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## PROPERTY TAX RELIEF FOR DC'S LOW-INCOME RESIDENTS: IMPROVEMENTS NEEDED IN DC'S "SCHEDULE H" CREDIT

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The District of Columbia's booming real estate market has resulted in substantial increases in residential property values and rents in recent years. In response to rising assessments for homeowners, the District has adopted substantial property tax relief measures, such as a 10 percent cap on the extent to which taxable assessments can grow annually, an increase in the Homestead Deduction, and a cut in the property tax rate. The District has not implemented new tax relief measures targeted specifically on low-income homeowners, however, and it has not provided property tax relief for renters, even though renters pay property tax indirectly through their rent.<sup>1</sup>

Low-income households — and particularly renters — 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. Targeted low-income property tax relief is especially important to the large majority of low-income households that don't receive any housing subsidies. Some 46,000 DC households have severe housing costs 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.

Like 17 states, the District has implemented a policy to target property tax relief on low-income homeowners and renters, called the Homeowner and Rental Property Tax Relief Credit, or Schedule H. This credit has several shortcomings, however, that limit its ability to target meaningful property tax relief to low-income residents facing unmanageable property tax bills.

### KEY FINDINGS

- DC's low-income property tax credit — Schedule H — has not been updated since it was created in the late 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 \$53,000 and the top benefit would be \$2,000.
- Unnecessarily complex rules restrict participation in Schedule H. Only 19 percent of eligible households claim the credit.
- Schedule H is an important tool to help renters as well as homeowners. As in other states, Schedule H assumes that a portion of rent paid is property taxes passed on from the landlord.
- This report makes several recommendations for updating and simplifying Schedule H.

<sup>1</sup> While the District has recently implemented some tax relief measures that have the effect of targeting renters, such as an increase in the standard deduction, nothing has been done in the form of property tax relief.

- **The value of schedule H relief has lost substantial ground to inflation.** The credit's income eligibility limit of \$20,000 and maximum benefit amount of \$750 have not been adjusted for inflation since 1979, and these amounts are among the lowest when compared with other states' low-income property tax relief programs. If Schedule H had been adjusted for inflation, the income eligibility ceiling would now be roughly \$53,000 and the maximum benefit would be \$2,000.
- **Unnecessarily restrictive and complex rules limit the ability of the Schedule H credit to reach families in need of assistance.** For example, 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.
- **Schedule H participation has declined substantially in recent years, and is very low compared with other low-income tax credits.** In 2005, only 8,600 tax filers claimed the credit in 2005, compared with 14,500 tax filers in 1996 — a decline of 60 percent. Moreover, the estimated take-up rate is about 19 percent of eligible households. This is far lower than participation in the Earned Income Tax Credit, which is claimed by 46,000 District families and individuals — more than 80 percent of those who are eligible.
- **Schedule H rules limit benefits for renters.** Schedule H assumes 15 percent of rent paid is the property tax portion. Among other state programs, the average property tax rent equivalent is 20 percent of rent. The lower level in the District results in lower tax credit amounts for eligible renters.
- **Poorly worded filing instructions are likely to result in confusion for both tax filers and tax preparers and may contribute to low participation.** For example, filers are required to report several sources of taxable and nontaxable income; yet instructions do not provide descriptions of what types of income to include and not include. This may lead some to include income that is not required, such as the value of food stamps.

Those residents most likely to experience high housing cost burdens, a component of which are high property tax bills, are low-income families; renters, who are disproportionately represented among low-income families; those living on fixed incomes, such as the elderly; and those who experience a personal crisis, such as a job loss.<sup>2</sup> Therefore, property tax relief designed to target these groups is more desirable than broad-based cuts, which DC has already implemented. This report compares DC's eligibility requirements to those of seventeen other states with low-income property credits, and offers recommendations for simplifying and updating Schedule H.

## What is Schedule H and Who is Eligible?

The District's property tax relief program targeted on low-income households is called the Homeowner and Rental Property Tax Credit, more commonly known as Schedule H. It is designed to assist low-income residents whose property tax bills are high relative to their income. This type of program is frequently referred to as a "circuit breaker" program because it is designed to act like

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<sup>2</sup> 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>.

an electrical circuit breaker — once a resident becomes “overloaded” by their property tax bill, the “circuit breaker” kicks in to provide relief. Some 17 states have circuit breakers, in addition to DC.<sup>3</sup> Under circuit breaker programs, the size of the property tax relief is greater for lower-income families and for those with high property bills. Residents with very low-income and very high tax bills receive the most relief.<sup>4</sup>

Property taxes tend to be regressive – i.e. lower-income residents tend to pay a higher proportion on their income in taxes compared to higher income households. A recent AARP Institute analysis of state property tax burdens finds the poorest twenty-five percent of DC homeowners paid 3.6 percent of their income in property taxes in 2005, compared with 1.7 percent of income for middle income taxpayers, and 1.4 percent of income for the wealthiest residents.<sup>5</sup> This is largely because property taxes are not closely linked to income, but rather to home values; and housing values can rise substantially, regardless of an individual’s income level.

DC’s Schedule H is administered as a tax credit on the income tax form.<sup>6</sup> To qualify taxpayers must: have household incomes of \$20,000 or less; owe property taxes that exceed a certain percentage of household income (this percentage varies from 1.5 percent to 4 percent depending on income. See table 1); and have resided in the District for the full tax year.<sup>7</sup> Schedule H then refunds a portion of the property taxes owed in excess of the maximum percent set of income the credit uses as the base for relief. The maximum property tax credit a DC taxpayer can receive is \$750.

For example, a resident whose household income is \$18,000 and paid \$1,080 in property taxes would be eligible for a credit amount equal to 75 percent of property taxes paid in excess of 4 percent of income, resulting in a credit of \$270.

While some state circuit breakers limit participation to the elderly or people with disabilities, the District is one of 10 states to offer relief to residents regardless of age or disability. Schedule H is also available to both renters and homeowners. Sixteen of the 17 other state circuit breaker programs make the credit available to renters — in 15 of the 17 states the credit is available to both renters and owners, and in the state of Oregon, the credit is available to renters only. These states assume renters pay property tax indirectly through a portion of their rent. (See table 5 in the Appendix). The Schedule H assumes 15 percent of rent paid is property tax passed on from the landlord.

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<sup>3</sup> Ibid

<sup>4</sup> Several other states also provide some type of low-income property tax credit based solely on a tax filer’s income level, regardless of the amount of property tax paid. In this paper, the review is limited to just those seventeen state programs similar to the District’s in that the amount of relief is based on the relationship between income and the amount of property taxes owed.

<sup>5</sup> David Baer, “State and Local Property Tax Burdens in 2005,” AARP Public Policy Institute, May 2007, [http://assets.aarp.org/rgcenter/econ/2007\\_09\\_tax.pdf](http://assets.aarp.org/rgcenter/econ/2007_09_tax.pdf).

<sup>6</sup> Residents eligible for Schedule H who do not have to file an income tax return may file for the credit by itself. Applicants are not required to file an income tax return to apply for Schedule H

<sup>7</sup> For taxpayers who are elderly, blind, or disabled, the rate structure is slightly more generous with a lower maximum percent set for each income bracket and a full refund for any property taxes owed in excess of the set maximum percent.

In 2005, some 8,614 households received property tax relief from Schedule H, and the average amount of the credit was about \$500. The total cost of the program to the District was \$4.3 million.<sup>8</sup>

<b>Table 1. Current Schedule H Formula for Residents under Age 62 Who Are Not Blind or Disabled</b>	
<b>If household income is:</b>	<b>Tax credit equals:</b>
\$0-\$2,999	95% of the amount by which property tax exceeds 1.5% of household income
\$3,000-\$4,999	75% of the amount by which property tax exceeds 2.0% of household income
\$5,000-\$6,999	75% of the amount by which property tax exceeds 2.5% of household income
\$7,000-\$9,999	75% of the amount by which property tax exceeds 3.0% of household income
\$10,000-\$14,999	75% of the amount by which property tax exceeds 3.5% of household income
\$15,000-\$20,000	75% of the amount by which property tax exceeds 4.0% of household income
Source: D.C. Code section 47-1806.6	

### **Problems with Schedule H Limit Participation and Effectiveness**

Schedule H has several shortcomings that limit the number of low-income residents eligible to participate, as well as its ability to provide meaningful property tax relief. In particular, the income eligibility threshold and the maximum benefit amount are very low because they have not changed for almost three decades. As a result, the number of households receiving relief from Schedule H is very low and has declined precipitously despite rising housing costs. Unnecessarily complex and restrictive eligibility requirements, which largely affect renters, also limit participation. Other issues, such as poorly worded filing instructions, are likely to contribute to declining participation as well.

#### **Schedule H Has Not Been Updated for Inflation Since 1979**

The income eligibility limit of \$20,000 and the maximum credit amount of \$750 have not been adjusted for inflation since 1979. If both the income eligibility and the maximum benefit amount were adjusted for inflation since 1979, they would increase to approximately \$53,217 and \$2,000.

Compared with other state circuit breaker programs, DC's income ceiling is among the lowest, and the maximum benefit amount is below the median.

- Thirteen of the 17 states with circuit breaker programs have income limits higher than \$20,000, with five states having limits of \$70,000 or higher. (See table 2 in Appendix). Among the broad

<sup>8</sup> 2005 data on the cost and the number of tax filers claiming Schedule H was provided by the Office of Revenue and Analysis, Office of the Chief Financial Officer.

state programs — those that are not restricted by age and are available to both renters and owners — only New York State has an income threshold lower than DC's.

- Eight of the 17 states provide a maximum benefit greater than \$750, with several states providing a benefit of \$1,400 or more. (See table 2 in Appendix). Among the broad state programs — those that are not that are not restricted by age and are available to both renters and owners — DC's maximum benefit amount of \$750 is below the median of \$1,160.<sup>9</sup>

In addition to a low income ceiling and maximum credit amount, the portion of rent Schedule H assumes as the property tax equivalent — 15 percent — is lower than in most states that offer property tax relief to renters. Among these circuit breaker programs, the average property tax rent equivalent is 20 percent. Twelve of the 15 states that specify a property tax rent equivalent assume that 18 to 25 percent of rent paid is for property tax.<sup>10</sup>

### Schedule H Has Unnecessarily Complex and Restrictive Eligibility Requirements

Unnecessarily complex and restrictive eligibility requirements also limit the effectiveness of Schedule H. If eligibility requirements are too burdensome, a qualified resident may be deterred from applying or mistakenly be disqualified due to a filing error or lack of documentation. In either case, eligible residents do not receive needed property tax relief.

The following eligibility requirements limit the effectiveness of Schedule H:

- **Families and individuals sharing a home, but not other expenses, must apply for Schedule H as one household.** Eligibility for Schedule H is based on the combined income of all people living in a home, even if they are not related, do not file tax returns together, and do not share living expenses other than housing. If two unrelated families or individuals rent an apartment together, for example, only one of them can claim the Schedule H credit, and the family claiming the credit must include the other family's income to determine their eligibility and credit amount. This rule also means that an applicant for Schedule H must 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. The fact that only one of the families sharing a house can apply for Schedule H also is likely to create confusion and conflict among household members. Finally, the requirement that separate families sharing a house must combine their income makes it difficult to meet the credit's \$20,000 income limit. As a result, it is probable that many residents who share housing don't claim Schedule H at all.

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. Fourteen of the

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<sup>9</sup> Because Vermont does not set a maximum benefit amount, it is not included in determining the median maximum benefit amount of the state programs.

<sup>10</sup> Lyons, Farkas, and Johnson, "The Property Tax Circuit Breaker." Note: Pennsylvania's property tax rent equivalent ranges from 20 percent to 2 percent, depending on income.

16 state circuit breaker programs that cover renters allow renters to claim the benefit based on the portion of the rent paid by the claimant.<sup>11</sup>

- **Tax filers are required to report over 20 different sources of income, both taxable and nontaxable income, some of which are difficult to document.** Most state circuit breaker programs set eligibility based on taxable income but also some kinds of nontaxable income. The inclusion of some nontaxable income sources, such as Social Security payments, makes sense because they can amount to a substantial share of total income. Some of the kinds of income DC households are expected to include, however, may be difficult to document. For example, Schedule H applicants are required to report the amount of public benefits received by themselves or another member of the household, such as TANF cash assistance. But the TANF program does not provide annual documentation, like a W-2 form, that details the annual benefit amount, making it difficult to document.
- **Tax filers must live in the District for one year before they are eligible for relief.** Those who have lived in DC for part of the year cannot claim Schedule H for that period. The majority of state circuit breaker programs (10 of 17) do not require a filer to have been a resident for a full tax year in order to be eligible for property tax relief.
- **Renters lack adequate information to determine eligibility.** Renters are required to report how much their landlords receive in rent supplements or if their landlords are exempt from real property taxes—both things that would disqualify an individual from or reduce the amount of the tax credit. Renters often are unaware of whether or not their landlord is receiving real property tax assistance, and it may be difficult for renters to find out. For example, residents receiving section 8 vouchers typically know only the amount they pay in rent but not the amount the landlord receives in subsidies.<sup>12</sup> Twelve of the 16 states that make the credit available to renters require applicants to report only the annual amount they paid in rent. In the four states that do ask applicants to submit information on the amount of subsidy received by the landlord, these states also require the landlord to provide tenants with a “Certificate of Rent Paid” annually that details this information.<sup>13</sup>

### Schedule H Has Poorly Worded Filing Instructions

The instructions provided to file for Schedule H often are unclear or lack detail. For example, tax filers are required to report all income from “cash distributions.” Beyond the name, however, there is no description of what types of income sources typically qualify as “cash distributions.” Schedule H also requires claimants to report “other” income, but again there are no instructions of what “other” means. This may lead some families to include income that is not required under the Schedule H law, such as food stamps. This could result in a family exceeding the income limit and inappropriately appearing to be ineligible for relief. Many states, by contrast, provide detailed, multi-page instructions on what types of income to include and not include.

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<sup>11</sup> Nine of the 16 states require applicants to report only combined income of the tax filing unit, which allows unrelated individuals sharing housing to apply separately. The other five states do require applicants to report the combined income of all household members whether or not they are related; however, these states have special provisions for renters that allow separate families and individuals sharing housing to apply separately.

<sup>12</sup> Teresa Hinze, Community Tax Aid, personal communication, October 22, 2007.

<sup>13</sup> These four states are Minnesota, Pennsylvania, Wisconsin, and Vermont.

In addition, DC's tax forms provide no instructions as to how households who move residences in the same calendar should calculate the amount of property taxes paid. According to DC Code, renters should use the amount of rent paid at their most recent residence, but this is not explained in the filing instructions.

## **Schedule H Problems Have Led to Low and Declining Participation**

Despite rising property values and property tax bills in the last several years, the number of households claiming the Schedule H has declined notably and is low compared with the low-income population. In 2005, only 8,614 tax filers claimed the credit, compared with 14,450 tax filers in 1996 — a decline of 60 percent.<sup>14</sup> Moreover, the program's estimated participation rate is 19 percent.<sup>15</sup> This low participation rate is surprising given the steady rise in property values, and the number of households estimated to be eligible for the credit. In 2005, it is estimated that about 44,900 households would have been eligible for the credit based on household income and property taxes paid.

Participation is also very low compared to other low-income tax credits, such as the Earned Income Tax Credit, which is claimed by 46,000 DC residents and has an estimated participation rate of 80 percent or higher based on national figures.

## **Why the District Needs an Updated Circuit Breaker Program**

An effective circuit breaker program is important because the households most likely to be pressured by high housing costs, including property taxes, are low-income households and renters. Broad-based property tax relief does not reach renters at all and does not provide the concentrated relief to low-income homeowners that a circuit breaker can.

As a result of high and rising housing costs, a large share of District households face substantial cost burdens, and those with the highest burdens generally are low-income households and renters.

- In 2006, some 99,000 DC households — or 40 percent — were considered to have housing cost burdens because they spend more than 30 percent of their income on housing. Of households with housing cost burdens, 46 percent have income below 30 percent of the Area Median Income (AMI) — defined in this analysis as \$28,350 for a family of four — and 66 percent have incomes below 50 percent of AMI or \$47,250 for a family of four.
- Some 46,000 households have severe housing cost burdens — they spend more than 50 percent of their income in housing costs. Of these, 74 percent have income below 30 percent of AMI.

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<sup>14</sup> 2005 data on the number of tax filers claiming schedule H was provided by the District of Columbia Office of Revenue and Analysis, Office of the Chief Financial Officer. The 1996 data are from the District of Columbia Tax Revision Commission, *Taxing Simply, Taxing Fairly* (Washington, DC: Brookings Institution Press, 1998), p.73.

<sup>15</sup> DCFPI analysis of Census Bureau American Community Survey data.

Affordable housing problems are most acute for renters, who make up 54 percent of DC households.

- Of the 46,500 low-income households — those with incomes below 30 percent of AMI—that pay more than 30 percent of their income in housing costs, 81 percent are renters.
- Among low-income renters — those with incomes below 30 percent of AMI— 59 percent pay more than 50 percent of their income in rent.
- Fifty percent of elderly renters pay more than 30 percent of their income in rent. Of these, 74 percent have incomes below 30 percent of AMI.

It is worth noting that the District has other property tax relief programs that are targeted to lower-income homeowners. These programs are the Low-income, Long-term Homeowners Tax Credit and the Property Tax Deferral program. These programs, however, target only homeowners, not renters.

In addition to direct property tax relief, the DC Council approved an increase in the standard deduction in the DC income tax in 2007. Nearly all households that claim the standard deduction are renters and have low or moderate income. For most households, however, the additional tax relief is modest, less than \$100.

## Recommendations for Simplifying and Updating Schedule H

Updating and simplifying the District's low-income property tax credit will allow more low-income residents to benefit, particularly renters who have not yet benefited directly from recent property tax relief measures.

The following are recommendations for improving and expanding Schedule H:

- **Raise the income limit from \$20,000 to \$50,000 to make up for the lost ground due to inflation since 1979.** This level is close 50 percent of the Area Median Income for a family of four (\$47,250), an income threshold used frequently for affordable housing programs. This also would be more in line with the income ceilings of other District low-income property tax relief programs. For example, the Low-Income Property Tax Deferral program income ceiling is \$50,000 or less, and eligibility for the Low-Income, Long-term Homeowners Tax Credit income ceiling is 50 percent of Area Median Income.
- **Increase the maximum benefit from \$750 to \$1,000 to address some of the ground lost to inflation.** This would place DC's circuit breaker benefit more in line with other states. As noted, among states with broad based state programs, the median state's maximum benefit amount is \$1,160. Seven states recently increased their income ceiling and/or maximum benefit amount from tax year 2005.<sup>16</sup> Massachusetts increases both their income ceiling and maximum

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<sup>16</sup> These states are Massachusetts, Maine, Minnesota, New Jersey, Pennsylvania, and Rhode Island.

benefit annually.<sup>17</sup>

- **Attach a cost-of-living adjustment to the maximum benefit and income eligibility limit.** This will ensure the program remains up-to-date in the future.
- **Increase the property tax rent equivalent from 15 percent to 20 percent.** Increasing the property tax rent equivalent to the average for other state programs will provide greater relief to renters, many of whom have seen substantial increases in rent values in recent years.
- **Allow families and individuals sharing housing to apply for Schedule H separately.** Families sharing housing should be allowed to each claim the credit based on their share of the rent. The easiest way to administer this would be to allow each family or individual that files a tax return to claim the credit based on their income and the amount they pay in rent.
- **Determine eligibility for Schedule H using DC's Adjusted Gross Income reported on tax returns plus major sources of nontaxable income, such as Social Security, that are easy 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. Sources of nontaxable income should be limited to those sources that may represent significant investment income and must also be documented for tax purposes, such as tax-exempt interest and dividends and business and capital gains losses. Other nontaxable income should also be limited to those sources in which filers receive government-issued documentation. For example, taxpayers receiving Social Security payments receive annual documentation stating the amount of the payments that are taxable and nontaxable.<sup>18</sup> Other forms of income where no annual documentation is provided, such as TANF benefits, should not be included.
- **Reduce residency requirement from one year to 6 months.** As in other state circuit breaker programs that allow this, Schedule H could be based on income earned and property taxes paid while living in DC.
- **Require renters report only the amount of rent they paid annually.** The District should require renters to report only the amount of rent they paid minus the amount of direct housing assistance received. Most states do not require renters to report the amount of subsidy the landlord receives on their behalf unless the landlord provides the tenant with annual documentation. Waiving this rule will minimize the reporting burden on renters, which will help to increase participation. If renters are required to report this information, the District should also require landlords to provide renters with documentation on rent paid for the year, on real property tax exemptions and any amount the landlord received in rent supplements.

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<sup>17</sup> According to the Massachusetts Department of Revenue, the maximum figures for income limits, property valuation, and the credit itself, are to be adjusted annually to reflect increases in the cost of living. See [http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Credits&sid=Ador&b=terminalcontent&f=dor\\_help\\_guides\\_abate\\_amend\\_personal\\_issues\\_realestate&csid=Ador#Included](http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Credits&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_realestate&csid=Ador#Included)

<sup>18</sup> Other examples of major sources of nontaxable income that meet the above criteria include: the inclusion of gains or losses from farm income or other sources; IRA distributions; pensions and annuities; rental real estate, royalties, partnerships, S corporations, and trusts; and unemployment compensation.

- **Improve filing instructions:** If applicants are required to report both taxable and nontaxable income, detailed instructions on the type of income required, as well as information on required documentation of these income sources should be provided.

## Modifying the Schedule H Benefit Formula and Estimating the Costs

If the Schedule H eligibility limit is raised to \$50,000 and the maximum benefit is increased to \$1,000, the District also will need to re-consider the benefit formula – the rules that determine the benefit a family or individual receives. This formula should take into account that the lowest-income households face the highest property tax liabilities as a share of their income

An analysis of homeowner property tax burdens in DC shows that households under \$25,000 face the highest property tax burdens, and that families between \$25,000 and \$50,000 face somewhat higher property tax burdens than higher income households.<sup>19</sup>

- Those earning less than \$25,000 paid 5.3 percent of their income in property taxes.
- Those earning between \$25,000 and \$50,000 paid 2.8 percent of their income in property taxes.
- Those earning between \$50,000 and \$100,000 paid about 2 percent of their income in property taxes.
- Those earning \$100,000 or more paid 1.7 percent of their income in property taxes.

Those households with incomes below \$50,000 pay the highest percentage of their income in property taxes compared to the average property taxes paid by higher income households. And the lowest income households — those with incomes less than \$25,000 — are paying more than twice as much in property taxes as a share of income than those with incomes of more than \$50,000. Therefore, it makes sense to target relief to those household with incomes of \$50,000 or less, with the greatest amount of relief provided to those households with incomes of \$25,000 or less.

One option for updating the Schedule H rate structure to target relief in this way would be to set the credit at:

- The amount by which property taxes paid exceed 3 percent of income, up to \$1,000, for households earning less than \$25,000.
- The amount by which property taxes paid exceed 4 percent of income, up to \$1,000, for households earning between \$25,000 and \$50,000. (See table 4 below).

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<sup>19</sup> In designing a circuit breaker structure, it is recommended that the set the percent households are expected to pay in property taxes relates to the relative property tax levels experienced in the state. See Sarah Farkas and Iris Lav, “Targeted Property Tax Reform: Designing a Circuit Breaker for Florida,” Center on Budget and Policy Priorities, October 2007, <http://www.cbpp.org/10-12-07sfp.htm>. DCFPI analysis of 2006 Census American Community Survey data.

<b>Table 4. Proposed Schedule H Formula</b>	
<b><u>If household income is:</u></b>	<b><u>Tax credit equals:</u></b>
\$0-\$24,999	100% of the amount by which property tax exceeds 3% of household income
\$25,000-\$50,000	100% of the amount by which property tax exceeds 4% of household income

Adopting the above mentioned changes to the Schedule H would increase the amount of property tax received by low-income households and increase the number of low-income families eligible for relief. An estimated 36,500 additional households could potentially benefit, with an average credit amount of \$710.<sup>20</sup>

**Examples of How the New Benefit Formula Would Help Low-Income Households**

The following are examples of who would benefit under an updated Schedule H program, based on income and property taxes.

- The Jones family earns \$15,000 a year and rents an apartment for \$500 a month, or \$6,000 a year. Under an updated Schedule H program, the Jones’ estimated property tax — based on 20 percent of their rent — would be \$1,200, which is about 8 percent of their income, resulting in a credit amount of \$750.

Under the current program, the Jones’ credit amount would be \$225.

- The Johnson family earns \$17,500 a year and rents an apartment for \$580 a month, or \$6,960 a year. Under an updated Schedule program, the Jones’ estimated property tax — based on 20 percent of their rent — would be \$1,392, which is about 8 percent of their income, resulting in a credit amount of \$867.

Under the current program, the Johnson’s would not be eligible for a credit because their household income, which includes that of a boarder, would be \$24,600 — more than the income eligibility threshold of \$20,000.

- Mr. Smith earns \$47,000 a year and pays \$2,350 in property taxes, which is about 5 percent of his income. Under an updated Schedule H program, Mr. Smith’s credit would be everything paid in property tax that exceeds 4 percent of their income, resulting in a credit amount of \$470.

Under the current program, he would not be eligible for property tax relief because his income is greater than \$20,000.

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<sup>20</sup> The estimated number of additional households is based on the assumption that 50 percent of the eligible population claims the credit. If participation reached 100 percent, the estimated number of beneficiaries would be about 73,000.

## How Much Would It Cost to Update Schedule H?

The cost of expanding the Schedule H program along these lines is roughly \$28 million.<sup>21</sup> This cost estimate is based on the following assumptions:

- An increase in the income eligibility threshold to \$50,000<sup>22</sup>;
- An increase in the maximum benefit amount to \$1,000;
- An increase in the property tax rent equivalent to 20 percent;
- Fifty percent participation in the program. If participation reached 100 percent, the cost of the program would be about \$57 million; however, 100 percent participation is very unlikely. Most low-income tax credit programs do not reach 100 percent participation. Participation in circuit breaker programs and other property tax relief programs tends to be low because many potential residents are unaware of these programs.<sup>23</sup>

## Conclusion

Circuit breaker programs can play an important role in helping low-income homeowners and renters cope with property taxes that are high when compared with their income. This kind of targeted relief is efficient because it provides assistance to those most in need. It also limits the costs of tax relief in terms of lost revenue, making it easier to provide a meaningful level of assistance. Broad-based property tax relief for all homeowners, by contrast, tends to be costly and does not necessarily help low-income families the most. Broad-based property tax relief also tends to focus on homeowners and not renters.

The District of Columbia recognized the importance of targeted property tax relief through a “circuit breaker” tax credit when it created Schedule H nearly 30 years ago. But this credit has been allowed to languish, resulting in a credit that provides only modest benefits to a small number of low-income households. Updating Schedule H to be more effective should be a high priority for improving tax policy in the District.

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<sup>21</sup> DCFPI analysis of 2006 US Census Bureau American Community Survey data. This cost estimate assumes 50 percent program participation.

<sup>22</sup> This cost estimate used “total family income” from the Census Bureau rather than household income, which includes the income of unrelated household members. The Census Bureau defines a “family” as a group of two or more people who reside together and who are related by birth, marriage, or adoption. For households with only one householder, total household income was used to determine eligibility since this would represent only the individual’s income, and not that of unrelated household members. Total income is defined as the sum of the amounts reported separately for wages, salary, commissions, bonuses, or tips; self-employment income from own nonfarm or farm businesses, including proprietorships and partnerships; interest, dividends, net rental income, royalty income, or income from estates and trusts; Social Security or Railroad Retirement income; Supplemental Security Income (SSI); any public assistance or welfare payments from the state or local welfare office; retirement, survivor, or disability pensions; and any other sources of income received regularly such as Veterans’ (VA) payments, unemployment compensation, child support, or alimony.

<sup>23</sup> David Baer, “State Programs and Practices for Reducing Residential Property Taxes,” AARP Public Policy Institute, 2003, [http://assets.aarp.org/rgcenter/econ/2007\\_09\\_tax.pdf](http://assets.aarp.org/rgcenter/econ/2007_09_tax.pdf).

**TABLE 2. INCOME ELIGIBILITY LIMITS FOR STATE CIRCUIT BREAKER PROGRAMS, TAX YEAR 2006**

<b>Rank</b>	<b>State</b>	<b>Income Eligibility</b>
1	New Jersey	\$ 250,000
2	Minnesota	\$ 91,120
3	Michigan	\$ 82,650
4	Maine	\$ 80,750
5	Maryland	\$ 60,000
6	Massachusetts**	\$ 60,000
7	Vermont***	\$ 47,000
8	Montana	\$ 45,000
9	Illinois	\$ 35,740
10	Pennsylvania	\$ 35,000
11	Rhode Island	\$ 30,000
12	Missouri	\$ 25,000
13	Wisconsin	\$ 24,500
<b>14</b>	<b>District of Columbia</b>	<b>\$ 20,000</b>
15	New York	\$ 18,000
16	New Mexico	\$ 16,000
17	Oklahoma	\$ 12,000
18	Oregon	\$ 10,000

Source: Karen Lyons, Sarah Farkas, and Nicholas Johnson. The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs, March 21, 2007. Updated by DCFPI for Tax Year 2006.

\* Renter ceiling is lower: MD is \$30,000, PA is \$15,000, and MN is \$49,160

\*\* MA income eligibility is 48,000 for single filer or \$60,000 if head of household; and \$72,000 for a joint filer.

\*\*\* Vermont has two circuit breaker programs. This is the income ceiling for the Education Property Tax Payment. Vermont's other program has an income ceiling of \$47,000.

**TABLE 3. MAXIMUM BENEFIT AMOUNTS FOR STATE CIRCUIT BREAKER PROGRAMS, TAX YEAR 2006**

<b>Rank</b>	<b>State</b>	<b>Maximum Benefit</b>
1	Oregon	\$ 2,100
2	New Jersey*	\$ 2,000
3	Maine	\$ 2,000
4	Minnesota*	\$ 1,700
5	Michigan	\$ 1,200
6	Wisconsin	\$ 1,160
7	Montana	\$ 1,000
8	Massachusetts	\$ 900
9	Missouri	\$ 750
9	Maryland	\$ 750
<b>9</b>	<b>District of Columbia</b>	<b>\$ 750</b>
10	Illinois	\$ 700
11	Pennsylvania	\$ 650
12	New York	\$ 375
13	Rhode Island	\$ 300
14	New Mexico	\$ 250
15	Oklahoma	\$ 200
16	Vermont	None specified
Source: Karen Lyons, Sarah Farkas, and Nicholas Johnson. The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs. March 21, 2007. Updated by DCFPI for Tax Year 2006.		

\*Renter credit is lower: MN is \$1400 and NJ is \$350 for non elderly and \$350-860, depending on income, for elderly

\*\*Max benefit is for people over 65; Non elderly residents receive a flat credit of \$75.

**TABLE 5. PROPERTY TAX RENT EQUIVALENT IN STATE CIRCUIT BREAKER PROGRAMS FOR RENTERS**

<b>State</b>	<b>Property Tax Rent Equivalent*</b>
<b>DC</b>	<b>15% of rent paid</b>
IL	25% of rent paid
ME	20% of rent paid
MD	15% of rent paid
MA	25% of rent paid
MI	20% of rent paid
MN	19% of rent paid
MO	20% of rent paid
MT	15% of rent paid
NJ	18% of rent paid if tenant is 65 or older
NM	6% of rent paid
NY	25% of rent paid
OR None	specified
PA	Varies; amount of rent refunded ranges from 20% from incomes below \$5,500 to 2% for incomes between \$13,000 and \$15,000
RI	20% of rent paid
VT	21% of rent paid
WI	25% of rent paid

Source: Karen Lyons, Sarah Farkas, and Nicholas Johnson. The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs. March 21, 2007.