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District of Columbia's Schedule H Tax Credit: Property Tax Assistance for Low-Income Renters and Owners

The District's Homeowner and Renter Property Tax Credit or "Schedule H" assists low- and moderate-income residents who face high property taxes or rents compared with their income. The credit was enacted in 1977,[1] and did not change notably until recently, when the DC Council significantly expanded both the eligibility and credit amount. Schedule H provided assistance to nearly 8,300 residents in 2011, with an average benefit of $600, but both the number of beneficiaries and the average benefit are likely to grow in the near future as a result of the recent changes.

This policy brief provides an overview of how the Schedule H credit works and eligibility under the new changes, as well as current program participation.

How the Program Works

Schedule H is a property tax credit that helps low- and moderate-income residents facing high property taxes relative to their income. Schedule H is open to renters as well as homeowners. Even though renters don't pay property taxes directly, Schedule H assumes they pay property taxes through a portion of their rent each month. Schedule H — even though it provides property tax assistance — is administered as a credit on the DC income tax form.

Schedule H has two key properties: it acts as a "circuit breaker" and is a refundable tax credit. A circuit breaker is more commonly known as a device that prevents electrical overload. In the same way, the Schedule H tax credit kicks in once one's property tax becomes too large a share of income. Those with the highest property taxes relative to their income receive the largest amounts of assistance through Schedule H. (How the actual credit is calculated is discussed further below.)

Schedule H is also a *refundable* tax credit, similarly to the Earned Income Tax Credit. Refundable tax credits have an added benefit for tax filers — if the amount of the credit exceeds the taxes owed, the balance is refunded. For instance, if a tax filer owes $800 in income taxes, and has refundable tax credits totaling $1,200, the filer would then owe nothing and receive the difference of $400 as a refund. A refundable Schedule H ensures that DC residents can get all of the property tax assistance for which they are eligible.

[1] DC Code § 47-1806.06.

Who is Eligible?

Both renters and homeowners are eligible for the Schedule H tax credit if they meet certain income and residency guidelines and their property taxes exceed a certain share of their income.

- **Income Guidelines**: From 1977 through 2013, the maximum income eligibility for Schedule H was $20,000. As a result of legislation adopted in 2013, tax filers with adjusted gross incomes of $40,000 or less may qualify for the credit starting in in 2014. In 2016, the income eligibility will rise to $50,000 of adjusted gross income. Beyond these rules that apply to all households, residents over age 70 will be eligible with incomes up to $60,000 starting in 2015.
- **Residency**: To claim the credit, the tax filer must have lived in DC for the full year.
- **How many can claim the credit:** Only one person per tax filing unit can claim the credit, but there may be more than one tax filing unit in the household.
- **Limits for Some Renters**: Persons receiving rental assistance may either be ineligible or may need to make adjustments to claim the credit. Persons living in public housing or other housing units that are exempt from property taxes cannot claim the credit. Persons that receive rent supplements must deduct the amount of the supplement from the total Schedule H credit and can claim the difference.

How Much is the Credit?

The goal of Schedule H is to limit a resident's property taxes so that they equal no more than a modest share of their total income. The maximum credit is $1,000 and was increased from $750 in 2014.

- Tax filing units with less than $25,000 in adjusted gross income are eligible for a Schedule H credit when property taxes exceed **3 percent** of their income. The credit offsets any amount by which their taxes exceed 3 percent of adjusted gross income, up to $1,000.
- For those with incomes of $25,000 to $40,000 (or $25,000 to $50,000 starting in 2016), they can claim a Schedule H credit when their property taxes exceed **4 percent** of their adjusted gross income.
- Starting in 2015, seniors with incomes under $60,000 will be eligible for the Schedule H credit when their property taxes exceed **3 percent** of their adjusted gross income.

To illustrate the Schedule H credit calculation, we look at two households, one renting and one owning, each with an adjusted gross income of $20,000. (See **Table 1**.)

- **Homeowner**: The property owner pays their full property tax, which is assumed to be $850. The individual is eligible for the Schedule H credit because their property taxes ($850) exceed 3 percent of their adjusted gross income, which is $600. The final credit is determined by subtracting their circuit breaker floor ($600) from the property taxes paid ($850) which results in a refundable credit of $250.

Table 1						
The Schedule H Tax Credit Provides Property Tax Assistance for Low-Income Renters and Owners *Sample Calculations for the Schedule H Tax Credit, Tax Filing Units With Adjusted Gross Incomes of $20,000*						
Tenancy Status	**Adjusted Gross Income (AGI)**	**Circuit Breaker Floor (Equal to 3% of AGI)**	**How Property Tax is Calculated**	**Property Tax Paid**	**Credit Calculation (Property Tax Paid - Circuit Breaker Floor)**	**Cap of $1,000 Reached?**
Owner	$20,000	$600	assessment office	$850	$250	No, credit is $250
Renter	$20,000	$600	20% * annual rent	$1,800	$1,200	Yes, credit is $1,000

- **Renter**: The renter does not see a property tax bill, but can claim 20 percent of the annual rent paid to the landlord as a property tax estimate. A renter paying a monthly rent of $750 a month would pay $9,000 for rent in the year, and 20 percent of this (or $1,800) could be claimed as property tax under Schedule H. Subtracting the property tax from 3 percent of their adjusted gross income ($600) leaves them with a credit of $1,200. However, the maximum Schedule H credit is $1,000, so the individual's credit would be limited to $1,000.

Who Claims Schedule H?

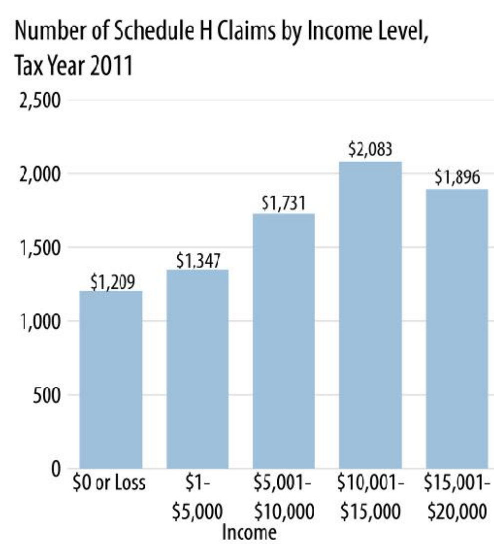
In tax year 2011, when eligibility was limited to households with income below $20,000, a total of 8,266 tax filers claimed the credit.[2] Tax filers with incomes close to the $20,000 eligibility limit represented the majority of Schedule H claims. (See **Figure 2**.) As income eligibility rises to $40,000 in tax year 2014, the number of Schedule H filings will likely increase.

Schedule H tax assistance totaled approximately $4.8 million in 2011, or an average of almost $600 per household. At that time, the maximum credit was $750 per household. With an increase in the maximum credit to $1,000 in 2014, the average credit amount is likely to grow.

The expanded income eligibility and increased maximum credit of $1,000 will mean that thousands of low- and moderate-income households will now have access to this important tax credit to help them cope with high housing costs.

Figure 2

Schedule H Provides Property Tax Assistance to a Variety of Low-Income Households



Source: DC Office of Revenue Analysis, District of Columbia Tax Expenditure Report, May 2014, http://cfo.dc.gov/node/840532.

[2] DC Office of Revenue Analysis, District of Columbia Tax Expenditure Report, May 2014.