

May 14, 2007

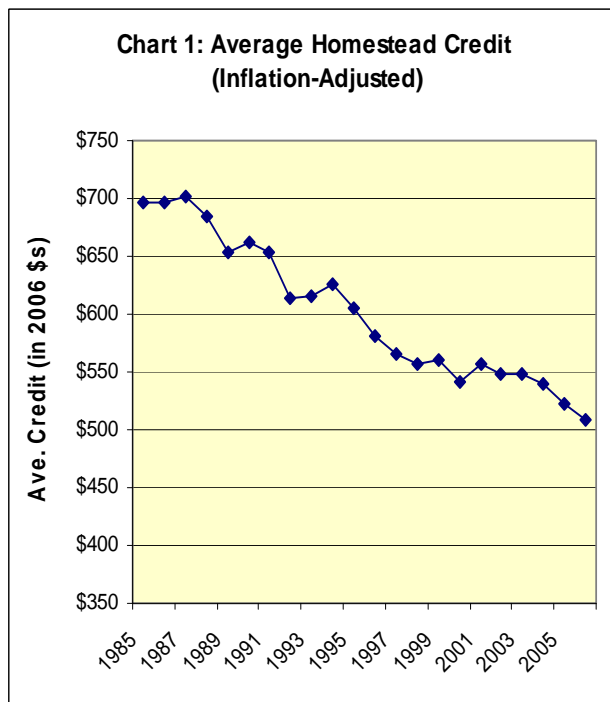
TO: Joint Finance Committee
 FR: Charity Eleson, Executive Director
 RE: Budget Paper #717 – Homestead Tax Credit

The Wisconsin Council on Children and Families (WCCF) supports the Governor’s proposal to index the Homestead Tax Credit. Most elements of the formula used in calculating the credit have not been indexed since 1991, including the maximum credit! The Homestead credit is a very effective form of property tax relief for low-income families and seniors, but it is one of the only significant parts of the tax code that is not indexed for inflation.

Recommendations: We support alternative #1, which would begin indexing the credit formula in TY 2007. However, in light of the cost re-estimate, we could also support delaying indexing until tax year 2008. That motion should apply indexing to the full formula, not just the upper income limit, or else the maximum credit will continue to be frozen. The cost of such a motion would be a small fraction of the cost of alternative #1.

We also strongly support alternative #3, which would increase the income adjustment used in the Homestead formula for families with children.

Discussion: The failure to adjust the Homestead 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, our analysis of effects of inflation on the program revealed the following:

- The inflation-adjusted value of the maximum credit has declined by \$639 or almost 36 percent since 1985.
- Despite Wisconsin’s growing population, the number of claims is down 25 percent since 1980.
- The real value of the average credit has fallen 27 percent since 1985 (see Chart 1).
- Inflation-adjusted state spending for the program fell by 46 percent since its peak in 1980.

The table below provides a more detailed analysis of how the current formula compares to the Homestead Credit parameters in 1985, when inflation is taken into account (using the Consumer Price Index).

The Governor’s proposal to index the Homestead Credit formula does not undo past erosion of the program, but it would be a very welcome and long-overdue adjustment to the program. Paper #716 illustrates the effects of not indexing the credit for inflation. According to that LFB paper, the cost to continue the program in 2007-09 will drop by \$12.7 million if indexing is not approved. The savings reflected in that paper are more than enough to pay for indexing the credit formula, starting in TY 2008.

Alternative #3 would increase the size of the credit for families with dependents, and that is also an overdue change to the program. Currently, there is only a very small adjustment to income for families with children. As a result, the current income ceiling of \$24,500 means that a single person with no children is eligible for the maximum credit until their income reaches 240 percent of the federal poverty level, but for a 5-person family the eligibility ceiling amounts to just 105 percent of poverty.

Homestead Credit Formula Factors: 1985 and 2006

	2006 Parameters	1985 Parameters		1985-2006 change	
		In 1985 \$s	In 2006 \$s	\$s	%
Maximum Credit	\$1,160	\$960	\$1,799	-\$639	-36%
Maximum Property Tax Subject to Credit	\$1,450	\$1,200	\$2,248	-\$798	-36%
Full Benefit Limit	\$8,000	\$7,400	\$13,865	-\$5,865	-42%
Maximum Income Eligible for Credit	\$24,500	\$16,500	\$30,914	-\$6,414	-21%