Center for Public Policy Priorities
Policy Page

April 3, 2009 Contact: Dick Lavine, lavine@cppp.org No. 09-383

CIRCUITBREAKERS: THE BEST WAY TO CONTROL PROPERTY TAXES

A circuitbreaker is a targeted property tax reduction program that operates like an electric circuitbreaker, which cuts off the electric current to a house before an electrical surge can cause damage. A property-tax circuitbreaker reduces property taxes that exceed a certain percentage of a taxpayer's income. Circuitbreaker programs account for a taxpayer's ability to pay when calculating a property tax bill. Without a circuitbreaker, the property taxes owed on a home can rise, even when a homeowner's income does not—or worse, when the homeowner loses income due to unemployment. Policymakers can target circuitbreakers to taxpayers who have the most difficulty paying property taxes and reduce their tax liability to a manageable level. Because of this careful focus, circuitbreaker programs cost far less than across-the-board rate reductions or increases in exemptions. This policy page examines variations among several states' thresholds for triggering the circuitbreaker and how they administer their programs.

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- **Circuitbreaker programs account for a taxpayer's ability to pay when calculating a property tax bill and cost far less than across-the-board rate reductions or increases in exemptions.**
- **Two bills-- HB 866 and SB 1928—would require the comptroller to study to examine circuitbreaker programs. The House Ways and Means Committee will consider HB 866 in a public hearing on March 18.**

How does a circuitbreaker work?

Thirty-five states offer some form of circuitbreaker protection. Each state's design varies among these elements:

- Threshold percentage of income. Policymakers must set the percentage of household income over which circuitbreaker protection takes effect. According to the comptroller's tax incidence study, the average Texas household pays about 2.5 percent of its income in school property taxes, accounting for about half of total property taxes. (Cities, counties, and special districts like community colleges and hospital districts also levy property taxes). Therefore, a cut-off level of 5 percent of annual income might be reasonable.
- Absorption over limit. Although some states forgive the total amount by which property taxes exceed the income threshold, others reduce the tax bill by only a percentage of the excess. The absorption percentage can be done on a sliding scale, with a greater portion absorbed if the tax bill is much greater than the threshold percentage.
- Maximum income level. Although some states limit participation in circuitbreaker programs to households with very low incomes, New Jersey covers homeowners with incomes up to $200,000, Maine up to $102,000, and Minnesota to $88,000. Some states index the income cutoff for inflation, to avoid having eligibility for the program erode over time.

- Maximum credit. The maximum credit can run as high as $2,100 in Oregon and $2,000 in Maine.
- Renters. Most states with circuitbreakers offer protection to homeowners *and* renters. Renters pay property taxes indirectly. Their landlords initially pay the taxes on the property, then pass the cost of the taxes on to their tenants through higher rents. Many states estimate that 20 percent to 25 percent of rent is actually passed-on property taxes.
- Percentage of total tax collections returned. States vary widely in their fiscal commitments to circuitbreaker programs. In Michigan and Minnesota rebates total more than 6 percent of property tax collections, while Vermont provides benefits equal to 11.4 percent of total property tax collections.

How to administer a circuitbreaker

Half of the states with circuitbreakers administer their programs as part of their income tax or property tax systems, while the other half operate a separate, stand-alone rebate process. With the stand-alone program, a taxpayer must apply for a refund check, administered separately from any tax collection system. The disadvantage of this procedure is that only a portion of eligible taxpayers participate.

States with income taxes offer a circuitbreaker as a credit against taxes owed. These states have a much higher participation rate, since almost all taxpayers file income tax returns, even if only to claim a refund. Maryland offers its circuitbreaker as a credit against future property tax bills.

Because Texas lacks a state personal income tax, a circuitbreaker program here must operate as a rebate program or a credit against future property tax bills. An applicant would either attach a copy of their federal income tax returns or other income-related document, or sign an affidavit affirming that their income information is true and correct, subject to perjury penalties.

Circuitbreaker study

Two bills would require the comptroller to conduct a study to examine circuitbreaker programs. HB 866 by Representatives Michael Villarreal and Donna Howard and SB 1928 by Senator Kirk Watson would create an advisory committee composed of representatives of school districts and other taxing units, home builders, real estate agents, mortgage lenders, financial agencies, and organizations interested in low-income housing or the effect of public policy on low-income households. With the assistance of this committee, the comptroller would study how to implement a circuitbreaker program, including the effect of different program designs, the creation of a simple application process, and the reliability of a taxpayer's statement of annual income. By December 1, 2010, the comptroller would report on the benefits of alternative designs, the cost to the state and taxing units of these designs, and the effect on the state economy, housing market, and homeownership rates of a circuitbreaker program.

The House Ways and Means Committee considered HB 866 in a public hearing on March 18, and left the bill pending.