

Property Tax Circuit Breaker

A property tax “circuit breaker” provides income tax reductions for people whose property taxes comprise a disproportionately large share of their income. There is a great deal of policy flexibility with circuit breakers in terms of cost as well as the populations affected.

MASSACHUSETTS AND THE PROPERTY TAX CIRCUIT BREAKER

In 1999 Massachusetts adopted a property tax circuit breaker for senior citizens. The credit is available to people over aged 65 who meet income eligibility requirements and whose property tax payments (or 25 percent of rent) exceed 10 percent of their total taxable income. Qualifying seniors, whose property taxes or eligible rent exceed 10 percent of their income, receive a tax credit for the amount over 10 percent -- the credit is capped at \$930. In fiscal year (FY) 2009, \$45 million in tax credits were awarded through the senior circuit breaker. Approximately 14 percent of senior citizens who filed taxes in 2006 were eligible.

HOW COULD THE CIRCUIT BREAKER BE EXPANDED?

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 circuit breaker income cutoffs who pay more than 10 percent of their income in property taxes. Allowing these younger families to take advantage of the circuit breaker would cost an estimated \$99 million per year.¹

The circuit breaker could be extended to all low-or moderate-income renters. There are also many younger families who rent, but are likely to be paying more than 10 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 \$95 million a year.

The cap on the circuit breaker could be increased. There are about 40,000 seniors in Massachusetts whose property taxes in 2006 exceeded 10 percent of their income by more than the current cap of \$930. These taxpayers are currently receiving circuit breaker tax credits, but even with those credits they are still paying more than 10 percent of their income in property taxes. Doubling the maximum credit to \$1,860 would help the seniors who have particularly high property taxes in comparison with their incomes and it would cost the state an estimated \$29 million a year.

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 8 percent of their income in property taxes but less than 10 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 8 percent of their income in property taxes would cost the state \$17 million a year.

¹ These estimates are updated from the MassBudget’s earlier brief, *Property Taxes: Helping Those Who Need it Most* at <http://www.massbudget.org/doc/596>. More information on estimate methodology is available in that report.