

Date: May 11, 2009

To: Joint Finance Committee

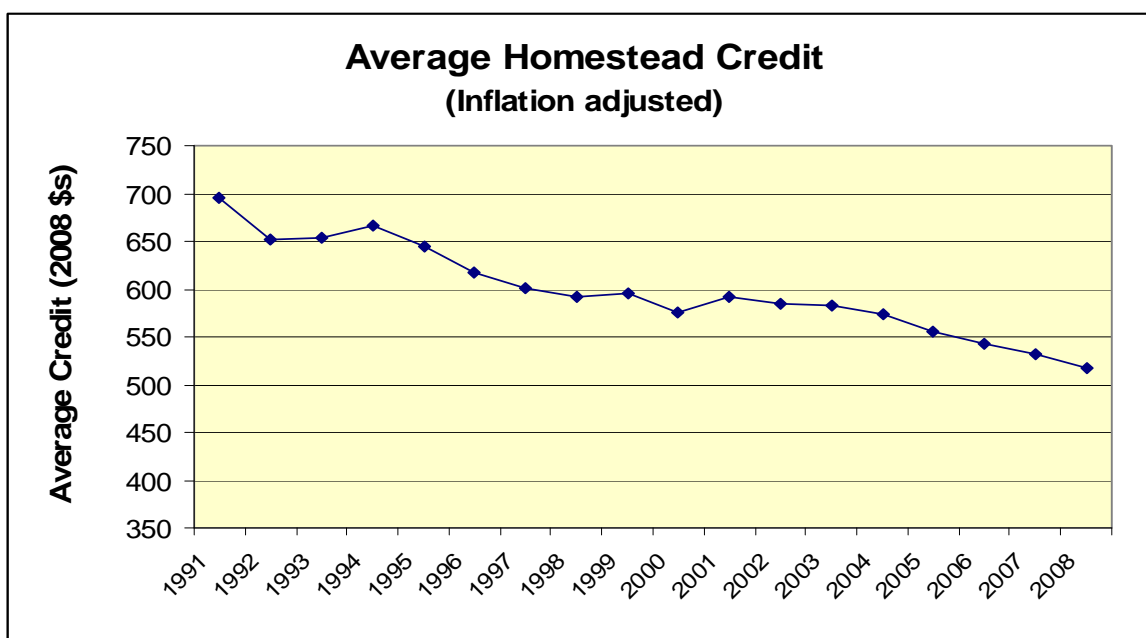
From: Charity Eleson, Executive Director, Wisconsin Council on Children and Families
Tom Frazier, Executive Director, Coalition of Wisconsin Aging Groups
Lisa Lamkins, Advocacy Director, AARP Wisconsin
Milwaukee County Commission on Aging

Re: Budget Paper #707 – Homestead Tax Credit Formula: Support Fully Indexing the Credit

We urge the Joint Finance Committee to change the Homestead Tax Credit formula so the full formula is adjusted annually for inflation. This credit is an extremely important and well-targeted form of property tax relief, but the maximum size of the credit has not been increased since 1991.

Recommendations: In light of the long erosion of the credit, our first choice would be alternative 4, which would fully index the credit, using 2007 as the base year for calculating the adjustments. That alternative would increase the credit in 2009-11 by an estimated \$5 million. If the budget bill decreases local aid for property tax relief, it will be all the more important to deliver well targeted property tax relief to low-income households.

Of course, we realize that the state's fiscal situation makes it difficult to adopt items with a fiscal cost in this biennium. If no funding can be found for adjustments that increase the credit in the 2009-11 biennium, our second choice is alternative 3, which also fully indexes the credit formula. Like the Governor's proposal, it would use August 2008 as the base and would have no net cost in this biennium, but when inflation returns it would index the full formula.



(Source: Wisconsin Budget Project analysis of DOR data)

Discussion: As the chart illustrates, the failure to adjust the Homestead credit for inflation has resulted in a 26 percent drop in the value of the average credit since 1991. The Wisconsin Budget

Project's analysis of program trends and the effects of inflation on the credit also reveals the following:

- The value of the maximum credit has declined by \$674 or almost 37 percent since it was last increased in 1991.
- Despite Wisconsin's growing population, the number of credits is down 26% since 1980 because inflation has made fewer people eligible.
- Inflation-adjusted state spending for the program has dropped by 50 percent since its peak in 1980.

The Homestead credit is one of the only significant parts of the Wisconsin tax code that isn't indexed for inflation. The Governor's proposal would annually adjust the income limit for the credit, but would leave the maximum credit where it's been since 1991. **The full formula should be adjusted for inflation each year to stop future erosion of this very important program.**