

## Will the Budget Ease the Property Tax Burden for Low-Income Households?

One of the issues that remains to be settled in the biennial budget and has gotten little attention is whether the bill will halt the long erosion of the primary property tax relief program for low-income households – the Homestead Tax Credit.

According to recent reports, it appears that the Assembly has at least tentatively offered to withdraw the portion of its budget that would restrict eligibility for the credit. However, the matter of whether the credit will finally be indexed for inflation does not appear to have been resolved.

### Background

Although the growth in property tax bills has been far lower over the last couple of years, property taxes are still a heavy burden for low-income taxpayers and seniors on fixed incomes. The tax incidence study conducted by the Department of Revenue in 2004 found that the Homestead Tax Credit, which provides relief to homeowners and renters making less than \$24,500 per year, is a critical program in making property taxes less burdensome for low-income households in Wisconsin.

In most respects the Homestead Credit is very well designed. It is a “circuit breaker” credit, which means that it uses a formula that compares property taxes and income, in order to deliver relief to those who most need it. Because it is a refundable credit, it helps people with too little income to

benefit from the nonrefundable property-tax/rent credit. And unlike the lottery credit, the Homestead Credit helps renters as well as homeowners.

The one significant problem with the Homestead Credit is that it is one of the only major portions of our tax code that is not indexed for inflation. Most components of the Homestead formula have not been changed since 1991 (with the exception of the upper income limit, which was last increased in tax year 2001).

### Budget Developments

The Governor’s budget would adjust the Homestead Credit for inflation by indexing all of the factors that go into determining eligibility and the size of the credit. The Joint Finance Committee approved those changes on a bipartisan vote of 10-6, and they were included in the bill approved by the Senate.

As Table 1 shows, the Assembly version of the budget would index the upper income limit for the credit, but would not change the other parts of the formula. As a result, the maximum credit would remain at the level set in 1991.

The Assembly budget bill would also significantly reduce the number of people eligible for the Homestead Credit. It would end credits for unmarried people who are under age 65 and have no dependents. The Fiscal Bureau estimates that

**Table 1: Comparison of Current Law and the Senate and Assembly Budget Bills**

	Current Law	Change since 1991 (in 2007 \$s)	Governor and Senate	Assembly
Maximum credit	\$1,160 (no change since 1991)	-34.5%	Indexes the credit for inflation	Not indexed
Income limit for max. credit	\$8,000 (since 1991)	-34.5 %	Indexes it	Not indexed
Income limit for any credit	\$24,500 (since 2001)	-16.2%	Indexes it	Indexes it
Types of households eligible	All households (except those receiving cash	No change	No change	Ends eligibility for about 81,000

	welfare assistance).			current recipients
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roughly 81,000 Homestead recipients (a little over a third) would lose eligibility, and spending would be reduced in 2007-09 by \$106.6 million.

The most recent tentative budget proposal from Assembly Republicans would remove the changes restricting eligibility, but would not address the credit’s long erosion from inflation.

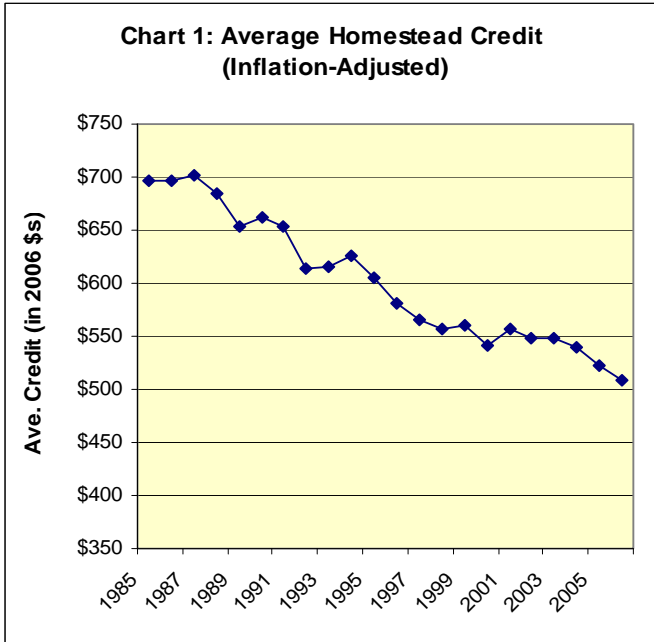
**Erosion of the Homestead Credit**

The failure to adjust the credit for inflation has resulted in a significant reduction in the number of people eligible, a much smaller percentage of taxes offset by the credits, and a large drop in the number of people who meet the income standard for the maximum credit. More specifically, when we took a careful look at the effect of inflation on the Homestead Credit program we found the following:

- The inflation-adjusted value of the maximum credit fell by \$611 or 34.5 percent from 1991 through 2007.
- Despite Wisconsin’s growing population, the number of claims is down 25 percent since 1980.
- The real value of the average credit fell 27 percent from 1985 through 2006 (see Chart 1).
- Inflation-adjusted state spending for the program has declined by 46 percent since its peak in 1980 (through 2006).

**Recommendations**

Optimally, the Homestead Tax Credit should be increased to compensate for its steady erosion by



inflation since 1991. Unfortunately, increasing the credit does not appear to be a viable option at this point in the budget process, but the credit formula should at least be indexed prospectively to prevent the ongoing erosion of the program. If that is not possible in the current fiscal year, then indexing should be initiated in tax year 2008 or 2009.

One argument that is sometimes made against delayed tax cuts or spending increases is that they will contribute to Wisconsin’s structural deficit. That is a very valid argument with respect to some of the delayed tax breaks that currently contribute to the structural deficit – including the elimination of the state estate tax next year and the phase-in of a corporate income tax break from the use of single sales factor apportionment. The proposed phase-in of an expanded deduction for health care premiums would also contribute substantially to the structural deficit.

In contrast to those delayed tax breaks, it is misleading to say that indexing a program or a tax credit for inflation contributes to the structural deficit in any significant way. Like indexing of tax brackets, indexing the Homestead formula prevents future tax increases. **Without any adjustment for inflation, Homestead Tax Credits are expected to decline by \$12.7 million in 2007-09.**

**Conclusion**

The Homestead Tax Credit provides much less property tax relief than it once did because it has been severely eroded by inflation. Although the upper income limit was increased in 2000 and 2001, the other key elements of the formula have not been adjusted since 1991, which has reduced the number of people eligible for credits, the portion of people eligible for the maximum credit, and the effective value of the credits.

The Governor and Legislature should update the Homestead Tax Credit by adjusting the formula for inflation and by indexing it – like other elements of the tax code – so inflation does not keep chipping away at this important tax relief program. If it isn’t adjusted in the current tax year, indexing should at least be initiated by tax year 2009.