

Informational Paper 24



Homestead Tax Credit



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# Homestead Tax Credit

## Introduction

The homestead tax credit program directs property tax relief to low-income homeowners and renters. The program is often referred to as a "circuit breaker" since it is intended to provide relief once property taxes exceed a taxpayer's ability to pay them. Relief is provided as a credit reducing individual income tax liability or as a cash refund if the credit exceeds income tax due; the homestead credit is referred to as a refundable credit due to this characteristic. Credits are limited to Wisconsin residents 18 years of age or older. Homestead credits of \$121.9 million were paid in 2006 for property taxes or rent accrued in 2005. These credits were provided to approximately 239,000 households.

The homestead credit was increased as part of the 1999-01 biennial budget (1999 Act 9). The increase first applied to claims for property taxes or rent accrued in 1999. Act 9 also provided for an additional credit increase for 2000 and thereafter.

This paper provides the following: (1) a description of the formula used to determine the credit and eligibility requirements; (2) historical data regarding annual claims and program expenditures; (3) information regarding characteristics of program participants; and (4) a discussion of the program's effectiveness as a means for providing property tax relief.

## Homestead Tax Credit Formula

The homestead credit received by eligible claimants depends on the interaction of household income and allowable property taxes. For claimants with household income of \$8,000 or less,

the credit is equal to 80% of property taxes or rent constituting property taxes to a maximum of \$1,450 in property taxes or rent. The maximum credit is \$1,160 (80% of \$1,450).

For claimants with household income exceeding \$8,000, the credit is calculated by first taking 8.788% of income in excess of \$8,000 and subtracting it from allowable property taxes. The credit, then, is 80% of this amount. In the form of a mathematical equation, the homestead credit formula is as follows:

$$\text{Credit} = 80\% \times [\text{Property Taxes} - 8.788\% \times (\text{Household Income} - \$8,000)]$$

For households with property taxes or rent equal to or exceeding the \$1,450 maximum, the credit becomes zero when income reaches \$24,500. For households with property taxes or rent less than \$1,450, the credit will become zero at a lower income level.

Figure 1 provides examples of the computation of the homestead tax credit for two hypothetical households. Table 1 shows the homestead tax credit available to claimants at various levels of income and property taxation.

## Application Requirements

A claimant must meet each of the following eligibility conditions to qualify for the homestead credit:

**Figure 1: Homestead Tax Credit Computation**

**Example A: For a claimant with household income less than the income threshold (\$8,000).**

Calculation of homestead tax credit for a claimant with \$6,000 of household income and property taxes of \$800.

$$\begin{aligned} \text{Homestead tax credit} &= \text{Property taxes} \times 80\% \\ &= \$800 \times 80\% \\ &= \$640^* \end{aligned}$$

**Example B: For a claimant with household income greater than the income threshold (\$8,000).**

Calculation of homestead tax credit for a claimant with \$12,000 of household income and property taxes of \$1,450.

$$\begin{aligned} \text{Homestead tax credit} &= 80\% \times [\text{Property taxes} - 8.788\% \times (\text{Income} - \$8,000)] \\ &= 80\% \times [\$1,450 - 8.788\% \times (\$12,000 - \$8,000)] \\ &= 80\% \times [\$1,450 - 8.788\% \times \$4,000] \\ &= 80\% \times [\$1,450 - \$351] \\ &= 80\% \times \$1,099 \\ &= \$879^* \end{aligned}$$

\*The actual credit received may be slightly different because the credit is read off of a table supplied with the homestead tax credit form rather than being computed by formula for every income and property tax combination.

**Table 1: 2006 Homestead Tax Credit (Based on Various Levels of Income and Taxes)**

Household Income	Homeowners' Property Taxes								Renters' Monthly Rent**				
	\$700	\$800	\$900	\$1,000	\$1,100	\$1,200	\$1,300	\$1,450*	\$100	\$200	\$300	\$400	\$500*
\$0 to 8,000	560	640	720	800	880	960	1,040	1,160	240	480	720	960	1,160
9,000	490	570	650	730	810	890	970	1,090	170	410	650	890	1,090
10,000	419	499	579	659	739	819	899	1,019	99	339	579	819	1,019
11,000	349	429	509	589	669	749	829	949	29	269	509	749	949
12,000	279	359	439	519	599	679	759	879	0	199	439	679	879
13,000	208	288	368	448	528	608	688	808	0	128	368	608	808
14,000	138	218	298	378	458	538	618	738	0	58	298	538	738
15,000	68	148	228	308	388	468	548	668	0	0	228	468	668
16,000	0	78	158	238	318	398	478	598	0	0	158	398	598
17,000	0	10	87	167	247	327	407	527	0	0	87	327	527
18,000	0	0	17	97	177	257	337	457	0	0	17	257	457
19,000	0	0	0	27	107	187	267	387	0	0	0	187	387
20,000	0	0	0	0	36	116	196	316	0	0	0	116	316
21,000	0	0	0	0	0	46	126	246	0	0	0	46	246
22,000	0	0	0	0	0	0	56	176	0	0	0	0	176
23,000	0	0	0	0	0	0	0	105	0	0	0	0	105
24,000	0	0	0	0	0	0	0	35	0	0	0	0	35
Over 24,500	0	0	0	0	0	0	0	0	0	0	0	0	0

\*Only the first \$1,450 of property taxes or rent constituting property taxes is considered in determining the amount of the credit.

\*\*Assumes no heat included in rent; rent constituting property taxes equals 25% of gross rent for the year.

Note: If the amount of credit determined by the formula is more than \$0 and less than \$10, the amount of the credit equals \$10.