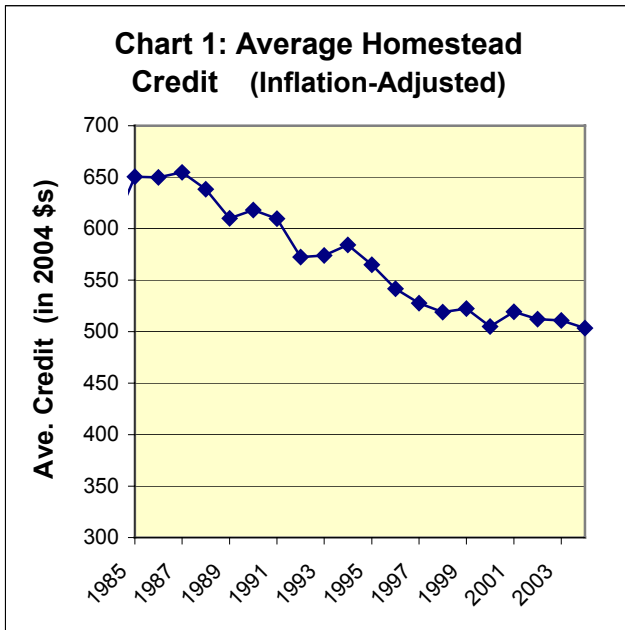


**The Homestead Credit:  
An Effective Form of Property Tax Relief that Is Losing Its Punch**

The growth in property tax bills has picked up in recent years, with net property tax levies rising by 4.7 percent in 2004 and by about 6 percent in 2005. These increases are especially burdensome for low-income taxpayers and seniors on fixed incomes. This paper examines the track record of the Homestead Tax Credit program in helping Wisconsin’s low-income homeowners and renters with rising property tax costs.

**Background**

The recent tax incidence study by the Department of Revenue found that the refundable 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.



The Homestead Credit was created in 1964 to ease the impact of rising property taxes upon senior citizens on fixed incomes. Eligibility was expanded from seniors to the general population in 1974, but seniors are still major beneficiaries of the program. People older than 60 claimed 48 percent of the credits in 2004.

Chart 1 shows that the inflation-adjusted value of the average credit has fallen from \$650 in 1985 to less than \$504 in 2004, a drop of 23 percent. Despite an upturn in credits in recent years, state spending for the program has fallen 44 percent since the peak in 1980 in inflation-adjusted dollars.

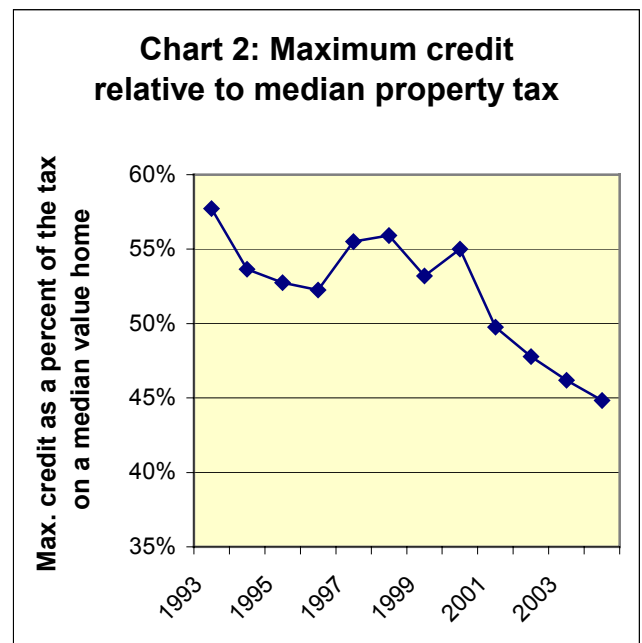
**Eligibility expansion in 2000 & 2001**

In 1999, the Legislature raised the maximum eligible income for the Homestead Credit in two steps to \$24,500, the first increases since 1991.

The changes (which took effect in 2000 & 2001) restored two decades of inflationary loss to the upper income limit, resulting in an increase in the number of families claiming the credit in 2000 – the first increase in six years. More than 237,000 households claimed the credit in 2004, the highest number since 1994.

The changes did not, however, increase the maximum size of the credit or address the underlying erosion in the other factors that determine the value of the credit for families at lower income levels. Total claimants have fallen by 25 percent since fiscal year 1980, primarily because the maximum property tax subject to the credit and the income level eligible for the maximum credit have been deeply eroded by inflation over the past two decades.

The maximum credit has not been increased since 1991, and Chart 2 illustrates how it has fallen over the last decade relative to the property taxes on a median-value home.



## Eligibility for Credit Declining as Families "Indexed Out" by Inflation

This falloff in property tax relief for low-income families is due primarily to the effects of inflation. Real incomes of the lowest two-fifths of families remained steady or fell from the 1970s into the 2000s, but inflation outstripped increases in the "eligibility parameters" for the Homestead Credit.

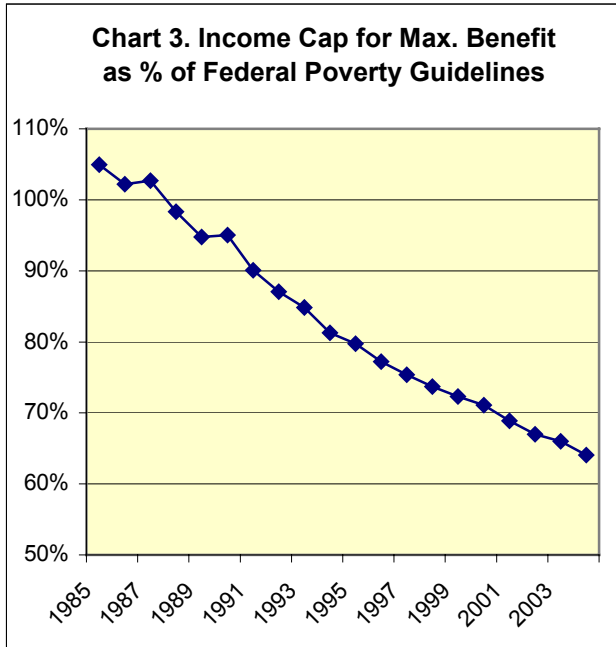


Chart 3 shows one example of these effects. The income cap for the maximum benefit is the level of family income at which the law begins to phase out the credit. Since 1990, this threshold level has been set at \$8,000 – benefits begin to drop off for anyone making more than \$8,000. The graph plots the threshold as a percentage of the U.S. poverty level for a family of two (\$12,490 in 2004), as a means of showing the impact of inflation in decreasing the number of households eligible for the maximum credit.

### Declining Value of the Homestead Credit after Inflation

The value of Homestead Credits is also not keeping up with growing property tax bills (or the property tax component of rent) of low-income families. The following table shows the current eligibility criteria compared to those in

1991 and 1985. It illustrates that the maximum credit was worth 31% less in 2004 than in 1985.

| Homestead Credit Parameters Adjusted for Inflation: 1985, 1991, 2004 |                 |                 |             |                 |             |                          |
|--|-----------------|-----------------|-------------|-----------------|-------------|--------------------------|
|  | 2004 Parameters | 1991 Parameters |             | 1985 Parameters |             | Percent Change 1985-2004 |
|  |                 | In 1991         | In 2004 \$s | In 1985         | In 2004 \$s |                          |
| Maximum Credit   | \$1,160         | \$1,160         | \$1,609     | \$960           | \$1,685     | -31%                     |
| Maximum Property Tax Subject to Credit                               | 1,450           | 1,450           | 2,011       | 1,200           | 2,107       | -31%                     |
| Full Benefit Limit   | 8,000           | 8,000           | 11,095      | 7,400           | 12,991      | -38%                     |
| Maximum Income Eligible for Credit                                   | \$24,500        | \$19,154        | \$26,565    | \$16,500        | \$28,967    | -15%                     |

## 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 had these results:

- The value of the maximum credit is 28% less than it was in 1991 and 31% less than in 1985.
- Despite Wisconsin's growing population, the number of claims has fallen by 25% since 1980.
- The inflation-adjusted value of the average credit has fallen 25% since 1980.

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.