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Homestead Credit Eroded by Inflation and Stagnant Rates

Result is Less Help for Wisconsin's Seniors and Low-income Working Families

Madison – A report issued today by the Wisconsin Council on Children and Families concludes the effectiveness of a key property tax relief program is being undermined because the program is not indexed for inflation.

The report examines the Homestead Tax Credit and the value of credits over time when measured in inflation-adjusted dollars. The Homestead program provides tax credits of up to \$1,160 for homeowners and renters making less than \$24,500. The maximum credit has not been increased since 1991.

Among the key findings in the report is that the value, in real dollars adjusted for inflation, of the maximum credit is 28 percent less than in 1991. In addition, the average credit is now worth 25 percent less than in 1980 in property tax reduction.

“This is a serious erosion in the effectiveness of this property tax relief tool as a result of inflation,” said Charity Eleson, Executive Director of the Wisconsin Council on Children and Families. “Despite an increasing population in Wisconsin, the number of claims has fallen; fewer senior citizens and low income families are seeing the benefit of this targeted property tax relief program.”

The Department of Revenue released a report in December that found the Homestead Tax Credit plays an extremely important role in making property taxes less burdensome for many in Wisconsin. More than 237,000 households claimed the credit in 2004, and 48 percent of the claimants were at least 60 years old.

The Homestead Credit is an essential benefit for low-income families and for senior citizens on fixed incomes Eleson said. “If the State of Wisconsin wants to provide targeted property tax relief to those at risk of being taxed out of their homes, senior citizens and limited income families, we should invest in the Homestead Tax Credit and adjust it for inflation.”

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In 1999, the Legislature raised the maximum eligible income, but did not increase the maximum size of the Homestead Credit or address the underlying erosion in the other formula factors that determine its value. According to Jon Peacock, the Research Director of the Wisconsin Council on Children and Families, the Homestead Tax Credit is one of the only parts of the state tax code that is not indexed for inflation. .

The value of the Homestead Credits is also not keeping up with growing property tax burdens on senior citizens and low-income families. The average credit in 2004 was about \$504, compared to \$650 in 1985, when measured in inflation-adjusted dollars. In 1993 the maximum credit, which is available to families with incomes below \$8,000, would cover 58 percent of the property tax on an average home, but in 2000 the maximum credit would cover just 45 percent of the average property tax.

“We all know that property taxes will be a centerpiece this Legislative session. We hope that policy makers examine the benefits of the Homestead Tax Credit and explore policy changes to improve the program for senior citizens and working families who have been hit the hardest by property tax increases,” Eleson said.

The report recommends the Governor and the Legislature 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 the effective property tax relief that is delivered through this program.

The entire report is available at wccf.org

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