DC Fiscal Policy Institute

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TESTIMONY OF JENNY REED, POLICY DIRECTOR
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At the Public Hearing on the
Fiscal Year 2012-2013 Budget Oversight Hearing
for the Office of the Chief Financial Officer
District of Columbia Committee on Finance and Revenue
April 30, 2013

Chairman Evans and members of the Committee, thank you for the opportunity to testify today. My name is Jenny Reed, and I am the Policy 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.

I am here today to testify in support of fully funding the improvements to DC's low-income property tax credit, more commonly known as Schedule H, that were adopted last fall. Available to both renters and homeowners, Schedule H helps DC residents who have high property taxes relative to their income and can be an effective tool to help ease some of the impacts of gentrification that affect so many DC neighborhoods. DCFPI urges the DC Council to find funding in the FY 2014 budget to move Schedule H off the revenue contingency list and make the improvements a reality for DC's low- and moderate-income residents.

Until last December, Schedule H had not been updated for 35 years when, thanks to your leadership Councilmember Evans, the DC Council passed B19-0164, "The Schedule H Property Tax Relief Act of 2012." This bill made significant improvements to Schedule H that will increase both the reach and effectiveness of the credit at helping residents who have high housing costs relative to their income.

Schedule H is what is known as a circuit breaker program, meaning that it kicks in when property taxes become too large as a share of one's income. The credit applies not only to homeowners but also to renters and assumes that renters pay a share of property tax indirectly through their rent. (Currently, Schedule H assumes 15 percent of rent paid is passed on to cover the property tax payments.) In 2010, the year that data were most recently available, approximately 6,400 filers received schedule H, with an average credit paid of $570. Nearly 80 percent of filers who applied for the credit were renters.

The improvements made to Schedule H are critical because current rules limit participation in, and the effectiveness of, Schedule H as a property tax relief mechanism for low-income residents. For example, the current income ceiling hadn't been updated in 35 years and thus failed to keep up with inflation and the rising costs of housing in DC. In addition, onerous rules about who could apply for the credit left many residents unable to claim the credit despite need. Some of the notable changes in passed in "The Schedule H Property Tax Relief Act of 2012", include:

- Raising the income ceiling from $20,000 to $50,000

- Raising the maximum credit from $750 to $1,000 and adds an adjustment for inflation each year.
- Changing the requirement that all people living together must file together for Schedule H, even if they are not related and file separate tax returns.

Table 1 lays out the changes and compares then with the current structure of schedule H.

TABLE 1 COMPARISON OF SCHEDULE H UNDER CURRENT LAW AND UNDER THE SCHEDULE H PROPERTY TAX RELIEF ACT OF 2012		
	Current Law	**B19-0164**
Income Ceiling	$20,000	$40,000 in 2014 $50,000 in 2016
Income based on?	Household Income	Adjusted gross income
Maximum Credit	$750	$1,000
Percent of assumed property tax paid in monthly rent?	15 percent	20 percent
Calculation of credit?[1]	• $0-2,999: 95% of property tax * exceeding 1.5% of households income • $3,000-$4,999: 75% of property tax * exceeding 2% of households income • $5,000-$6,999: 75% of property tax * exceeding 2.5% of households income • $7,000-$9,999: 75% of property tax * exceeding 3% of households income • $10,000-$14,999: 75% of property tax * exceeding 3.5% of households income • $15,000-$20,000: 75% of property tax * exceeding 4% of households income • Or percent of assumed property tax paid through rent (15%)	• $0-$24,999: 100% of property tax * exceeding 3% of adjusted gross income of tax filing unit • $25,000-$40,000: 100% of property tax * exceeding 4% of adjusted gross income of the tax filing unit • Or percent of assumed property tax paid through rent (20%)
Number of persons eligible per household?	1 person, even in household members file taxes separately	Eligibility is based on the tax filing unit—1 person per tax filing unit.
Credit and income ceiling adjusted annually for inflation?	No	Yes

[1] Under current law, calculation for residents who under 62 and not blind or have a disability. Under the new law, starting in 2016 the income brackets will break out to $0-$24,999 and $25,000-$50,000 to correspond with the increased income ceiling.

The improvements made to Schedule H could help tens of thousands of DC families and individuals with high housing costs, based on their income, by 2016. These families live throughout the city, including as many as 11,700 in Ward 2, 18,200 in Ward 5, and 15,900 in Ward 7 (see **Table 2**). Even if participation in Schedule H is not at 100 percent, as is expected with tax credits, there is no doubt that thousands of families across the District would benefit. The Schedule H changes will make many residents newly eligible for the credit, but even currently eligible residents will benefit from the increased maximum credit and other changes that make applying for Schedule H easier.

Table 2

Improving the Schedule H Tax Credit Could Help Thousands of DC Households Throughout the City

Ward	Maximum Eligible
Ward 1	20,300
Ward 2	11,700
Ward 3	8,900
Ward 4	17,600
Ward 5	18,200
Ward 6	14,900
Ward 7	15,900
Ward 8	18,200
Total	125,600

Source: Office of Revenue Analysis, Chief Financial Officer. Figures represent the upper bound of potential Schedule H recipients by 2016. Actual participation would be lower because some income-eligible families will not meet other program rules and because participation will be lower than 100 percent.

I also can tell you from personal experience that these improvements will make a difference. For the last four years I have participated as a volunteer tax preparer for low-income residents through DC's Earned Income Tax Credit campaign. In my time preparing taxes I have come across many DC residents who face high housing costs and have low-incomes but didn't qualify for Schedule H because they were just over the $20,000 income ceiling or because the rule that only one household member could apply made it too difficult to determine eligibility.

The reforms should cost DC $5.4 million to implement in FY 2014.[2] We urge the DC Council to identify these funds. If the full amount cannot be found; we recommend phasing in the reforms over time to spread out the cost. The most important initial funding should ease restrictive rules that limit participation, especially the rules governing people who share housing. We recommend funding the property tax equivalent and maximum benefit as a second step, and raising income eligibility as a third step.

We appreciate your efforts, Chairman Evans, to update a critical tool to help ease the impact of rising housing costs for low-income residents — something that hadn't been done for 35 years. The reforms to Schedule H could help up to 125,000 residents across DC. We hope that as DC's economy continues to recover, as neighborhoods continue to grow and home prices continue to

[2] The fiscal impact statement for the Schedule H legislation suggests the costs would be $10.9 million in FY 2014, and that is the figure reflected in the FY 2014 budget's "contingent priority" list. Yet this fiscal impact level assumes that families receiving federal housing choice vouchers, or other rental subsidy, would no longer be required to subtract the total value of their subsidies from their calculated Schedule H credit to get the actual refundable portion the family would ultimately be eligible for.. A review of the 2012 Schedule H legislation suggests that the rules governing residents in subsidized housing would not change. Without this change, the cost of Schedule H in FY 2014 would be $5.4 million.

rise, the DC Council can find $5 million to help low and moderate income residents cope with rising property taxes.

Thank you for the opportunity to offer testimony and I am happy to answer any questions.