Using the American Community Survey in Fiscal Impact Analysis: The Property Tax Circuit Breaker

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What is a Property Tax Circuit Breaker?

1. A tax policy designed to reduce property tax burdens for taxpayers with a high property tax-to-income ratio.

2. Typically includes a maximum percentage of income above which a qualifying filer is not expected to pay in property taxes; if this limit is exceeded, taxpayer receives a credit or rebate.

3. Currently 17 states and the District of Columbia have a circuit breaker program.
D.C.’s Property Tax Circuit Breaker – Parameters

1. Eligibility
   • All ages (different formula for elderly, blind, and disabled)
   • Owners and renters (15% of rent=property tax equivalent)

2. Structure
   • Income (household) ceiling of $20,000;
   • Maximum benefit of $750;
   • Credit varies based on income, age, and disability status; and
   • Applied as a refundable income tax credit.
   • Parameters have not changed since 1978 when the program started.

D.C.’s Property Tax Circuit Breaker – Credit Formula

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Credit Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claimants less than 62 who are not blind or disabled</td>
<td></td>
</tr>
<tr>
<td>Less than $2,999</td>
<td>95 percent of tax in excess of 1.5% of income</td>
</tr>
<tr>
<td>$3,000 to $4,999</td>
<td>75 percent of tax in excess of 2.0% of income</td>
</tr>
<tr>
<td>$5,000 to $6,999</td>
<td>75 percent of tax in excess of 2.5% of income</td>
</tr>
<tr>
<td>$7,000 to $9,999</td>
<td>75 percent of tax in excess of 3.0% of income</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>75 percent of tax in excess of 3.5% of income</td>
</tr>
<tr>
<td>$15,000 to $20,000</td>
<td>75 percent of tax in excess of 4.0% of income</td>
</tr>
<tr>
<td>Claimants 62 or older or who are blind or disabled</td>
<td></td>
</tr>
<tr>
<td>Less than $4,999</td>
<td>100 percent of tax in excess of 1.0% of income</td>
</tr>
<tr>
<td>$5,000 to $9,999</td>
<td>100 percent of tax in excess of 1.5% of income</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>100 percent of tax in excess of 2.0% of income</td>
</tr>
<tr>
<td>$15,000 to $20,000</td>
<td>100 percent of tax in excess of 2.5% of income</td>
</tr>
</tbody>
</table>
Illustration of D.C.’s Property Tax Circuit Breaker

A non-elderly, non-disabled taxpayer in D.C. rents an apartment for $9,000 per year and has an annual household income of $18,000.

Step 1: Determine “Property Tax Rent Equivalent”
- Property Tax Rent Equivalent is 15% in D.C.
- Thus, this taxpayer is assumed to pay $1,350 in property taxes ($9,000 x 15%).

Step 2: Calculate “excess” property tax burden
- Property Tax – (4% of Income) = Excess
- $1,350 - $720 = $630

Step 3: Calculate circuit breaker credit
- 75% of $630 = $473 in the form of refundable income tax credit

D.C.’s Property Tax Circuit Breaker: Snapshot (TY 2007)

Number of Filers Claiming Credit – 7,209
  Under 62 years of age – 5,218 or 72% of total
  Age 62 or older – 1,991 or 28% of total

Total Value of Credits Claimed - $3.8 million
  This is 0.9% of total residential real property tax liability

Number Claiming Maximum Credit – 2,477 (34% of total)

Renter vs. Owner Claimants – 86% vs. 14%
Estimating the Fiscal Impact of Changes to the Circuit Breaker

1. The Issue:
   • D.C. income and property tax files are not linked.
   • Even if income and property files were linked, tax files do not contain data on rents.
   • Thus, we do not know the eligible universe and we cannot estimate the cost of changes from tax files.

2. The Answer?
   • The American Community Survey (ACS)

Understanding the ACS

What is the ACS?
   • U.S. Census Bureau, largest annual demographic survey
   • Provides reliable single-year estimates at the state level
   • Survey of approximately 3 million addresses, designed to replace traditional decennial census long form
   • Includes data on income, property taxes, ownership status, and demographic characteristics of residents

What are limits of ACS?
   • All data are self-reported
   • Property tax data are categorical
   • ACS unit of analysis=household; tax data unit=filer
Estimating Participation in the D.C. Circuit Breaker Program

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Owners</th>
<th>Renters</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= $20,000</td>
<td>8,054</td>
<td>38,722</td>
<td>46,776</td>
</tr>
</tbody>
</table>

Implied Take-Up

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Owners</th>
<th>Renters</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= $20,000</td>
<td>1,143</td>
<td>6,066</td>
<td>7,209</td>
</tr>
</tbody>
</table>

Actual Participation – D.C. Schedule H

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Owners</th>
<th>Renters</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= $20,000</td>
<td>14.2%</td>
<td>15.7%</td>
<td>15.4%</td>
</tr>
</tbody>
</table>

Modeling Changes Using the ACS

Options for the D.C. Circuit Breaker Program

- Baseline assumptions for options:
  - Calculation of “excess” burden is 3.0% of income
  - Credit is 100% of excess above 3.0% of income
  - Property tax rent equivalent is 15%
  - Participation rate is conservatively estimated at 25%
  - Credit is same for all ages and disability status
- Options:
  - Increase income limit
  - Increase maximum credit
## Estimating Costs in the D.C. Circuit Breaker Program

<table>
<thead>
<tr>
<th>Income Limit</th>
<th>Maximum Credit</th>
<th>Eligible Households</th>
<th>Estimated Total Cost</th>
<th>Estimated Incremental Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$750</td>
<td>62,596</td>
<td>$8.6 million</td>
<td>$4.8 million</td>
</tr>
<tr>
<td>$30,000</td>
<td>$1,000</td>
<td>62,596</td>
<td>$10.4 million</td>
<td>$6.6 million</td>
</tr>
<tr>
<td>$40,000</td>
<td>$750</td>
<td>80,200</td>
<td>$10.9 million</td>
<td>$7.1 million</td>
</tr>
<tr>
<td>$40,000</td>
<td>$1,000</td>
<td>80,200</td>
<td>$13.2 million</td>
<td>$9.4 million</td>
</tr>
<tr>
<td>$50,000</td>
<td>$750</td>
<td>92,216</td>
<td>$12.4 million</td>
<td>$8.6 million</td>
</tr>
<tr>
<td>$50,000</td>
<td>$1,000</td>
<td>92,216</td>
<td>$14.8 million</td>
<td>$11.0 million</td>
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