,500 income is bearing a heavy tax load. Policy interest logically focuses upon current relationships rather than on what the homeowner paid for his home 20 years ago as opposed to what he would have paid in the absence of the property tax, or on the tax bill he would be paying on the larger house he might have bought had the tax been lower.

The permanent-income argument similarly focuses on what has been or what will be, rather than on what is. The basic notion is that many

¹⁹Property ownership is undertaken in part for its value as an investment upon which a return—monetary or non-monetary—will be earned. A higher tax on the property or capital reduces the net return, making the property less attractive and reducing the price prospective purchasers will offer. Thus, a tax on a type of property that is relatively fixed in supply reduces the value of that property or capital; via a process termed "capitalization," property taxes are reflected in capital values.

TABLE 4

**REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME FOR
ELDERLY AND NON-ELDERLY SINGLE-FAMILY HOMEOWNERS, BY INCOME CLASS:
1970**

Family income ¹	Real estate tax as a percent of family income		Exhibit: Number of homeowners (000)				
	Elderly (age 65 and over)	Non-elderly (under 65)	Total	Elderly		Non-elderly	
				Number	Percent of total	Number	Percent of total
Less than \$2,000	15.8	18.9	1,719	1,281	74.5	438	25.5
\$2,000 - 2,999	9.5	10.1	1,289	906	70.3	383	29.7
3,000 - 3,999	8.0	7.2	1,398	826	59.1	572	40.9
4,000 - 4,999	7.3	5.5	1,343	652	48.6	691	51.4
5,000 - 5,999	6.2	5.1	1,365	437	32.0	928	68.0
6,000 - 6,999	5.8	4.3	1,530	389	25.4	1,141	74.6
7,000 - 9,999	4.8	4.1	5,377	715	13.3	4,663	86.7
10,000 - 14,999	3.9	3.7	8,910	566	6.4	8,345	93.6
15,000 - 24,999	3.3	3.3	6,337	340	5.4	5,997	94.6
25,000 or more	2.7	2.9	1,877	183	9.8	1,694	90.2
All incomes	8.1 ²	4.1 ²	31,145	6,294	20.2	24,851	79.8

¹ Census definition of income (income from all sources). Income reported received in 1970.

² Arithmetic mean.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970.

of the poor in any one year fall into one of two groups: (a) those who previously had higher incomes but are now retired or nearing retirement; and (b) those who are young and may look forward to higher income in the future, but are temporarily unemployed or otherwise having a hard time. For both these groups it is argued that housing consumption is based in part on where one has been or where one is going, not just on where one is—that housing consumption is based on life-cycle income—and that property tax over a lifetime in comparison with income over a lifetime is much less regressive (perhaps even progressive) than current taxes

related to current incomes.

When faced with the harsh reality of property taxes that consume a large percentage of the low-income family's budget, should the policymaker suggest to the elderly that had they been more frugal earlier their current taxes would be no problem, and to the younger families that tomorrow will be a better day? Taxation and transfer programs in this country generally are based on current income, and there is no logic to condemning circuit-breakers for not being based on permanent income when other elements of the overall system are not. Moreover, the practical problems of definition and mea-

surement of permanent income must be resolved if the concept is to be used in an operating program.²⁰

In a real sense, the regressivity issue is something of a red herring. Property tax relief proponents have defended their proposals in large part on the basis of the regressivity of the tax, so critics logically have focused on this same issue. Nevertheless, there would be a need for property tax relief even if the tax were proportional—or even progressive—if the absolute level of the tax worked a hardship on some persons. A reasonable analogy is the need for exemptions to shield subsistence-level income under an income tax that features sharply progressive rates.

Should Net Worth Be Added to the Measure of Need?

Circuit-breakers have been criticized because they typically use property tax as a percent of household income as a measure of tax burden in determining “need.” This criticism arises from the fact that some elderly homeowners have large asset holdings (stocks, bonds, expensive and/or multiple homes, art objects, etc.) but low current incomes. Thus, they qualify for tax relief even though they are, in many ways, well off.

To eliminate the possibility of giving relief to the rich, some critics of circuit-breaker programs have called for a need test based on net worth.

In considering a net-worth test, the policymaker must weigh two objectives: (a) reducing the possibility that the property tax will force families to give up their homes; and (b) restricting the benefits that go to those with adequate taxpaying ability, including that represented by ownership of valuable assets. Because the home is the bulk of wealth for most low-income families, a comprehensive net-worth test could deny tax relief to those who need it most—those with high residential property taxes. A possible solution is to exclude the home from any net-worth ceiling for circuit-breaker eligibility (a few cir-

cuit-breaker states have a net-worth test, but only one includes the value of the home—see Appendix A), although a more equitable solution would exclude only the first several thousand dollars of home value to avoid subsidizing owners of truly expensive homes.

A significant problem with a program based on net worth or accumulated wealth is that this concept—like that of permanent income—is very difficult, in practice, to use. Tangible property taxes on household goods and intangible property taxes on stocks, bonds, etc., have been repealed or go unenforced in most jurisdictions, in large part because of administrative problems; a net-worth test encounters these same difficulties. Besides the dubious accuracy of any figures that may be derived, there is also the high cost of determining and verifying the accuracy of these measures. Household income, on the other hand, is relatively easy to determine and inexpensive to verify. Moreover, most assets other than the house yield income and will be picked up, albeit imperfectly, by the circuit-breaker’s income tests.

Given these administrative considerations and the fact, noted earlier, that all circuit-breaker programs impose benefit limits, the justification for a net-worth test is reduced. The states can and do set limits on circuit-breaker benefits so as to assure that the property-rich will not benefit unduly while providing most of the benefits for those who truly need them. This arrangement probably is a reasonable compromise between the equity arguments in favor of a net-worth test, the administrative difficulties of applying such a test, and the fact that even those with valuable assets may be hard-pressed to meet current cash needs for tax payments if their assets are not divisible into small units.

Is Fiscal Irresponsibility Encouraged?

It has been argued that, because circuit-breakers limit property taxes for those eligible for the program, the cost of government is cheapened—the “pleasure” of voting for government spending increases is divorced from the “pain” of paying taxes. Thus, it is argued, circuit-breaker program participants will vote for spending increases knowing that their taxes will not increase. (See discussion of “coinsurance” on page 12.)

²⁰A tax deferral system would provide some of the advantages of the permanent-income approach while avoiding some of the administrative and measurement problems, but the deferral has political handicaps, as discussed below.

This argument has some validity, but the problem is not as serious as some critics would suggest. Most circuit-breakers relieve some, but not all, of any increase in property taxes. The incremental cost of government is reduced, but it is not zero (see the discussion of "coinsurance"). Merely reducing the cost of additional government services may not affect low-income voting patterns. As far as empirical evidence is concerned, it is still too soon to tell if circuit-breakers have made a significant difference in voting patterns.

Not all will agree with the implicit assumption underlying this criticism of the circuit-breaker—that it is appropriate for truly extraordinary property tax burdens of low-income families to act as a brake on the growth of the public sector.

Are Children the Unwarranted Beneficiaries?

Some critics charge that the real beneficiaries of circuit-breakers (and homestead exemptions) are the children and heirs of the homeowners participating in such programs. Children could be prevented from being the beneficiaries in either of two ways. First, the children could protect their prospective inheritances by paying the property taxes that their parents find excessive. Second, relief policies could be structured to meet the cash-flow problem by granting a deferral of part or all current residential property taxes, with the deferred taxes creating a lien on the property.

Both alternatives are defective from a policy standpoint. The extended family concept, which would make children responsible for their parents' taxes, is outmoded and unrealistic. Legislators increasingly are unwilling to allow elderly homeowners to be forced to choose between liquidating their capital (their homes) and turning to their relatives in order to meet their residential property taxes. Nor are they willing to see the residential property tax be the inheritance tax for the poor.

The deferral approach faces almost insurmountable political opposition. As heavy as property taxes are, elderly homeowners generally oppose tax-deferral/tax-lien proposals, and the few states that have tried the deferral approach have found it to be quite unpopular.

While there is an equity argument to be made for deferral, policymakers apparently must choose between the possible improvement in equity offered by this approach and a relief approach that is not patently offensive to those it is intended to help.

SOME RELATED TAX RELIEF DEVELOPMENTS

Farm Circuit-Breaker: Michigan

In addition to the general circuit-breaker for residential property taxes, 1974 legislation in Michigan established a separate circuit-breaker for farmland as part of a package of measures intended to help preserve farm and open space land.²¹ Farmers receive a refundable tax credit for property taxes in excess of 7 percent of household income. By using the circuit-breaker rather than current-use assessment²² to determine immediate tax reduction, many administrative problems are avoided.²³

To obtain this relief, the farmer must enter into a development-rights agreement to keep his farmland as farmland for at least ten years. The agreement—a detailed contract—must be approved by the local governing body and the state land-use agency. If the contract is not renewed when the contractual period expires, the farmer must pay the state the total amount received under the program for the last seven years without interest or penalty.

Low-Income General Tax Burden Equalization: New Mexico

New Mexico has introduced a tax relief program with a new wrinkle that is potentially even

²¹This legislation is described more fully in ACIR's *Information Bulletin No. 74-8*, issued in August 1974.

²²The typical standard for arriving at taxable value is the value of the property in its "highest and best probable use." Farmers contend that this imposes excessive burdens on farms in developing areas, and have lobbied (successfully, in two-thirds of the states) for assessing farms on the basis of their "current use"—i.e., as farms.

²³Wisconsin, another state with a general circuit-breaker, also includes farms and other homesteads up to 80 acres of land. Other states' circuit-breakers typically restrict relief to farmers to the taxes on the dwelling and up to one acre of surrounding land.

more effective than circuit-breakers in relieving tax overloads. The program, called the Low Income Comprehensive Tax Credit (LICTC), was enacted in 1972 and revised in 1973 and 1974. It provides relief from some part of all state and local taxes for families that fall below the official poverty line. The relief is granted through a refundable credit against the New Mexico income tax.

The LICTC program recognizes the fact that a state-local tax system built primarily on sales and property taxes is essentially regressive—people with low income end up paying a higher proportion of their incomes for state-local taxes than more affluent taxpayers. The tax credit is designed to assure that, on the average, taxpayers below the poverty level will pay no greater tax rate than those at the poverty line.

The amount of relief granted a household depends on family size and the amount of modified gross income (defined to include such

things as welfare, Social Security, and unemployment benefits) that the family receives. The maximum credit available is \$170, but the average amount granted is currently \$42. About 35,000 families (54 percent of those eligible) take advantage of the New Mexico program.

Programs like the New Mexico LICTC, if properly funded and administered, are potentially the most powerful tools yet tried for providing broad-based relief to low- and moderate-income families because they take into account the burden of other state and local taxes in addition to the property tax.²⁴

²⁴This writeup is based on information obtained from New Mexico tax officials and Commerce Clearing House *State Tax Reporter*. A newly published piece on this program is: Gerald J. Boyle, "A Comprehensive Tax Credit for Achieving Proportionality in State and Local Tax Structures," *National Tax Journal*, XXVII (December 1974), pp. 569-82.

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Appendix A
**Key Features of State Circuit-Breaker Property
Tax Relief Programs: 1974**

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Arizona¹	1973	Homeowners and renters 65 and over (n/a)	\$3,500 single, \$5,000 married (assessed value of all property not to exceed \$5,000)	A percentage of tax is returned as a credit, credit declines as income rises. Only taxes on first \$2,000 of assessed value are considered (25 percent of rent equals tax equivalent, up to \$225).	State income tax credit or rebate	n/a (n/a) [n/a]
Arkansas²	1973	Homeowners 65 and over (2,798)	\$5,000	Taxes exceeding various percentages of income are remitted; percentages range from 1 percent on income below \$1,500 to 5 percent on incomes above \$4,500.	State income tax credit or rebate	\$59.34 (.08) [166]
California³	1967, 1973 revised	Homeowners 62 and over (302,000)	\$10,000 net \$20,000 gross	Relief ranges from 96 percent of tax payment on first \$7,500 of value if net household income is less than \$1,400 to 4 percent of tax payment if net household income is \$10,000 (additionally there is a state financed homestead exemption of \$1,750 for all homeowners).	State rebate	201.98 (2.96) [61,000]
Colorado	1971, 1973 revised, 1974 revised	Homeowners and renters 65 and over or disabled (27,251)	\$5,900 single, \$6,900 married (net worth less than \$30,000—home, furniture, clothing, and car excluded)	Relief cannot exceed \$400 and is equal to \$400 reduced by 10 percent of income over \$2,000 for individuals and 10 percent of income over \$3,000 for married couples (20 percent of rent equals tax equivalent).	State income tax credit or rebate	\$86.41 (.96) [2,355]

¹Program took effect calendar year 1974. First claims were to be filed January, 1975.

²Relief currently takes the form of cash refunds as those having an income tax liability fail to qualify for property tax rebate.

³California also has a program to provide property tax relief to all renters, regardless of income or age. California expects an increase of 40,000-50,000 participants in FY 1975 as welfare recipients become eligible for the program for the first time.

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974 (cont'd.)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Connecticut ⁴	1973, 1974 revised	Homeowners and renters 65 and over (19,533)	\$6,000	Taxes exceeding 5 percent of income. Maximum refund ranges up to \$400 for incomes below \$3,000 (20 percent of rent equals tax equivalent).	Reduction in tax bill	317.05 (2.10) [6,193]
District of Columbia ⁵	1974	Homeowners and renters 65 and over (n/a)	\$7,000	Relief takes the form of a variable credit ranging from 80 percent of tax in excess of 2 percent of income for incomes less than \$3,000 to 60 percent of tax in excess of 4 percent of income for incomes over \$5,000. Maximum tax of \$400 used in figuring credit (15 percent of rent equals tax equivalent).	Income tax credit	n/a (n/a) [n/a]
Idaho	1974	Homeowners age 65 and over (15,924)	\$5,000	Relief ranges from lesser of \$200 or actual taxes for those with incomes \$3,000 or less to lesser of \$100 or taxes for those with incomes of \$5,000.	Reduction of tax bill	\$117.49 (2.42) [1,871]
Illinois ⁶	1972, 1974 revised	Homeowners and renters 65 and over or disabled (144,647)	\$10,000 implicit in formula, although not stated	Relief based on amount by which property tax (or rent equivalent) exceeds 6 percent of first \$3,000 of household income plus 7 percent of income in excess of \$3,000. Relief limit is \$500 less 5 percent of household income (25 percent of rent equals tax equivalent).	State rebate	151.74 (1.95) [21,950]

⁴Homeowners in Connecticut now have the option of circuit-breaker relief or a property tax freeze. Both programs reduce tax bill.

⁵Took effect January 1, 1975

⁶Relief formula changed January 1, 1975. New formula grants relief for property tax in excess of 4 percent of *all* income. Same limits will apply.

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974 (cont'd.)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Indiana	1973	Homeowners and renters 65 and over (44,000)	\$5,000	Relief ranges from 75 percent of property tax for incomes below \$500 to 10 percent for incomes above \$4,000. Relief limit is \$500 (20 percent of rent equals tax equivalent [15 percent if furnished or utilities provided]).	Income tax credit or rebate	40.90 (.33) [1,800]
Iowa	1973	Homeowners and renters 65 and over or totally disabled (15,924)	\$6,000	Relief ranges from 95 percent of property tax for incomes below \$1,000 to 25 percent for incomes above \$5,000. Property taxes are limited to \$600 for calculating relief (20 percent of rent equals tax equivalent).	State rebate	\$117.49 (2.42) [2,540]
Kansas	1970, 1973 revised	Homeowners 60 and over, or disabled (31,307)	\$8,150	Taxes in excess of various percentages of income, ranging from zero percent for incomes below \$3,000 to 13 percent for incomes above \$8,000. Property taxes are limited to \$400 for calculating relief.	State rebate	100.58 (1.38) [3,149]
Maine	1971, 1973 revised, 1974 revised	Homeowners and renters 62 and over (13,468)	\$4,500 single; \$5,000 married.	Relief equal to amount of tax less 21 percent of household income in excess of \$3,000. Relief cannot exceed \$400 (25 percent of rent equals tax equivalent).	State rebate	146.56 (1.92) [1,974]

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974 (cont'd.)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Maryland ⁷	1974	All homeowners and renters (n/a)	None	Relief, not to exceed \$750, equals property tax exceeding sum of graduated schedule of percentages of income ranging from 3 percent of first \$3,000 of household income to 9 percent of income over \$15,000 (up to 12 percent of rent equals tax equivalent).	Credit against property tax bill (cash payment to renters)	n/a (n/a) [n/a]
Michigan ⁸	1973	All homeowners and renters (810,000)	None	Credit equals 60 percent of property taxes in excess of 3.5 percent of income (100 percent of a lower percentage of income for elderly). Maximum relief is \$500 (17 percent of rent equals tax equivalent).	State income tax credit or rebate	\$159.25 (14.26) [129,000]
Minnesota ⁹	1967, 1973 revised	Homeowners and renters 65 and over or disabled (110,000)	\$6,000	A percentage of tax is returned as a credit; percentage declines as income increases. No more than \$800 tax considered (20 percent of rent equals tax equivalent).	State income tax credit or rebate	\$91.00 (2.56) [10,010]
Missouri	1973	Homeowners and renters 65 and over (58,031)	\$7,500	Tax exceeding various percentages of income is remitted; percentages range from 3 percent for incomes below \$3,000 to 4 percent for incomes above \$4,500. Not more than \$400 tax considered for relief (18 percent of rent equals tax equivalent).	State income tax credit or rebate	81.14 (.98) [4,709]

⁷The Maryland program was not funded in 1974 when it was adopted, and takes effect in 1975, if funded.

⁸In 1974 Michigan extended circuit-breaker coverage to farmers as well as owners of residential property. Farmers must agree to restrict land use to obtain relief, however.

⁹Homeowners 65 and over also participate in a property tax freeze program wherein the state will refund property tax increases.

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974 (cont'd.)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Nevada	1973	Homeowners and renters 62 and over (1,994)	\$5,000	Property tax in excess of 7 percent of income is refunded. Maximum relief is \$350 (15 percent of rent equals tax equivalent).	State rebate	40.12 (.14) [80]
North Dakota¹⁰	1973	Renters 65 and over (5,052)	\$3,500	Property tax in excess of 5 percent of income is refunded. Maximum relief is \$100 (20 percent of rent equals tax equivalent).	State rebate	\$70.00 (.55) [35]
Ohio	1971, 1973 revised	Homeowners 65 and over (264,300)	\$10,000	Benefits range from reduction of 70 percent or \$5,000 assessed value (whichever is less) for incomes below \$2,000 to 40 percent or \$2,000 for incomes above \$6,000.	Reduction of tax bill	124.86 (3.20) [33,000]
Oklahoma¹¹	1974	Homeowners age 65 and over or disabled (n/a)	\$6,000	Relief equal to property taxes due in excess of 1 percent of household income, not to exceed \$200.	Refundable income tax credit	n/a (n/a) [n/a]
Oregon	1971, 1973 revised	All homeowners and renters (509,000)	\$15,000	Refund of all property taxes up to various maximums that depend on income (\$490 for incomes below \$500) (17 percent of rent equals tax equivalent).	Refundable income tax credit	138.95 (31.78) [70,730]
Pennsylvania	1971, 1973 revised	Homeowners and renters 65 and over or disabled (410,000)	\$7,500	Relief ranges from 100 percent of tax for incomes less than \$3,000 (maximum relief \$200) to 10 percent of tax for incomes greater than \$7,000 (20 percent of rent equals equivalent).	State rebate	\$136.82 (4.71) [56,100]

¹⁰North Dakota has a separate program which lowers the assessed value of low-income elderly homeowners by as much as \$1,000.

¹¹The Oklahoma program took effect January 1, 1975, and grants relief for taxes paid in 1974.

Key Features of State Circuit-Breaker Property Tax Relief Programs: 1974 (cont'd.)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost (\$1,000)]
Vermont	1969, 1973 revised	All homeowners and renters (16,400)	None	Refund of taxes exceeding variable percent of income ranging from 4 percent for incomes less than \$4,000 to 6 percent for incomes over \$16,000. Maximum relief is \$500 (20 percent of rent equals tax equivalent).	State rebate (or income tax credit for elderly)	288.47 (10.19) [4,731]
West Virginia	1972	Homeowners and renters age 65 and over (8,529)	\$5,000	Taxes exceeding a given percentage of income are remitted. These percents range from .5 percent to 4.5 percent (12 percent of rent equals tax equivalent; not more than \$125 considered for relief).	State rebate	19.46 (.09) [166]
Wisconsin	1964, 1973 revised	All homeowners and renters (189,521)	\$7,000	Excess taxes are taxes above 14.3 percent of income exceeding \$3,500. Tax credit equals 80 percent of excess taxes. Not more than \$500 tax considered for relief (25 percent of rent equals tax equivalent).	State income tax credit or rebate	186.84 (7.75) [35,411]

SOURCE: ACIR staff compilation from questionnaire responses and Commerce Clearing House data.

Appendix B
ACIR Model Circuit-Breaker Statute

Model Statute D
PROPERTY TAX RELIEF FOR OVERBURDENED FAMILIES
(The "Circuit Breaker")

The property tax can quickly create a disproportionate claim on a family's financial resources once retirement, the death or physical disability of the bread-winner, or unemployment reduces sharply the flow of income. Local governments as a rule have neither the legal authority nor the fiscal capacity to alleviate the potential property tax over-burden situations, but States have both. Twenty-two States now have an efficient tax relief mechanism designed to avoid the special hardships frequently experienced by low-income property owners, pioneered by Wisconsin in 1964. Low-income elderly homeowners, and frequently renters, in these States can claim a State-financed tax credit, rebate, or reduction in tax for that portion of their property tax liability deemed by the legislature to be excessive in relation to their household income. Because the program becomes effective when the property tax is high in relationship to income and thus prevents property tax overloads without cutting off the flow of revenue from those able to pay, this concept is known as the circuit-breaker.

In a number of States, the homestead exemption, a durable by-product of the 1930's Depression, offers some protection from undue property tax burdens on low-income occupants of dwellings and farms. This method, however, bestows property tax relief on all homeowners, not just those with low incomes, and misses completely the low-income families in rented properties. The policy of granting homestead exemptions involves a substantial amount of injustice among individual taxpayers and taxing jurisdictions at a large and usually unwarranted sacrifice of local property tax revenue. If the exemption privilege is restricted to low-income households and the State reimburses local governments for the cost of this program, the more obvious defects of the exemption approach could be minimized. It is not, however, flexible enough to alleviate extraordinary tax burdens that may be experienced indirectly by low-income households in rented quarters.

To the extent that landlords can shift the property tax to tenants, low-income households in rented quarters also feel the pinch of extraordinary property tax burdens in relation to current income. Most of the circuit-breaker States have recognized this by establishing a percentage of gross rent constituting property taxes accrued. This percentage serves as the property tax equivalent which renters may use in computing their credit or rebate.

As a means of preventing fiscal overburdens, the circuit-breaker has unique advantages. Because this tax relief program is financed from State funds, it neither erodes the local tax base nor interferes in any way with the local assessment or rate-setting processes. It can be designed to maximize the amount of aid extended to low-income homeowners and renters while minimizing loss of revenue. It operates to reduce intergovernmental fiscal disparities between high and low-income communities as well as reducing disparities between high and low-income persons; because the poor tend to be clustered together, the major portion of the relief will redound to the benefit of both low-income households and low-income communities.

The suggested legislation contains two alternative methods of determining an extraordinary property tax burden. Both approaches use the Vermont method of defining the extraordinary burden as the amount in excess of a specified percentage or percentages of household income. A common alternative approach is the Minnesota method where the extraordinary burden is defined as a specified percentage (depending upon income size) of the property tax.

Some States specify the maximum amount of property taxes or rent constituting property taxes that can be used in claiming the credit or rebate. More often, States specify the maximum size of credit.

The suggested legislation contains three alternative methods of administering the property tax relief program. The income tax credit approach, used by many States, provides that overburdened homeowners and renters file a claim with the State tax department and receive a credit against their State income tax liability. If the credit exceeds the income tax liability, the claimant receives a rebate from the State. The second approach, also used by many States, provides an outright rebate to those who qualify. As in the first approach, claimants file with a State agency and receive a rebate. Unlike the first approach, the process is distinct from the income tax. The third approach, suggested by Ohio practice, provides for a straightforward reduction in the tax bill. The claimant makes application with a local tax official who computes the amount of relief to which the claimant is entitled by law. The tax bill is then reduced by that amount and the local property tax collector bills the State for reimbursement of the revenue foregone.

The local abatement approach has the advantage of automatically providing timely relief, while the State administered system has the advantage of confidentiality. When the program is administered by the State tax department and the refund is sent through the mails, no more stigma attaches to it than when a Federal income taxpayer receives a tax reduction because he incurred extraordinary medical expenses. Local social welfare workers and county courthouse clerks are bypassed. Even when the circuit-breaker is State-administered, the State can provide that the applicant does not have to pay his property tax bill and then wait until income tax filing time to get his refund. The State can provide that as soon as the property tax bill arrives, the claimant may file a claim and receive his rebate before the property tax becomes due.

For purposes of this legislation, income means not only income as defined for income tax purposes but also social security, pension and annuity payments, nontaxable interest, workman's compensation, and the gross amount of "loss of time" insurance. To protect the State against "doubling-up" on the charge against public funds, any person who is a recipient of public funds for the payment of taxes or rent during the period for which the claim is filed may not claim tax relief under the act.

Suggested Legislation

[Title should conform to State requirements. The following is a suggestion: "An Act to Provide State Relief to Householders for Extraordinary Property Tax Burdens".]

(Be it enacted, etc.)

- 1 *Section 1. Short Title.* This act may be cited as the "Extraordinary Property Tax Relief Act."
- 2 *Section 2. Purpose.* The purpose of this act is to provide property tax relief, through a system of
- 3 tax credits and refunds and appropriations from the general fund, to certain persons who own or rent
- 4 their homestead.
- 5 *Section 3. Definitions.* As used in this act:
- 6 (a) "income" means the sum of Federal adjusted gross income as defined in the Internal Revenue
- 7 Code of the United States and all nontaxable income, including but not limited to the amount of
- 8 capital gains excluded from adjusted gross income, alimony, support money, nontaxable strike benefits,

1 cash public assistance and relief (not including relief granted under this act), the gross amount of any
2 pension or annuity (including Railroad Retirement Act benefits and veterans disability pensions), all
3 payments received under the Federal Social Security and State unemployment insurance laws, non-
4 taxable interest received from the Federal government or any of its instrumentalities, workman's
5 compensation, and the gross amount of "loss of time" insurance. "Income" does not include gifts from
6 non-governmental sources, or surplus foods or other relief in kind supplied by a public or private
7 agency.

8 (b) "Household" means the association of persons who live in the same dwelling, sharing its fur-
9 nishings, facilities, accommodations and expenses. The term does not include bona fide lessees, tenants,
10 or roomers and boarders on contract.

11 (c) "Household income" means all income received by all persons of a household in a calendar
12 year while members of the household [less an amount equal to (\$750.00) multiplied by the number of
13 persons who constitute the household. However, for purposes of this act, "household" income shall not
14 be less than zero].

15 (d) "Homestead" means the dwelling, whether owned or rented, and so much of the land surround-
16 ing it, not exceeding one acre, as is reasonably necessary for use of the dwelling as a home, and may
17 consist of a part of a multi-dwelling or multi-purpose building and a part of the land upon which it is
18 built. ("Owned" includes a vendee in possession under a land contract and one or more joint tenants in
19 common.) It does not include personal property such as furniture, furnishings or appliances, but a
20 mobile home or a houseboat may be a homestead.

21 (e) "Claimant" means a person who has filed a claim under this act and was domiciled in this
22 State for the entire calendar year for which he files claim for relief under this act. When two or more
23 individuals of a household are able to meet the qualifications for a claimant, they may determine among
24 them as to who the claimant shall be. If they are unable to agree, the matter shall be referred to the [tax
25 commissioner] and his decision shall be final.

26 (f) "Property taxes accrued" means property taxes (exclusive of special assessments, delinquent
27 interest, and charges for service) levied on a claimant's homestead in this State in [calendar year] or any
28 calendar year thereafter. For purposes of this paragraph property taxes are "levied" when the tax roll is
29 delivered to the local [treasurer] for collection. If a claimant owns his homestead on the levy date
30 "property taxes accrued" means taxes levied on such levy date, even if claimant does not own his home-
31 stead for the entire year.

32 When a household owns and occupies two or more different homesteads in this State in the same
33 calendar year, property taxes accrued shall relate only to that property occupied by the household as a
34 homestead on the levy date. If a homestead is an integral part of a large unit such as a farm, or a multi-
35 purpose or multi-dwelling building, property taxes accrued shall be that of percentage of the total

1 property taxes accrued as the value of the homestead is of the total value. For purposes of this para-
2 graph, "unit" refers to the parcel of property covered by a single tax statement of which the homestead
3 is a part.

4 (g) "Gross rent" means rental actually paid in cash or its equivalent solely for the right of occu-
5 pancy (at arms-length) of a homestead, exclusive of charges for any utilities, services, furniture, furnish-
6 ings or personal appliances furnished by the landlord as a part of the rental agreement. When a claimant
7 occupies two or more homesteads in the year and does not own his homestead as of the levy date, gross
8 rent shall mean the total rent paid for the homestead most recently rented multiplied by a number
9 whose numerator is twelve and whose denominator is the number of months said homestead has been
10 rented by the claimant.

11 If the landlord and tenant have not dealt with each other at arms-length, and the [tax commissioner]
12 is satisfied that the gross rent charged was excessive, he may adjust the gross rent to a reasonable amount
13 for purposes of this act.

14 (h) "Rent constituting property taxes accrued" means [20 or 25] percent of the gross rent.

15 *Section 4. Claim is Personal.* The right to file a claim under this act shall be personal to the claim-
16 ant and shall not survive his death, but such right may be exercised on behalf of a claimant by his legal
17 guardian or attorney-in-fact. If a claimant dies after having filed a timely claim, the amount thereof
18 shall be disbursed to another member of the household as determined by the [tax commissioner] . If the
19 claimant was the only member of his household, the claim may be paid to his executor or administrator,
20 but if neither is appointed and qualified within two years of the filing of the claim, the amount of the
21 claim shall escheat to the State.

22 *Section 5. Claim as Income Tax Credit or Rebate.* Subject to limitations provided in this act, a
23 claimant may claim in any year as a credit against [name of State] income taxes otherwise due on his
24 income, property taxes accrued or rent constituting property taxes accrued in the preceding calendar
25 year. If the allowable amount of such claim exceeds the income taxes otherwise due on claimant's in-
26 come, or if there are no [State] income taxes due on claimant's income, the amount of the claim not
27 used as an offset against income taxes, after certification by the [tax commissioner] , shall be paid to
28 claimant from balances retained by the [treasurer] for general purposes. No interest shall be allowed on
29 any payment made to a claimant pursuant to this act.

OR

30 *Section 5. Claim as Rebate from State Funds.* Subject to the limitations provided in this act, a
31 claimant may claim in any year a rebate for property taxes accrued or rent constituting property taxes
32 accrued in the preceding year. The amount of the rebate, after audit or certification by the [tax
33 commissioner] shall be paid to claimant from balances retained by the [treasurer] for general purposes.

OR

1 *Section 5. Claim as Credit Against Property Tax.* Subject to the limitations provided in this act, a
2 claimant shall have his property tax liability reduced by the amount determined in *Section 9*. If claim-
3 ant rents his homestead and does not own taxable property in the same tax jurisdiction, he shall file a
4 claim with the [property tax collector] for relief due him with respect to rent constituting property tax-
5 es for that year. The [property tax collector] shall pay such claim from available funds. The [property
6 tax collector] shall determine the amount of property tax collections foregone and the amount of pay-
7 ments to renters mandated by this act and shall certify same to the [State treasurer]. The [State
8 treasurer] shall draw upon the general fund of the State and remit to the [property tax collector] a sum
9 equal to such taxes foregone and payments to renters.

10 *Section 6. Filing Date.* No claim with respect to property taxes accrued or with respect to rent
11 constituting property taxes accrued shall be paid or allowed, unless the claim is actually filed with and
12 in the possession of the [tax department] on or before [date for filing initial claim]. Subject to the same
13 conditions and limitations, claims may be filed on or before (income tax filing date or other specified
14 date) with respect to property taxes accrued of the next preceding calendar year.

15 *Section 7. Satisfaction of Outstanding Tax Liabilities.* The amount of any claim otherwise pay-
16 able under this act may be applied by the [tax department] against any liability outstanding on the
17 books of the department against the claimant, or against his or her spouse who was a member of the
18 claimant's household in the year to which the claim relates.

19 *Section 8. One Claim per Household.* Only one claimant per household per year shall be entitled
20 to relief under this act.

21 *Section 9. Computation of Credit.* The amount of any claim made pursuant to this act shall be
22 determined as follows:

23 (a) (Based on previous Vermont statute.) For any taxable year, a claimant shall be entitled to a
24 credit equal to [60]¹ percent of the amount by which the property taxes or rent constituting property
25 taxes upon the claimant's homestead for the taxable year exceeds [5] percent of the claimant's total
26 household income for that taxable year.²

OR

27 (a) (Based on present Vermont statute.) For any taxable year, a claimant shall be entitled to a
28 credit equal to [60]¹ percent of the amount by which the property taxes, or rent constituting property
29 taxes, upon the individual's homestead for the taxable year exceeds a percentage of the individual's in-
30 come for the taxable year determined according to the following schedule:

¹Relieving only part of the "excess" property tax provides a form of co-insurance that assures the State will not have to finance all locally voted tax increases once the threshold amount has been reached.

²Michigan relieves 60 percent of taxes in excess of 3.5 percent of income for the non-elderly. The elderly receive relief for all taxes in excess of various percentages of income, ranging from zero up to 3.5 percent depending on income.

1	If Household Income	Then the Taxpayer is Entitled to
2	(Rounded to the	Credit for Property Tax Paid in
3	Nearest Income) is:	Excess of this Percent of that Income.
4	\$ 0- 3,999.00	4.0%
5	4,000.00- 7,999.00	4.5
6	8,000.00-11,999.00	5.0
	12,000.00-15,999.00	5.5
	16,000.00-and up	6.0

7 [The 1973 Michigan statute exemplifies the flexibility of the circuit-breaker. Two schedules are
8 provided, one for the elderly and one for the non-elderly. For the elderly, the threshold ranges from
9 zero to 3.5 percent of income, depending upon the level of income with 100 percent of the property
10 tax in excess of the threshold relieved by the State. For the non-elderly the threshold is a constant
11 3.5 percent of income, regardless of income level, but the State relieves only 60 percent of the property
12 tax above the threshold level. For both elderly and non-elderly renters, 17 percent of rent is defined as
13 the property tax equivalent. In no case may the credit-rebate exceed \$500.]

14 (b) No credit or grant under this act shall exceed [\$500].

15 (c) The [tax commissioner] shall prepare a table under which claims under this act shall be de-
16 termined. The table shall be published in the department's official rules and shall be placed on the appro-
17 priate forms. The amount of claim as shown in the table for each bracket shall be computed only to
18 the nearest dollar.

19 (d) The claimant, at his election, shall not be required to record on his claim the amount claimed
20 by him. The claim allowable to persons making this election shall be computed by the department, which
21 shall notify the claimant by mail of the amount of his allowable claim.

22 *Section 10. Administration.* The [tax commissioner] shall make available suitable forms with in-
23 structions for claimants, including a form which may be included with or as part of the individual income
24 tax blank. The claim shall be in such form as the [tax commissioner] may prescribe.

25 *Section 11. Proof of Claim.* Every claimant under this act shall supply to the [department of tax-
26 ation], in support of his claim, reasonable proof of rent paid, name and address of owner or managing
27 agent of property rented, property taxes accrued, changes of homestead and a statement that the
28 property taxes accrued and used for purposes of this act have been or will be paid by him and that there
29 are no delinquent property taxes on the homestead.

30 *Section 12. Audit of Claim.* If on the audit of any claim filed under this act the [tax commissioner]
31 determines the amount to have been incorrectly determined he shall redetermine the claim and notify
32 the claimant of the redetermination and his reason for it. The redetermination shall be final unless
33 appealed within 30 days of notice.

34 *Section 13. Denial of Claim.* If it is determined that a claim is excessive and was filed with fraudu-
35 lent intent, the claim shall be disallowed in full, and, if the claim has been paid or a credit has been
36 allowed against income taxes otherwise payable, the credit shall be canceled and the amount paid may

1 be recovered by assessment (as income taxes are assessed), and the assessment shall bear interest from the
2 date of payment of the claim, until refunded or paid, at the rate of one percent per month. The claim-
3 ant in such case, and any person who assisted in the preparation or filing of such excessive claim or
4 supplied information upon which such excessive claim was prepared, with fraudulent intent, is guilty of
5 a misdemeanor. If it is determined that a claim is excessive and was negligently prepared, 10 percent of
6 the corrected claim shall be disallowed, and if the claim has been paid or credited against income taxes
7 otherwise payable, the credit shall be reduced or canceled, and the proper portion of any amount paid
8 shall be similarly recovered by assessment (as income taxes are assessed), and the assessment shall bear
9 interest at one percent per month from the date of payment until refunded or paid.

10 *Section 14. Rental Determination.* If a homestead is rented by a person from another person un-
11 der circumstances deemed by the [tax commissioner] to be not at arms-length, he may determine rent
12 constituting property taxes accrued as at arms-length, and, for purposes of this act, such determination
13 shall be final.

14 *Section 15. Appeals.* Any person aggrieved by the denial in whole or in part of relief claimed un-
15 der this act, except when the denial is based upon late filing of claim for relief or is based upon a rede-
16 termination of rent constituting property taxes accrued as at arms-length, may appeal the denial to the
17 [appropriate State agency] by filing a petition within 30 days after such denial.

18 *Section 16. Public Welfare Recipients Excluded.* No claim for relief under this act shall be allowed
19 to any person who is a recipient of public funds for the payment of the taxes or rent during the period
20 for which the claim is filed.

21 *Section 17. Disallowance of Certain Claims.* A claim shall be disallowed, if the department finds
22 that the claimant received title to his homestead primarily for the purpose of receiving benefits under
23 this act.

24 *Section 18. Extension of Time for Filing Claims.* In case of sickness, absence, or other disability,
25 or if, in his judgement, good cause exists, the [tax commissioner] may extend for a period not to exceed
26 six months the time for filing a claim.

27 *Section 19. Separability.* [Insert separability clause.]

28 *Section 20. Effective Date.* [Insert effective date clause.]

SELECTED ACIR PUBLIC FINANCE REPORTS

- Intergovernmental Cooperation in Tax Administration*, A Commission Report A-7, (Washington, D.C.: June 1961), 20 pp.
- Local Nonproperty Taxes and the Coordinating Role of the State*, A Commission Report A-9, (Washington, D.C.: September 1961), 68 pp.
- The Role of the States in Strengthening the Property Tax*, A Commission Report A-17, Washington, D.C.: Government Printing Office, June 1963), Vol. I (187 pp.) and Vol. II (182 pp.).
- Federal-State Coordination of Personal Income Taxes*, A Commission Report A-27, (Washington, D.C.: Government Printing Office, October 1965), 203 pp.
- State-Local Taxation and Industrial Location*, A Commission Report A-30, (Washington, D.C.: Government Printing Office, April 1967), 114 pp.
- Fiscal Balance in the American Federal System*, A Commission Report A-31, (Washington, D.C.: Government Printing Office, October 1967), Vol. I, 355 pp.
- Fiscal Balance in the American Federal System—Metropolitan Fiscal Disparities*, A Commission Report A-31, (Washington, D.C.: Government Printing Office, October 1967), Vol. II, 393 pp.
- State Aid To Local Government*, A Commission Report A-34, (Springfield, Virginia: National Technical Information Service, April 1969), 105 pp.
- Urban America and the Federal System*, Commission Findings and Proposals M-47, (Springfield, Virginia: National Technical Information Service, October 1969), 140 pp.
- Federal Approaches To Aid State and Local Capital Financing*, A Commission Report A-37, (Washington, D.C.: Government Printing Office, September 1970), 71 pp.
- Revenue Sharing—An Idea Whose Time Has Come*, An Information Report M-54, (Washington, D.C.: Government Printing Office, December 1970), 29 pp.
- Measuring the Fiscal Capacity and Effort of State and Local Areas*, An Information Report M-58, (Washington, D.C.: Government Printing Office, March 1971), 209 pp.
- In Search of Balance—Canada's Intergovernmental Experience*, A Commission Report M-68, (Washington, D.C.: Government Printing Office, September 1971), 123 pp.
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- City Financial Emergencies: The Intergovernmental Dimension*, A Commission Report A-42, (Washington, D.C.: Government Printing Office, July 1973), 186 pp.
- The Value-Added Tax and Alternative Sources of Federal Revenue*, An Information Report M-78, (Washington, D.C.: Government Printing Office, August 1973), 86 pp.
- The Expenditure Tax: Concept, Administration and Possible Applications*, An Information Report M-84, (Washington, D.C.: Government Printing Office, March 1974), 56 pp.
- Changing Public Attitudes on Governments and Taxes*, A Commission Survey S-3, (Washington, D.C.: Government Printing Office, June 1974), 9 pp.
- Local Revenue Diversification: Income, Sales Taxes & User Charges*, A Commission Report A-47, (Washington, D.C.: Government Printing Office, October 1974), 85 pp.
- General Revenue Sharing: An ACIR Re-evaluation*, A Commission Report A-48, (Washington, D.C.: Government Printing Office, October 1974), 65 pp.
- The Property Tax in a Changing Environment*, An Information Report M-83, (Washington, D.C.: Government Printing Office, March 1974), 297 pp.

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The Advisory Commission on Intergovernmental Relations (ACIR) was created by Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, State and local government and the public.

Of the 26 Commission members, nine represent the Federal government, 14 represent State and local governments and three represent the general public. Twenty members are appointed by the President. He names three private citizens and three Federal executive officials directly and selects four governors, three State legislators, four mayors and three elected county officials from slates nominated, respectively, by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The other six are Members of Congress—three Senators appointed by the President of the Senate and three Representatives appointed by the Speaker of the House. Commission members serve two-year terms and may be reappointed. The Commission names an Executive Director who heads the small professional staff.

After selecting specific intergovernmental issues for investigation, ACIR follows a multi-step procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts and interested groups. The Commission then debates each issue and formulates its policy positions. Commission findings and recommendations are published and draft bills and executive orders are developed to assist in implementing ACIR policies.

