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**TESTIMONY OF LINDSAY CLARK, POLICY ANALYST,
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**For the Public Hearing on
The Fiscal Year 2009 Budget Support Act of 2008
District of Columbia Committee of the Whole
April 25, 2008**

Chairperson Gray and members of the Committee, thank you for the opportunity to speak today. My name is Lindsay Clark, and I am a policy analyst with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

I am here today to discuss updating and simplifying DC's low-income property tax credit (Schedule H), and suggest options for beginning this process in fiscal year 2009. Updating and simplifying Schedule H is a recommendation of the both Fair Budget Coalition, which is made up of approximately 60 grassroots community groups, human service providers, advocates, faith organization, and concerned community members, and the Poverty Reduction Coalition initiated by Councilmember Barry.

Schedule H is designed to assist low-income households facing unmanageable property tax bills. The credit is available to both renters and homeowners, because renters pay property taxes indirectly through their rent. Some 17 states have similar program, in addition to DC.¹

Schedule H is an important tool for targeting relief to low-income households, particularly renters, who are the most likely to be pressured by housing costs, including property taxes, and thus are the most in need of the help that property tax relief can provide. Some 46,000 DC households have severe housing cost burdens – defined as spending more than 50 percent of their income on housing. And the vast majority of these households (74 percent) are low-income. Targeted low-income property tax relief is especially important to the large majority of low-income households that don't receive any housing subsidies.

Schedule H has several shortcomings, however, that limit its ability to target meaningful property tax relief to low-income residents facing unmanageable property tax bills. For example, the program has not been updated since the 1970s. The income eligibility ceiling is just \$20,000, among the lowest when compared with other states. The maximum credit of \$750 also has not been adjusted in decades. If Schedule H had been adjusted for inflation, the income limit would now be about \$53,000 and the top benefit would be \$2,000. There are also unnecessarily complex rules that limit participation. It is estimated that only 19 percent of

¹ Karen Lyons, Sarah Farkas, and Nicholas Johnson, "The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs," Center on Budget and Policy Priorities, March 2007, <http://www.cbpp.org/3-21-07sfp.pdf>.

eligible households claim the credit.²

DCFPI recently released a report that outlines recommendations for updating and simplifying the Schedule H program.³ A principle recommendation of the report is to raise the income ceiling and the maximum benefit amount to make up for ground lost to inflation. Adopting this recommendation would be costly, and given the current budget situation, does not seem feasible at this time, but should be considered in future years when revenue is available.

However, there are other recommendations outlined in the report that would be more affordable, such as simplifying some of the unnecessarily complex and restrictive eligibility rules. There are two rules in particular that limit the effectiveness of Schedule H.

The first is the broad definition of household used to determine eligibility. The rules require people or families sharing a home to apply together even if they do not share income or file tax returns together, rather than allowing separate families to apply for the credit based on their share of rent. Applicants are even required to include the income of a boarder as part of the household income. This rule unduly affects residents who share housing as a way to limit their expenses, and it is likely to limit the ability of low-income families to receive property tax relief. When separate families or individuals share housing, it is doubtful that they know each other's income and would be comfortable asking. It would be more straightforward and simple if families and individuals were allowed to apply for Schedule H based on just their income and the portion of the rent they pay. **Changing the definition of household to include only those members of the household with whom the applicant files a tax return and shares household expenses would help to increase participation.**

The second is that households are required to report over 20 different sources of income, both taxable and nontaxable income, some of which are difficult to document. For example, applicants are required to report SSI and TANF payments, but these programs do not provide annual documentation that details the annual amount of benefits received, making it difficult to document. **Amending the income eligibility for Schedule H to be based on Adjusted Gross Income (AGI) plus major sources of nontaxable income would simplify reporting for residents and would ease administration of the credit for the Office of Tax and Revenue — while also capturing the majority of the household income of applicants.**

There are other options that could be considered as well such as attaching a cost-of-living adjustment to the current income ceiling of \$20,000 and the maximum benefit amount of \$750 in order to prevent Schedule H from losing further value to inflation.

Reforming the tax system so that it is not overly burdensome on struggling families is a prudent step state governments can take to help protect the local economy in an economic downturn.⁴ We support the Mayor's proposal to expand DC EITC, making it the most generous state-level EITC in the nation. However, unlike DC's EITC, Schedule H has been allowed to languish, and we urge the Council to begin updating this program in fiscal year 2009 and do more when revenues are available.

Finally, I'd like to conclude by thanking Councilmember Evans for his support of this program, and his commitment to exploring affordable options for improving this program in fiscal year 2009.

Thank you for the opportunity to speak today. I am happy to answer any questions.

² DCFPI analysis of the U.S. Census Bureau's American Community Survey 2006 data.

³ Lindsay C. Clark, "Property Tax relief for DC's Low-income Residents: Improvements in Schedule H Needed in DC's "Schedule H" Credit," DC Fiscal Policy Institute, April 8 2008, <http://dcfpi.org/?p=152>

⁴ Nicholas Johnson, "Fiscal Stimulus at the State Level?" Center on Budget and Policy Priorities, February 2008 <http://www.cbpp.org/2-29-08sfj.htm>

