DC Fiscal Policy Institute

TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR
At the Hearing on Bill 19-164
The Schedule H Property Tax Relief Act of 2011
District of Columbia Committee on Finance and Revenue
November 16, 2011

Chairman Evans and other members of the committee, thank you for the opportunity to testify today. My name is Ed Lazere, and I am the executive director of 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.

The bill before us today would address longstanding problems in an important but neglected tax benefit for low-income homeowners and renters. The changes would help the Schedule H tax credit reach a far larger share of the eligible population — currently fewer than one in five potentially eligible households get help — and it would provide aid to thousands of residents struggling with high housings costs.

Schedule H is a "circuitbreaker," a property tax credit for homeowners whose property taxes take up a large share of their income. Many states have such tax credit programs, which are designed like an electrical circuitbreaker to cut off property taxes when they become too burdensome.

Circuitbreaker programs are important because the property tax is tied to what your home is worth — not what you earn — which means there can be times when someone's property taxes are high relative to their income. Think about a retiree whose home is in the middle of a gentrifying neighborhood, or a homeowner who lost her job and is having trouble paying bills.

Property taxes affect renters, too, since landlords pass on their expenses to tenants through the rents they charge. Given DC's incredibly high and rising rents, property taxes add to the challenges low-income residents face paying rent each month.

Schedule H helps both homeowners and renters by offering a tax credit of up to $750 when property taxes are high relative to income. (Under Schedule H rules, 15 percent of rent is considered a property tax equivalent.) This is especially important in the District right now, given the large rise in home values and rents over the past decade. Schedule H provides modest but important assistance to the thousands of households who face very high housing costs and cannot get access to the limited supply of subsidized housing.

But Schedule H's design has been neglected for decades and simply doesn't work well now.

- **Very limited income eligibility**: The income eligibility limit was set at $20,000 almost 35 years ago and has not been adjusted once since then. This is lower than in most states with a circuitbreaker credit. If the Schedule H income limit had been adjusted for inflation, it would be over $50,000 today.

- **Modest benefits that have lost ground to inflation**: The maximum credit amount has not been adjusted since the 1970s. If it had been adjusted, the maximum benefit would now be over $2,000

- **Restrictive rules that limit participation**: Applicants for Schedule H mist report on 20 different sources of income, many that are otherwise considered on tax returns and some that are not easy for families to track. Perhaps more problematic is the requirement that two people sharing housing must combine their income when applying. This means that a young parent who moves in with her mother cannot get Schedule H if she and mom earn as little as $10,000 each. It also means that two unrelated people who live together but don't file taxes together have to share income information and decide who gets to claim Schedule H. Most states with a circuitbreaker allow people in shared housing to claim the credit based just on their income and their share of the rent.

These factors result in a very small number of households claiming Schedule H. Only 8,000 households get this benefit, a drop of 60 percent since the 1990s. The 8,000 households who claim Schedule H represents a participation rate of about 20 percent and is far lower than the 50,000 households who spend more than half their income on housing.

The proposed changes to Schedule H in today's legislation would address all of these concerns and others — by raising the income eligibility limit and maximum benefit and by easing restrictive rules. We support all of these changes.

The price tag for improving Schedule H is likely to be sizable. If all of the reforms cannot be implemented at once, DCFPI recommends phasing them in. The most important initial changes would be to ease restrictive rules that limit participation, especially the rules governing people who share housing. DCFPI would recommend raising the benefit formula and maximum benefit as a second step, and raising income eligibility as a third step.

Thank you for the opportunity to testify.