



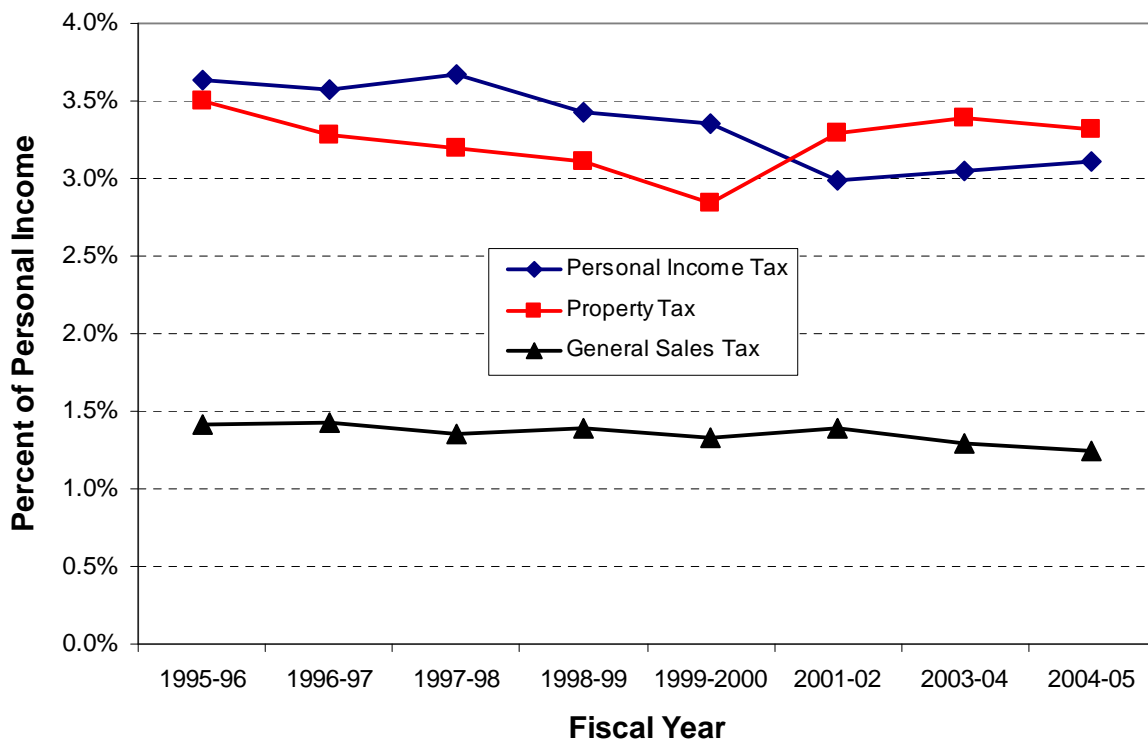
Property Taxes: Helping Those Who Need It Most

This *MassBudget Brief* examines property taxes in Massachusetts, paying particular attention to identifying who pays the highest share of their income in property taxes. It also looks at property taxes in the broader context of overall changes in state tax policy. Finally, this *MassBudget Brief* discusses some policy solutions that could help those taxpayers who are paying the largest shares of their income in property taxes.

Putting Property Tax in Context: Trends in Income, Sales and Property Taxes

Looking at the Commonwealth's tax revenues as a share of the economy allows us to determine whether these revenues have grown faster than the rate of growth in the economy as a whole, or whether they have not kept pace. Over the past decade, the personal income tax as a share of our

Figure 1 Reductions in Personal Income Taxes and Declines in Sales Tax Revenues Led to Greater Reliance on the Property Tax



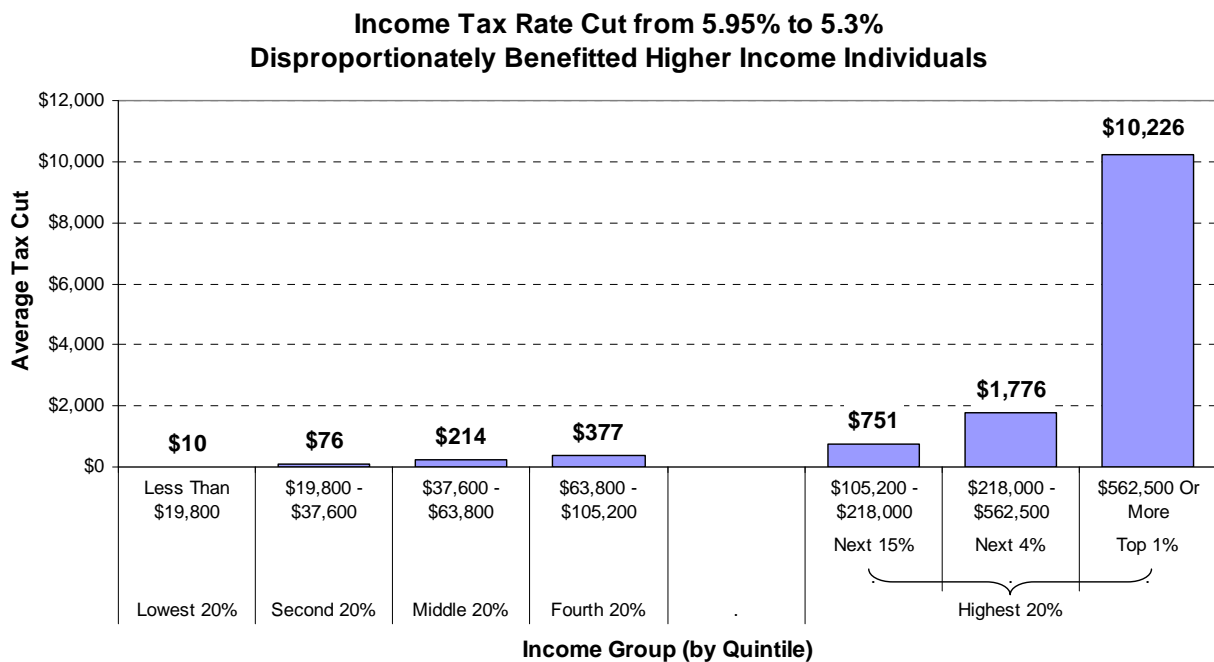
Note: "Personal Income" includes capital gains.

Sources: U.S. Census Bureau, *Governments Division*; Bureau of Economic Analysis, *Regional Economic Information System*, March 2008; Mass. Dept. of Revenue. Census data are not available for fiscal years 2000-01 and 2002-03.

economy has declined significantly, from 3.6 percent of the economy to 3.1 percent (see Figure 1). The personal income tax declined largely due to a number of tax cuts enacted during that period. Sales tax revenues during this same period declined modestly, from 1.5 percent of personal income to 1.4 percent, largely because of increasing tax-free Internet purchases and a shift to greater purchasing of non-taxed services. The property tax declined from 1995 to 2000, but then began to increase as large income tax cuts and the declining economy led to cuts in state aid to cities and towns. As a result, the property tax has played an increasing role in providing the revenue to fund essential public functions like education and public safety over the past five years.

Over the past decade, two tax cuts in particular have significantly reduced income taxes for higher income people: an income tax rate cut and a tax rate cut on dividends and interest. The tax rate for most income was reduced from 5.95 percent to 5.3 percent during this period, reducing state revenue by \$1.26 billion in 2008. The tax rate on interest and dividend income was also reduced from 12 percent to 5.3 percent, costing the state \$638 million in 2008. Figures 2 and 3 show that higher income taxpayers received particularly large tax reductions as a result of these tax cuts. .

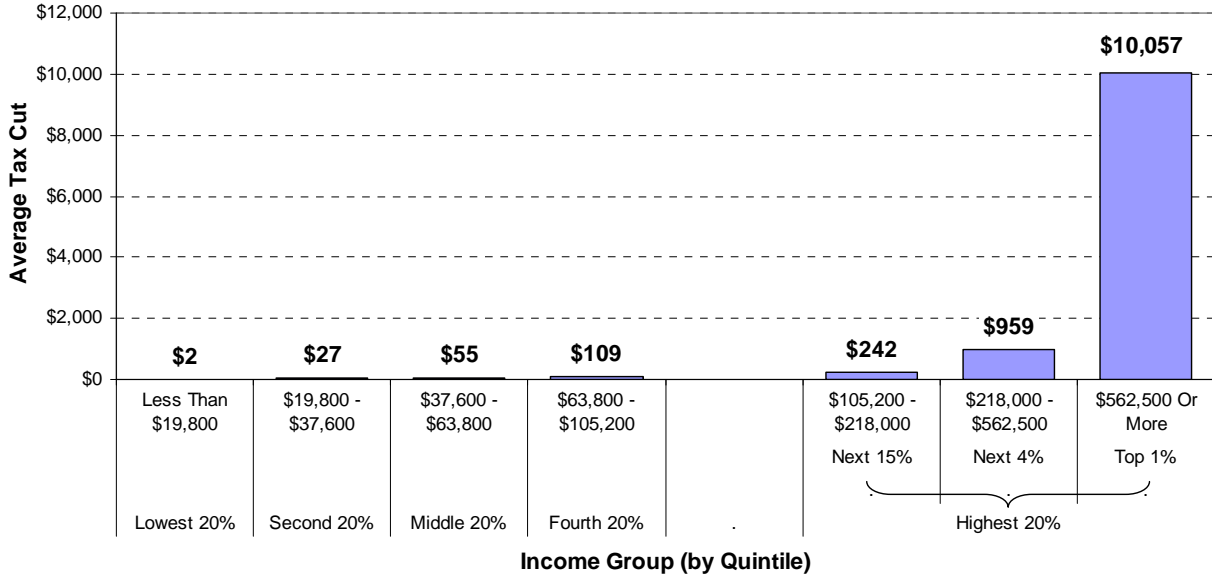
Figure 2



SOURCE: Institute on Taxation and Economic Policy, April 2008

Figure 3

**Tax Rate Cut on Dividends and Interest
Disproportionately Benefitted Higher Income Individuals**



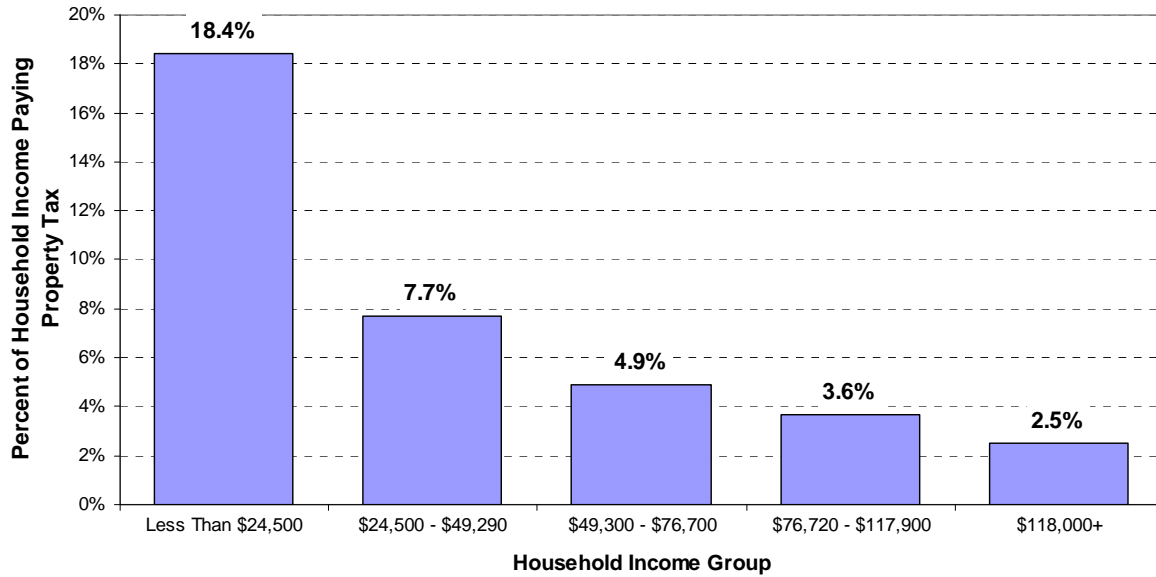
Who Pays the Largest Share of Their Income in Property Taxes?

To the extent that the funding for government has shifted from the income tax to the property tax, it is important to look at which taxpayers have been most affected by this shift. As Figure 4 indicates, lower income homeowners pay a significantly higher percentage of their income in property taxes than do higher income homeowners.¹

¹ The U.S. Census' American Community Survey is a sample of about one percent of all households. This estimate took all homeowner households that responded to the survey question concerning property tax payments and sorted them by total household income. This analysis breaks down all homeowners (rather than all households) into five groupings.

Figure 4

Lower Income Homeowners Spend a Larger Share of Their Income on Property Taxes

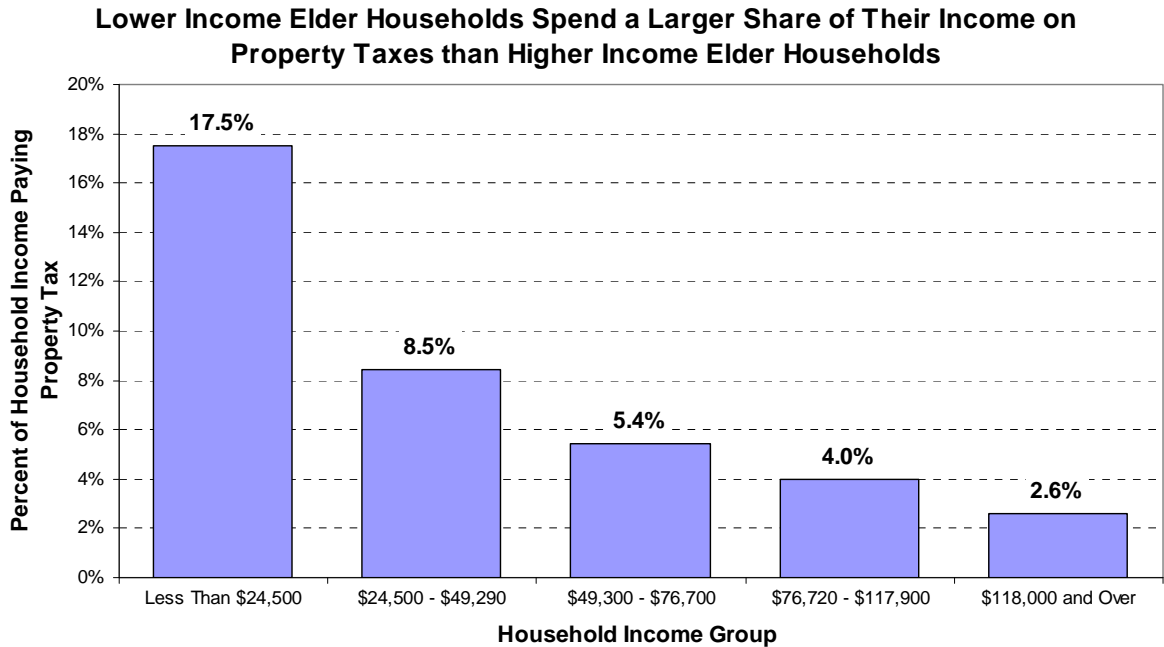


SOURCE: U.S. Bureau of the Census, *American Community Survey 2006*; Mass. Budget and Policy Center calculations.

The most familiar examples of lower income households that have relatively high property taxes are senior citizens on fixed incomes who live in valuable homes. As Figure 5 indicates, low income senior households do, in fact, pay a larger share of their income in property taxes than higher income senior households.²

² In Figures 5 and 6, the income groups represent the same income divisions as Figure 4. It is important to remember that the distribution of homeowners by age group (elder, non-elder) is not evenly distributed among these homeowner income quintiles. These two figures divide homeowner households into those where there is a person over 65 residing in that household and those where there is not.

Figure 5



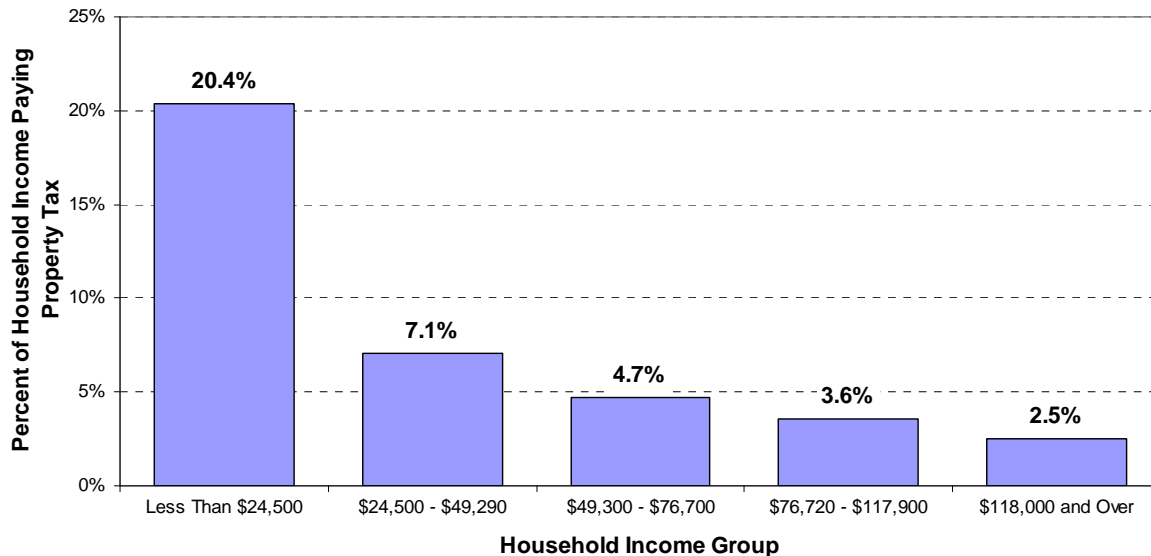
SOURCE: U.S. Bureau of the Census, *American Community Survey 2006*; Mass. Budget and Policy Center calculations. "Elder households" is all homeowner households with a person over age 65 in that household.

As Figure 6 indicates, however, low income non-elder homeowners pay, on average, an even higher share of their incomes in property taxes than do low income seniors. Low income non-elder households, however, are less likely than seniors to own their own homes.³

³ Figures 5 and 6 use the American Community Survey data for all households that responded to questions about property tax or rent payments. The households with persons over 65 includes households where persons over 65 are present but may or may not be the homeowner.

Figure 6

Lower Income Non-Elder Homeowners Spend a Larger Share of Their Income on Property Taxes than Higher Income Non-Elder Homeowners



SOURCE: U.S. Bureau of the Census, *American Community Survey 2006*; Mass. Budget and Policy Center calculations. This includes all homeowner households without a person over age 65 in that household.

Using Tax Policy to Reduce Property Taxes for Low-Income Households

While the state currently faces severe fiscal challenges, proposals to close corporate tax loopholes could save the state up to \$500 million a year. Although money that is currently being lost because of corporate tax avoidance will be used to help balance the budget, there have also been proposals to use some or all of this money for new corporate tax cuts. The state could choose to make some of this money available to reduce taxes for homeowners with disproportionately high property taxes rather than reducing taxes for businesses.

There are at least two strategies for addressing the challenge of costs being shifted onto property taxes. One strategy would be to reverse the shift by repealing income tax cuts and providing substantial state aid to localities to provide services and reduce property taxes. The other option is to use more limited resources to make targeted reforms aimed at helping those who have disproportionately high property taxes. This *MassBudget Brief* focuses on options within the second strategy.

There are a number of options available for helping people with disproportionately high property taxes. While several strategies could be very effective, in a time of severely limited resources it is important to make sure that a plan focuses resources where they are most needed.

Property Tax Circuit Breakers

Massachusetts currently has what is known as a property tax circuit breaker. This law provides an income tax credit to low income seniors whose property tax is more than ten percent of their income. The credit was capped at \$900 per household in 2007, and is adjusted each year. For a senior citizen with an income of \$20,000 and property taxes of \$3,000, ten percent of this household's income would be \$2,000. Their property taxes are \$1,000 higher than the ten percent threshold, but they would only receive a credit of \$900 and not the full \$1,000 due to the cap that limits the actual credit to \$900.

<i>Massachusetts Property Tax Circuit Breaker</i>	
Income	\$48,000 single, \$60,000 head of household, \$72,000 married filing jointly.
Home Value	No limit.
Property Tax as Percent of Income	10% or more.
Renters	25% of rent is treated as property tax.
Credit Cap:	\$900
Age	At least one homeowner over 65.
Different for Number in Household?	No.

This circuit breaker provides a good framework for assisting taxpayers who are paying a disproportionately large share of their income in property taxes. Tax policy experts who examine these issues recommend circuit breaker laws as the most effective tool for states to use in this context.⁴

Making the Circuit Breaker a More Effective Tool to Help Taxpayers

This section provides options for improving the state property tax circuit breaker. The cost estimates are approximate, as they are derived from Census data rather than from actual tax returns. The state Department of Revenue has access to additional data and could develop more accurate estimates. As with any significant policy initiatives, policy makers should examine official cost estimates prior to making policy decisions.

The circuit breaker could be extended to all low or moderate-income households.

There are about 135,000 homeowners in Massachusetts, not over 65, with incomes below the current circuitbreaker income cutoffs who pay more than ten percent of their income in property taxes. Allowing these younger families to take advantage of the circuit breaker would cost an estimated \$97 million per year.⁵

⁴ 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 21, 2007.

⁵ These estimates use data from the United States Census' American Community Survey (ACS) for 2006, and estimates that have been done by the Massachusetts Department of Revenue (DOR). The total value of the circuit breaker expansion was determined from taking the ACS households that fulfilled the requirements of the current

There are also many younger families who rent, but are likely to be paying more than ten percent of their income in property taxes indirectly. The existing circuit breaker law in Massachusetts applies to renters as well as homeowners. It assumes that 25 percent of the rent paid by renters is ultimately paid in property taxes by their landlords. If we were to make the same assumption for younger renters and make them eligible for the circuit breaker, this would extend tax credits to an additional 128,000 people at an estimated cost to the state of \$93 million a year.⁶

The cap on the circuit breaker could be increased.

There are about 40,000 seniors in Massachusetts whose property taxes in 2006 exceeded ten percent of their income by more than the current cap of \$900. These taxpayers are currently receiving circuit breaker tax credits, but even with those credits they are still paying more than ten percent of their income in property taxes. Doubling the maximum credit to \$1,800 would help the seniors who have particularly high property taxes in comparison with their incomes and it would cost the state an estimated \$27 million a year.⁷

The percentage of income paid in property taxes to be eligible could be reduced.

There are about 32,000 seniors in Massachusetts who pay more than eight percent of their income in property taxes but less than ten percent. These seniors are paying roughly twice as much of their income in property taxes as the average household, yet they are not eligible for the circuit breaker. Extending the circuit breaker to all senior households paying over eight percent of their income in property taxes would cost the state \$17 million a year.⁸

circuit breaker, then using a DOR estimate of the number of households that would be added by the removal of the age limitations in the current circuit breaker.

⁶ This estimate uses the ACS data and DOR estimates as above, and assumes that the proportion of under-65 renters is the same as the proportion of under-65 homeowners.

⁷ This estimate starts with the current circuit breaker coverage and assumes that the participation rate will be less than 80 percent, the same as it is currently.

⁸ Assuming less than 80 percent participation.