

LRB RESEARCH AND ANALYSIS MEMORANDUM

Friday, January 04, 2008

To: Ald. Robert Donovan

From: Tom Shaffer, Fiscal Review Analyst Senior, Legislative Reference Bureau

Re: Property Tax Relief

This memo is an update on information that LRB provided you in 2005 regarding the Wisconsin Homestead Tax Credit Program, and on California property tax relief programs. LRB obtained this information by conducting Internet searches and interviewing program officials.

Wisconsin Homestead Tax Credit benefits and inflation adjustments. The equation for determining benefits has 3 variables that could be adjusted for inflation. These are income, maximum property tax claim and income threshold.

For calendar year 2007 claims, the credit is available to households with income less than \$24,500. This household income ceiling has remained unchanged since 2001. The Bureau of Labor Statistics of the U.S. Department of Labor states that the Consumer Price Index has risen by 10.9% since 2001 in the Milwaukee/Racine area. An increase of the ceiling by 10.9% would make the credit available to households with incomes less than \$27,171. For renters, 25% of rent is considered to be property taxes if the rent payment does not include heat; 20% of rent is considered to be property taxes if rent includes heat.

The parameters used to compute the credit allowed to a homestead claimant are as follows:

- The property tax ceiling, the maximum amount of property taxes allowed to be claimed toward the credit, is \$1,450. This property tax ceiling has remained unchanged since 1991.
- The income threshold, the amount of household income at which homestead benefits begin to phase out, is \$8,000. This income threshold has remained unchanged since 1990. For persons with income equal to or below the threshold, the credit is 80% of the property tax paid up to \$1,450.
- For persons with income above \$8,000, the credit is equal to 80% of the amount by which the reported property tax exceeds 8.788% of household income in excess of \$8,000. That is:

Credit= .80 x [Property tax - .08788 x (Household Income –\$8,000 Income threshold)].

- The maximum actual credit available is \$1,160 (i.e., 80% x \$1,450).

An increase in any or all of these variables will increase the amount of the credit. An increase in the household income level will allow a larger population to qualify for this credit. A total of 239,546 Wisconsin tax filers claimed homestead credits amounting to \$121.9 million in fiscal year 2006. The average household income was \$13,113, and the average credit was \$509.

A total of 56,843 Milwaukee County tax filers claimed homestead credits amounting to \$31.6 million in fiscal year 2006. The Milwaukee County share was 26% of the statewide credit claimed. The average household income was \$12,645 and the average credit was \$556.

Any increase in homestead tax credits would require the appropriation of additional funds to the state general revenue account. This is because any increase in the tax credit has the net effect of increasing general revenue outlays for the homestead program, by decreasing the amount of revenues deposited in the general revenue fund.

California. California offers 3 programs to assist senior citizens or blind or otherwise disabled persons with property tax relief. The programs are the Homeowner Assistance Program, the Renter Assistance Program and the Property Tax Postponement Program.

California Homeowner Assistance Program. This program allows a once-a-year payment from the State of California to qualified individuals based on part of the property taxes assessed and paid on their homes. For the 2007 claim year, the maximum amount of assistance that an eligible homeowner may receive is \$472.60, which is 139 % of the property taxes paid on the first \$34,000 of full value of the home (139% x \$340). An applicant must meet all of the following eligibility criteria:

- Must be a United States citizen, designated alien or qualified alien when the claim is filed.
- Is 62 years of age or older or blind or otherwise disabled.
- Own and live in their own home.
- Have a total household annual income of \$42,770 or less.

A total of 132,087 California claimants received payments amounting to \$35.8 million in fiscal year 2006. The average household income was \$19,127, and the average payment was \$271.

California Renter Assistance Program. This program allows a once-a-year payment from the State of California to qualified individuals based on part of the property taxes that they paid indirectly when they paid their rent. The maximum amount of assistance that a claimant may receive is 139% of \$250, the statutory property tax equivalent (139% x \$250), which is \$347.50. An applicant must meet all of the following eligibility criteria:

- Must be a United States citizen, designated alien or qualified alien.
- Is 62 years of age or older or blind or otherwise disabled.

- Live in a qualified rented residence in California.
- Have a total household annual income of \$42,770 or less.

A total of 449,049 California claimants received payments amounting to \$141.6 million in fiscal year 2006. The average household income was \$11,357, and the average payment was \$315.

California Property Tax Postponement Program. This program allows eligible homeowners the option of having the state pay the property taxes on their principal places of residence. To be eligible for postponement, the homeowner must meet all of the following criteria:

- Be 62 years of age or older, blind or disabled.
- Own and live in their own home.
- Have a 2006 household income of \$31,500 or less.
- Have a 20% equity interest in the home at the time of application. The application cannot be approved if the total amount of liens, deeds of trust, mortgages and other encumbrances against the home exceeds 80% of its fair market value as determined by the State Comptroller.

The amount of taxes postponed plus accrued interest must be repaid to California when the homeowner dies, sells, moves from the property or allows senior liens to become delinquent. If the applicant is 62 or older and owes delinquent taxes for prior years, the applicant must pay the county tax collector all taxes that became delinquent prior to their 62nd birthday.

Interest is charged on the postponed taxes according to the rate table below:

| Fiscal Year | Rate |
|--------------------|---------------|
| 1977-78 — 1983-84 | 7% per annum |
| 1984-85 — 1986-87 | 10% per annum |
| 1987-88 — 1988-89 | 7% per annum |
| 1989-90 — 1991-92 | 9% per annum |
| 1992-93 | 6% per annum |
| 1993-94 — 2000-01 | 5% per annum |
| 2001-02 | 6% per annum |
| 2002-03 — 2003-04 | 3% per annum |
| 2004-05 — 2005-06 | 2% per annum |
| 2006-07 | 4% per annum |
| 2007-08 | 5% per annum |

Please contact me at X8661 if you any questions regarding this information.