

Property Tax Relief Programs and Property Tax Burdens

David Baer

AARP

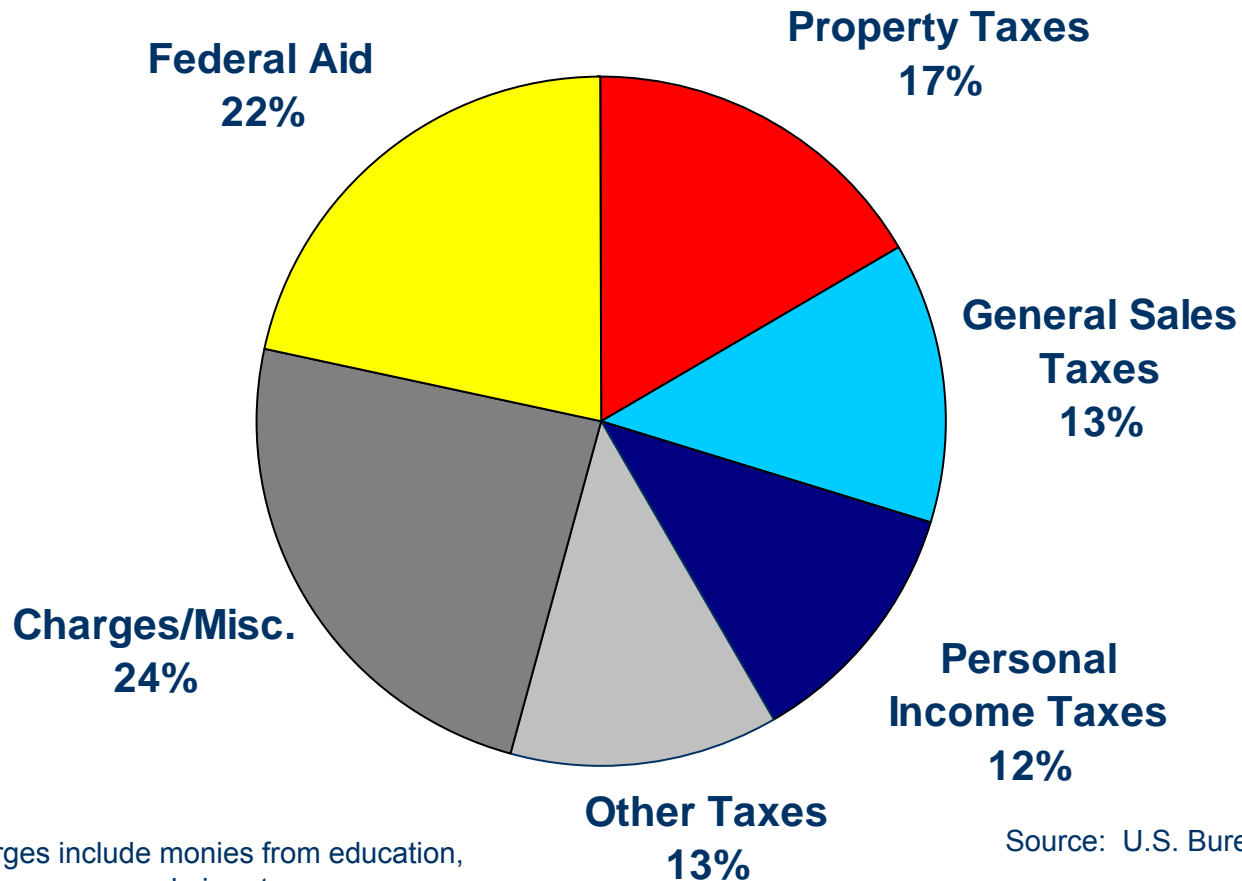
dbaer@aarp.org

August 19, 2008

Property Tax Presentation

- Importance of Property Taxes
- Property Tax Relief Programs
- Property Tax Burdens

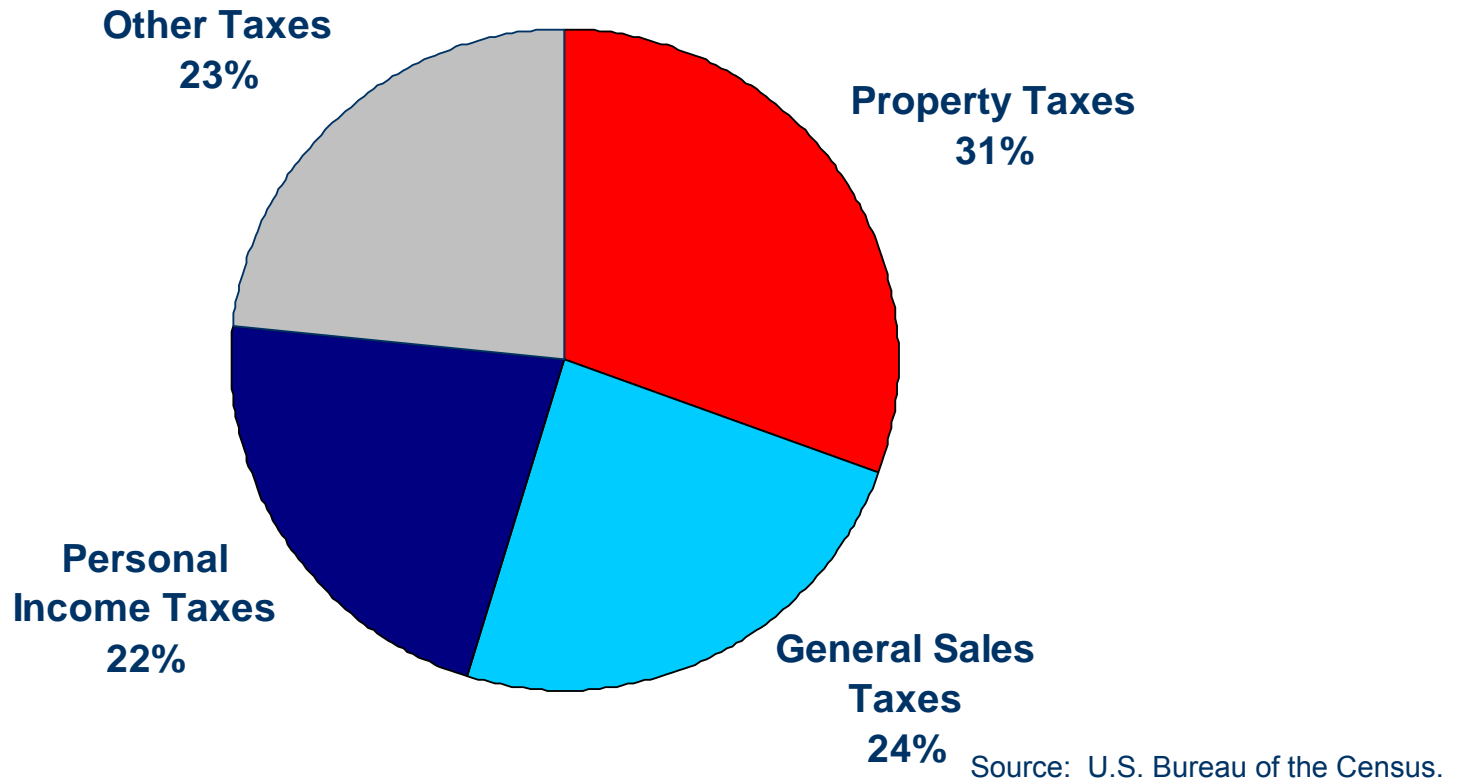
State and Local Government General Revenue Sources, FY 2005



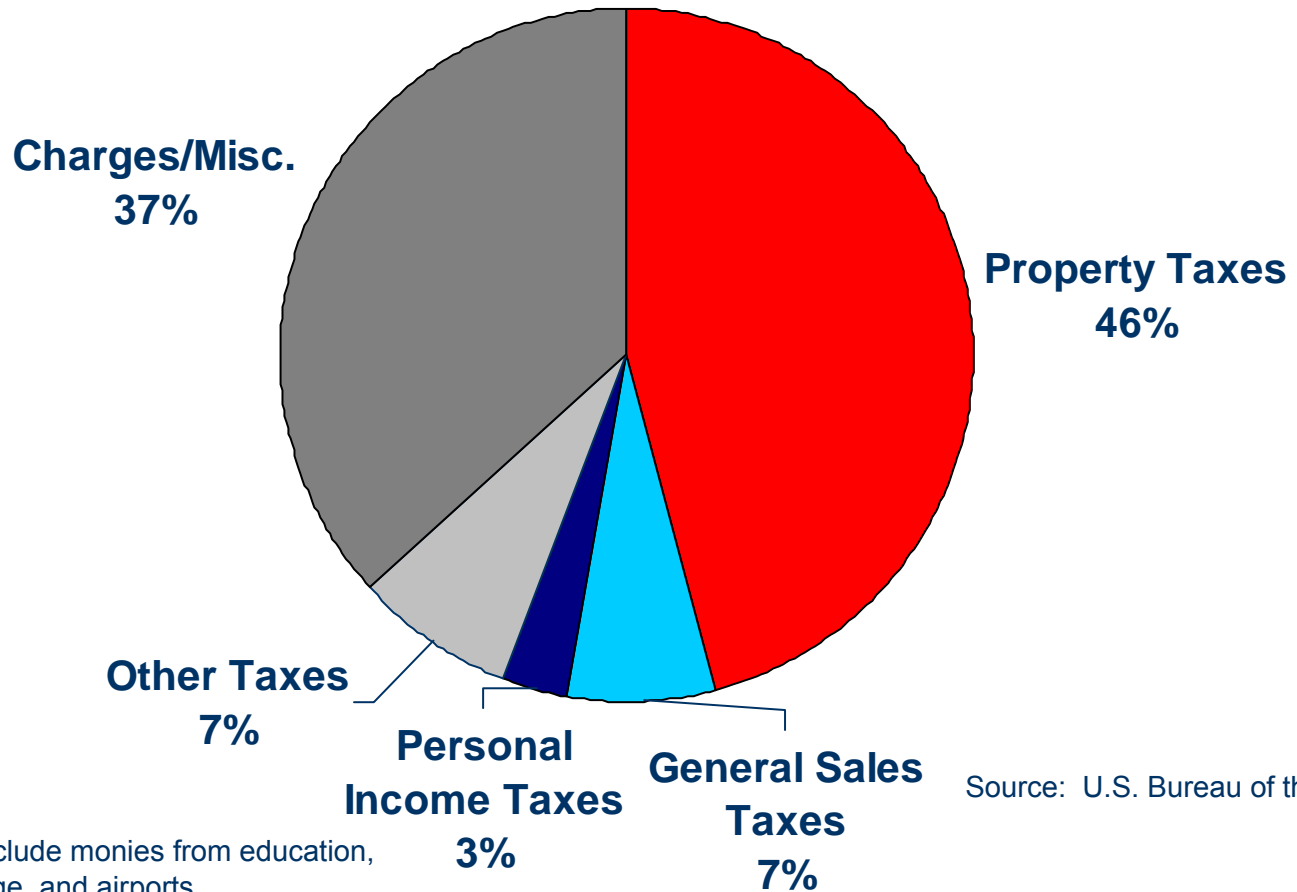
Note: Charges include monies from education, hospitals, sewerage, and airports.

Source: U.S. Bureau of the Census.

State and Local Government General Taxes, FY 2005

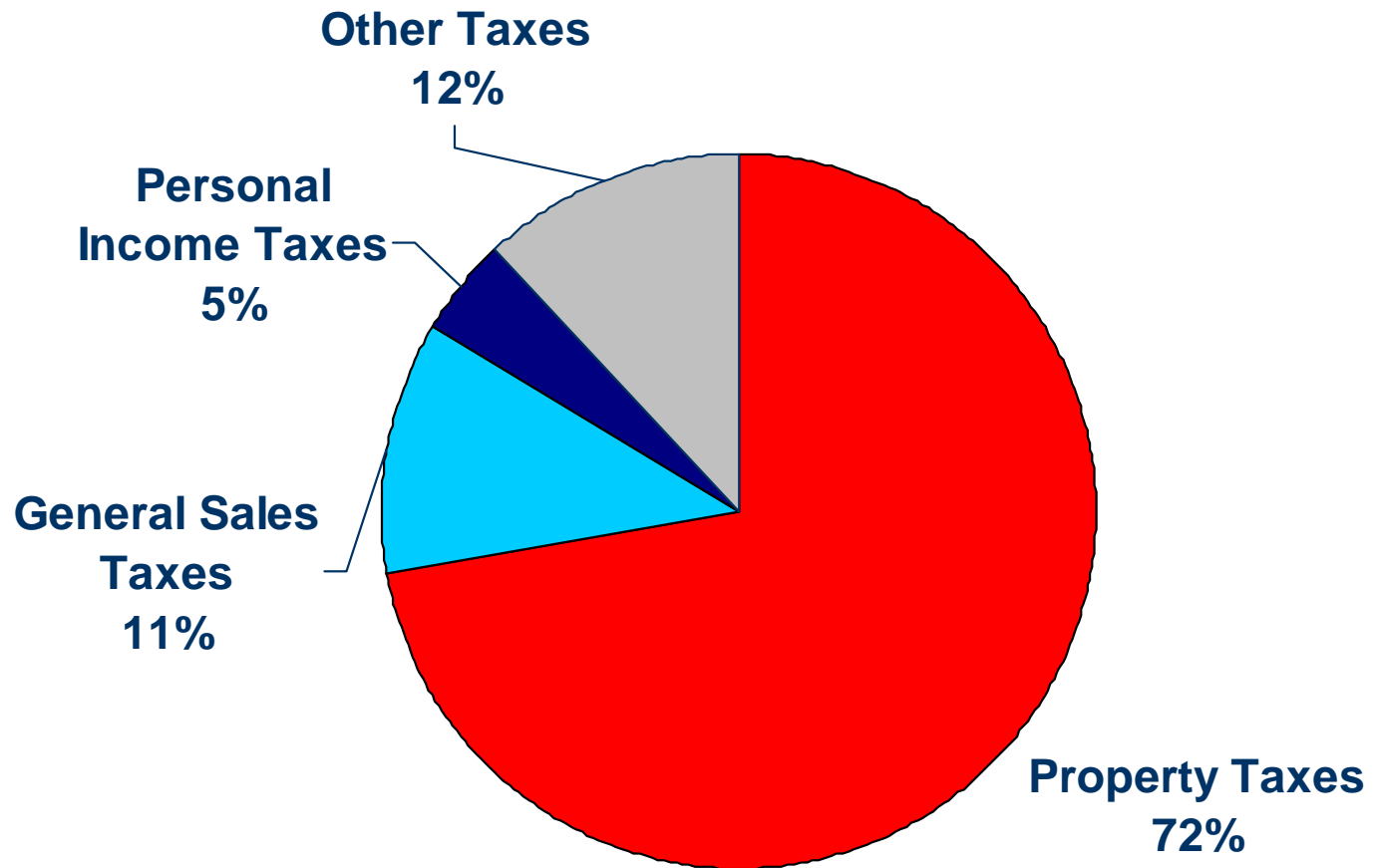


Local Government General Revenue Sources, FY 2005



Source: U.S. Bureau of the Census.

Local Government Tax Revenues, FY 2005



Source: U.S. Bureau of the Census.

Property Tax Relief Programs

- Circuit Breakers
- Homestead Exemptions
- Homestead Credits
- Property Tax Deferrals

Circuit Breaker Programs

- Circuit breaker programs provide tax credits or homestead exemptions that decrease as income increases.
- Thirty-four states and DC have circuit breaker programs.
- Nebraska, New York, North Dakota, and Washington offer homestead exemptions that act as circuit breaker programs.

Circuit Breaker Programs

- About two-thirds of states restrict circuit breaker programs to older or disabled households.
- Generally, circuit breaker programs are more generous to older homeowners than to younger homeowners.
- Six states have asset test requirements for eligible homeowners.

Circuit Breaker Programs

- Twenty-six states and DC have circuit breaker programs for renters.
- Generally, states assume that renters pay a prescribed percentage of property taxes.

Circuit Breaker Programs

- Circuit Breaker Types
 - Sliding Scale Approach
 - Threshold Method
- Eligibility Criteria
 - Homeowners or Renters or Both
 - Age
 - Income
 - Assets
 - Disability
 - Minimum residency requirements

Idaho's Circuit Breaker Program for 2008

Lower Income Bracket*	Upper Income Bracket*	Maximum Benefit Eligibility
\$ 0	\$ 11,270	\$1,320
11,271	11,750	1,290
11,751	12,220	1,250
12,221	12,690	1,220
.	.	.
.	.	.
27,021	27,490	190
27,491	28,000	150

*Income brackets equal household incomes minus medical expenses.

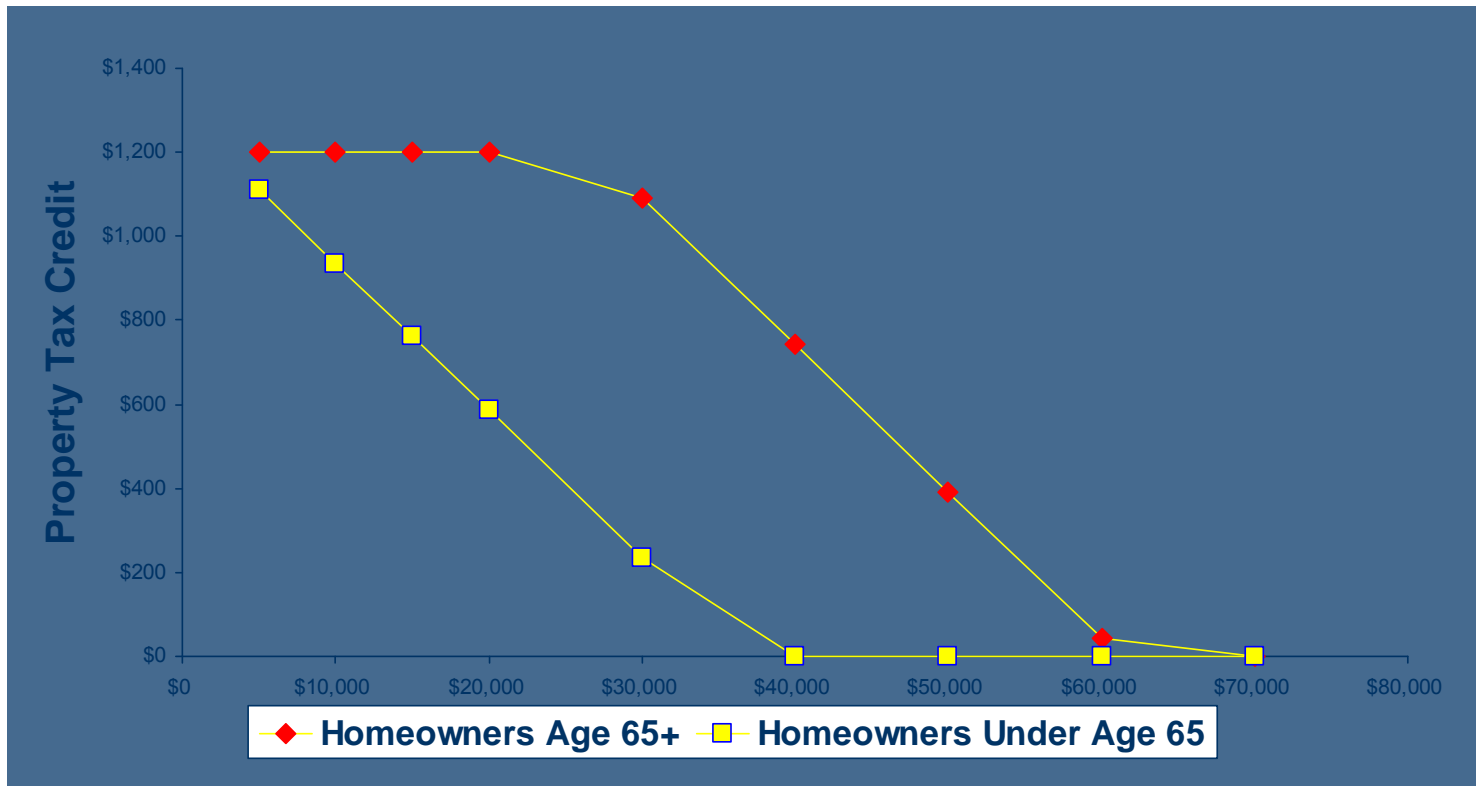
Michigan's Circuit Breaker Program for Households Under Age 65

Household Income	Tax Credit Formula
\$0 to \$73,650	60 percent of property taxes in excess of 3.5% of income, up to \$1,200
\$73,651 to \$82,650	60 percent of property taxes in excess of 3.5% of income minus 10% of credit for each \$1,000 of income exceeding \$73,650 up to \$1,200

Michigan's Circuit Breaker Program for Households Age 65 and Older

Household Income	Tax Credit
\$0 to \$3,000	All property taxes owed up to \$1,200
\$3,001 to \$4,000	Property taxes in excess of 1.0% of income up to \$1,200
\$4,001 to \$5,000	Property taxes in excess of 2.0% of income up to \$1,200
\$5,001 to \$6,000	Property taxes in excess of 3.0% of income up to \$1,200
\$6,001 and over	Property taxes in excess of 3.5% of income minus 10% of credit for every \$1,000 of income exceeding \$73,650

Michigan Circuit Breaker Program*



Property tax liability equals \$2,143.

Household Income

Homestead Exemption Programs

- Homestead exemptions are reductions in the amount of assessed property values for owner-occupied homes.
- Forty-one states and DC have homestead exemptions.

Homestead Exemption Programs

- Most states provide homestead exemptions to homeowners of all ages.
- The value of homestead exemptions depends on the assessment level.

Homestead Exemptions at Different Assessment Levels

Fair Market Value of Homes	Assessment Levels	Assessed Value	Homestead Exemption	Taxable Value
\$100,000	20%	\$20,000	\$10,000	\$10,000
\$100,000	40%	\$40,000	\$10,000	\$30,000
\$100,000	80%	\$80,000	\$10,000	\$70,000

Homestead Credit Programs

- Homestead credit programs offer the same property tax credit to all eligible homeowners.
- Sixteen states and DC have homestead credits.
- Most states provide homestead credits to homeowners of all ages.

Property Tax Deferrals

- Property tax deferral programs allow homeowners to postpone payment of their property taxes until their house is sold.
- Deferred property taxes plus interest are a lien against the value of the home.
- Homeowners pay interest against the amount of deferred property taxes.

Property Tax Deferrals

- Generally, the maximum amount of deferred property taxes is related to a home's equity or market value.
- Twenty-six states and DC provide property tax deferral programs.
- Participation rates are very low.

Property Tax Deferrals

- Almost all programs are for older or disabled homeowners.
- Washington allows older homeowners who are delinquent in their property taxes to automatically be placed in the state's property tax deferral program.

Awareness Rates of Property Tax Relief Programs in the US*

- **66 percent** of eligible respondents are aware of homestead exemptions.
- **31 percent** of eligible respondents are aware of property tax credits.
- **20 percent** of eligible respondents are aware of property tax deferrals.

*Respondents were AARP members age 65 and older.

Source: Baer, David, *Awareness and Popularity of Property Tax Relief Programs* (Washington, DC: AARP, February 1998).

Application Rates of Property Tax Relief Programs in the US*

- **17 percent** of eligible respondents applied for homestead exemptions.
- **3 percent** of eligible respondents applied for property tax credits.
- **Less than 1 percent** of eligible respondents applied for property tax deferrals.

*Respondents were AARP members age 65 and older.

Source: Baer, David, *Awareness and Popularity of Property Tax Relief Programs* (Washington, DC: AARP, February 1998).

Factors Affecting Property Tax Burdens

- Property Tax Relief Programs
- Caps or Freezes on Property Values, Tax Rates, or Property Taxes
- Tax Rates
- Fractional Assessment Ratios

Property Tax Burden Study Characteristics

- Geographic Level
- Age Group
- Income Group
- Property Tax Burden Measures
- Existing or New Hypothetical Homeowners

AARP Residential Property Tax Burden Study in 2005

- Goals
 - Estimate the overall property tax burden of all homeowners, homeowners under age 65, and homeowners age 65 and older.
 - Estimate the property tax burden by income quartile for each of the age groups.
- Data Source
 - 2005 American Community Survey

AARP Residential Property Tax Burden Study in 2005

- Methodology and Caveats
 - Either spouse could be age 65 or older to be classified as an older homeowner household.
 - Both spouses must be younger than age 65 to be classified as a younger homeowner household.
 - Property tax burdens equaled property taxes divided by family income plus the income of any unmarried partner for each household.

AARP Residential Property Tax Burden Study in 2005

- Methodology and Caveats (continued)
 - The median property tax burden for each age and income group was calculated for each state.
 - Property tax liabilities did not take into account property tax relief programs in some states.

AARP Residential Property Tax Burden Study in 2005

Five Highest Property Tax Burdens

Homeowners Under Age 65		Homeowners Age 65-Plus	
State	Median Property Taxes as a Percent of Family Income	State	Median Property Taxes as a Percent of Family Income
New Jersey*	5.8	New Jersey*	10.5
New Hampshire	5.2	New Hampshire	8.4
Vermont	4.4	Connecticut	8.3
Connecticut	4.4	Vermont	7.6
New York	4.3	Rhode Island	7.3

Source: U.S. Census Bureau, 2005 American Community Survey

*Starting in 2007, New Jersey homeowners receive up to a \$2,000 tax credit (depending on household income).

AARP Residential Property Tax Burden Study in 2005

Five Lowest Property Tax Burdens

Homeowners Under Age 65		Homeowners Age 65-Plus	
State	Median Property Taxes as a Percent of Family Income	State	Median Property Taxes as a Percent of Family Income
Louisiana	0.3	Louisiana	0.3
Alabama	0.6	Mississippi	0.4
West Virginia	0.9	Alabama	0.6
Arkansas	1.0	West Virginia	0.9
Mississippi	1.0	Delaware	1.4

Source: U.S. Census Bureau, 2005 American Community Survey

AARP Residential Property Tax Burden Study in 2005

Five Highest Property Tax Burden States

State	Median Property Taxes as a Percent of Family Income*	State	Property Taxes as a Percent of State Personal Income**
New Jersey	6.5	New Hampshire	5.6
New Hampshire	5.6	Maine	5.5
Vermont	4.9	Vermont	5.4
Connecticut	4.9	New Jersey	5.3
Wisconsin	4.7	Wyoming	5.0

*Property taxes only include residential property.

**Property taxes include residential, commercial, and industrial real property (i.e., land and structures) as well as personal property (e.g., automobiles and boats).

Sources: U.S. Census Bureau, 2005 American Community Survey, U.S. Census Bureau, 2004 Annual Survey of Government Finance, and the U.S. Department of Commerce, Bureau of Economic Analysis.

AARP Residential Property Tax Burden Study in 2005

Five Lowest Property Tax Burden States

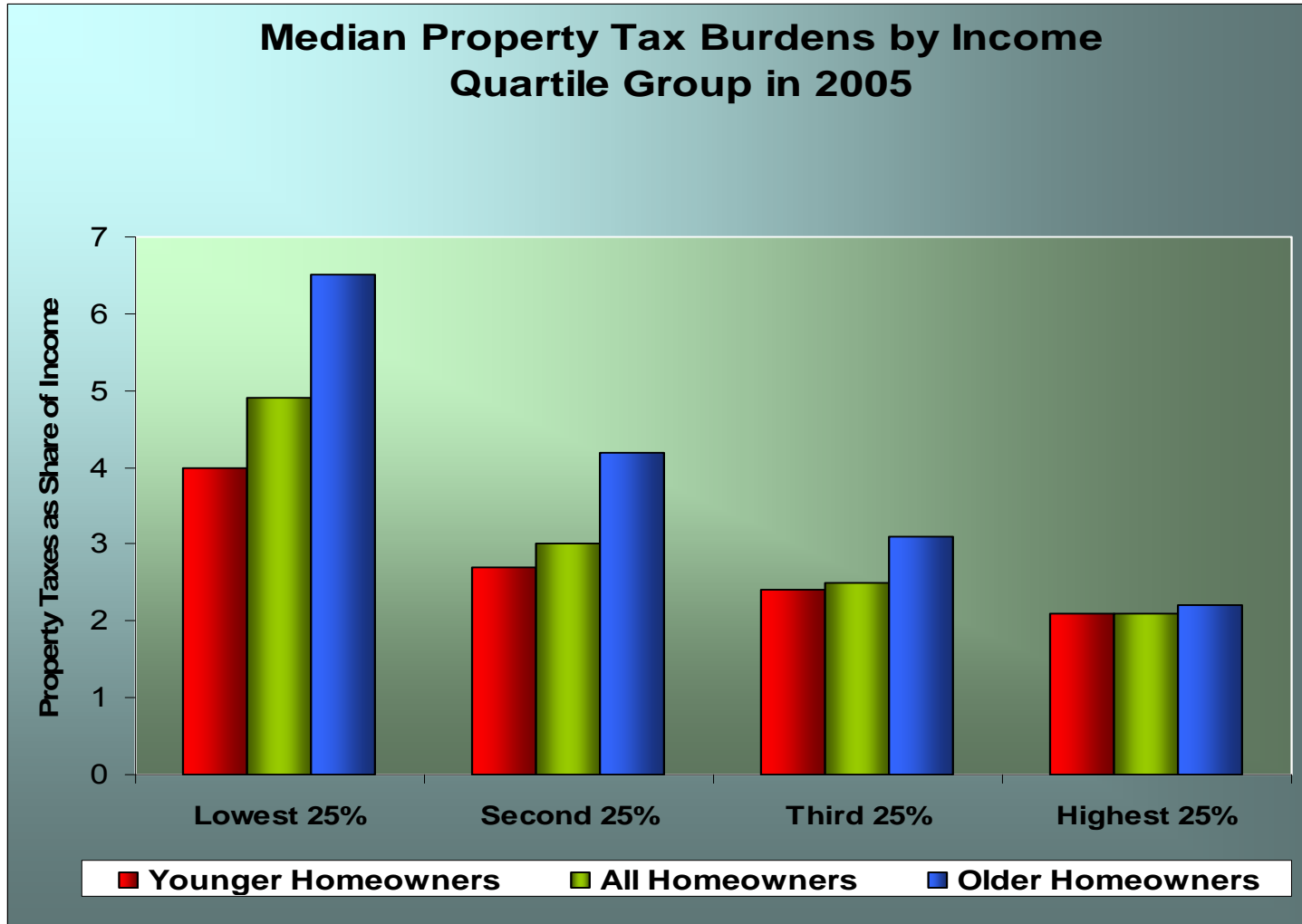
State	Median Property Taxes as a Percent of Family Income*	State	Property Taxes as a Percent of State Personal Income in 2005**
Louisiana	0.3	Alabama	1.4
Alabama	0.6	Arkansas	1.7
Mississippi	0.9	Delaware	1.7
West Virginia	0.9	New Mexico	1.7
Arkansas	1.1	Oklahoma	1.7

*Property taxes only include residential property.

**Property taxes include residential, commercial, and industrial real property (i.e., land and structures) as well as personal property (e.g., automobiles and boats).

Sources: U.S. Census Bureau, 2005 American Community Survey, U.S. Census Bureau, 2004 Annual Survey of Government Finance, and the U.S. Department of Commerce, Bureau of Economic Analysis.

AARP Residential Property Tax Burden Study in 2005



Source: U.S. Census Bureau, 2005 American Community Survey

AARP Residential Property Tax Burden Study in 2005

Conclusions

- Generally, the average residential property tax burdens of homeowners age 65-plus exceed the property tax burdens of younger homeowners for each of the states.
- Property taxes are generally found to be regressive for all homeowners, homeowners under age 65, and homeowners age 65-plus.
- The states with the highest residential property tax burdens are mostly in the New England and Middle-Atlantic regions. They include New Jersey, New Hampshire, Vermont, and Connecticut.

AARP Residential Property Tax Burden Study in 2005

Conclusions (continued)

- Most of the states with the lowest residential property tax burdens are in the South and include Louisiana, Alabama, Mississippi, West Virginia, and Arkansas.
- Some households, especially older households and those with lower incomes, may have a lower property tax burden than that estimated from American Community Survey data, since they are eligible for property tax relief programs that do not directly lower a homeowner's property tax bill.

References

Awareness and Popularity of Property Tax Relief Programs:

http://assets.aarp.org/rgcenter/econ/9803_tax.pdf

State and Local Property Tax Burdens in 2005:

http://assets.aarp.org/rgcenter/econ/2007_09_tax.pdf

State Handbook of Economic, Demographic, and Fiscal Indicators 2008:

http://www.aarp.org/research/reference/statistics/d19014_fiscal.html

State Programs and Practices for Reducing Residential Property Taxes:

http://assets.aarp.org/rgcenter/econ/2003_04_taxes.pdf