

Direct Property Tax Relief

John E. Anderson

University of Nebraska-Lincoln

Property Tax Reliance

- Connecticut is among the states most reliant on local property taxes.
 - Local property taxes as a share of own-source general revenue is the highest in the country.
 - Residential property accounts for 70 percent of the total property tax base, with commercial, industrial and public utility property accounting for 17 percent, and personal property (including automobiles) accounting for 11 percent.

Figure 1: Local Property Taxes as a Share of State Personal Income, 2013

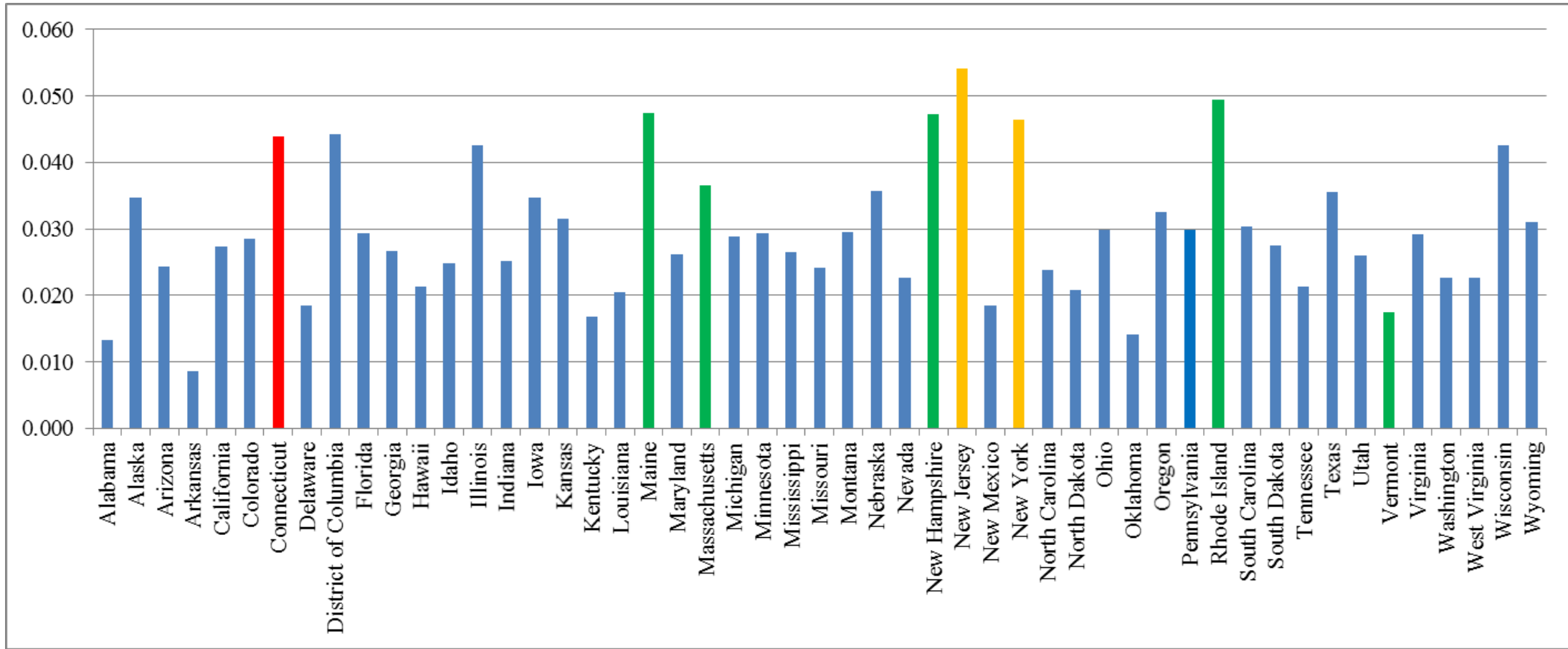


Figure 2: Local Property Tax as a Share of Own-Source General Revenue, 2013

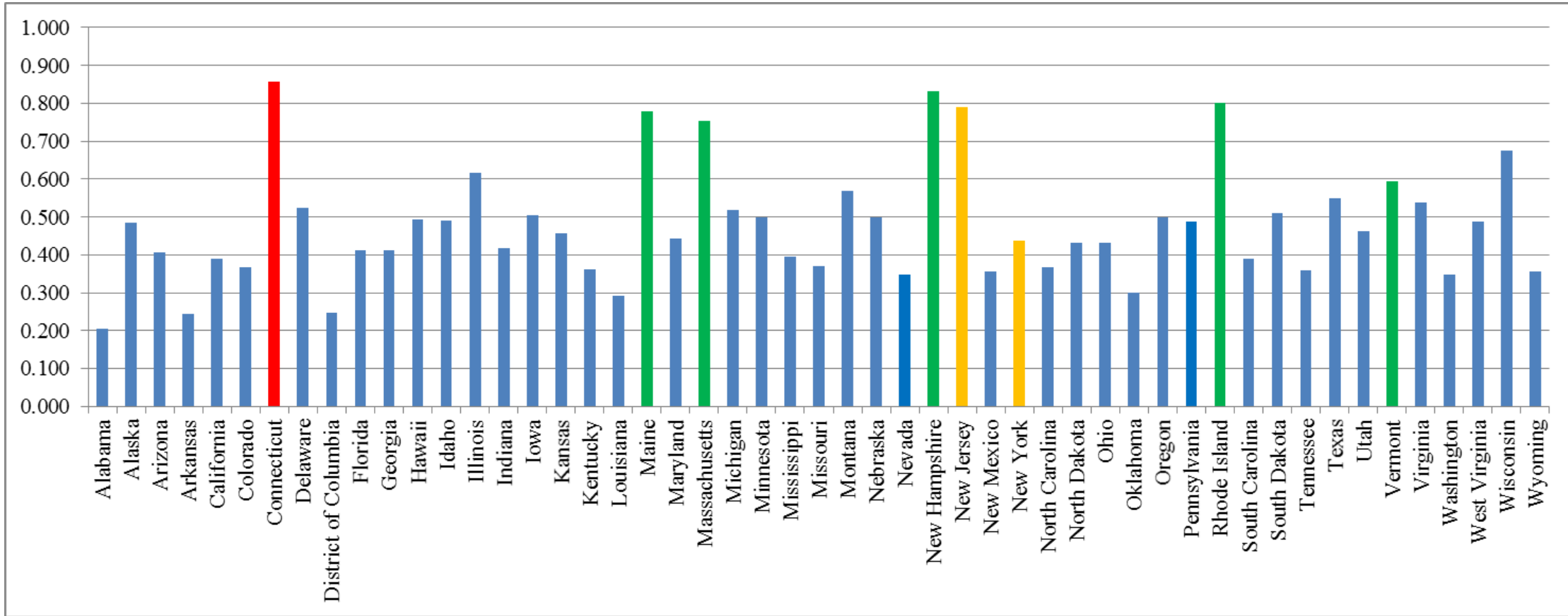


Figure 3: Local Property Tax as a Share of Own-Source Taxes, 2013

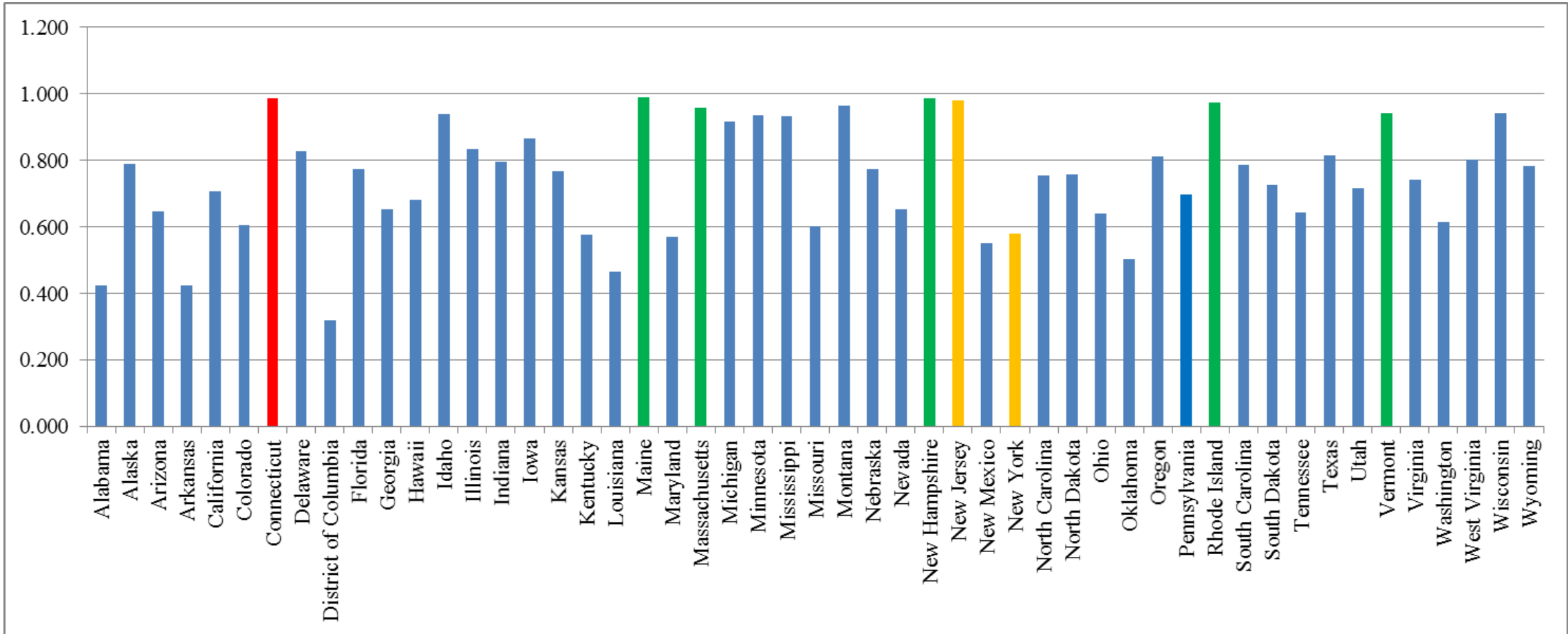
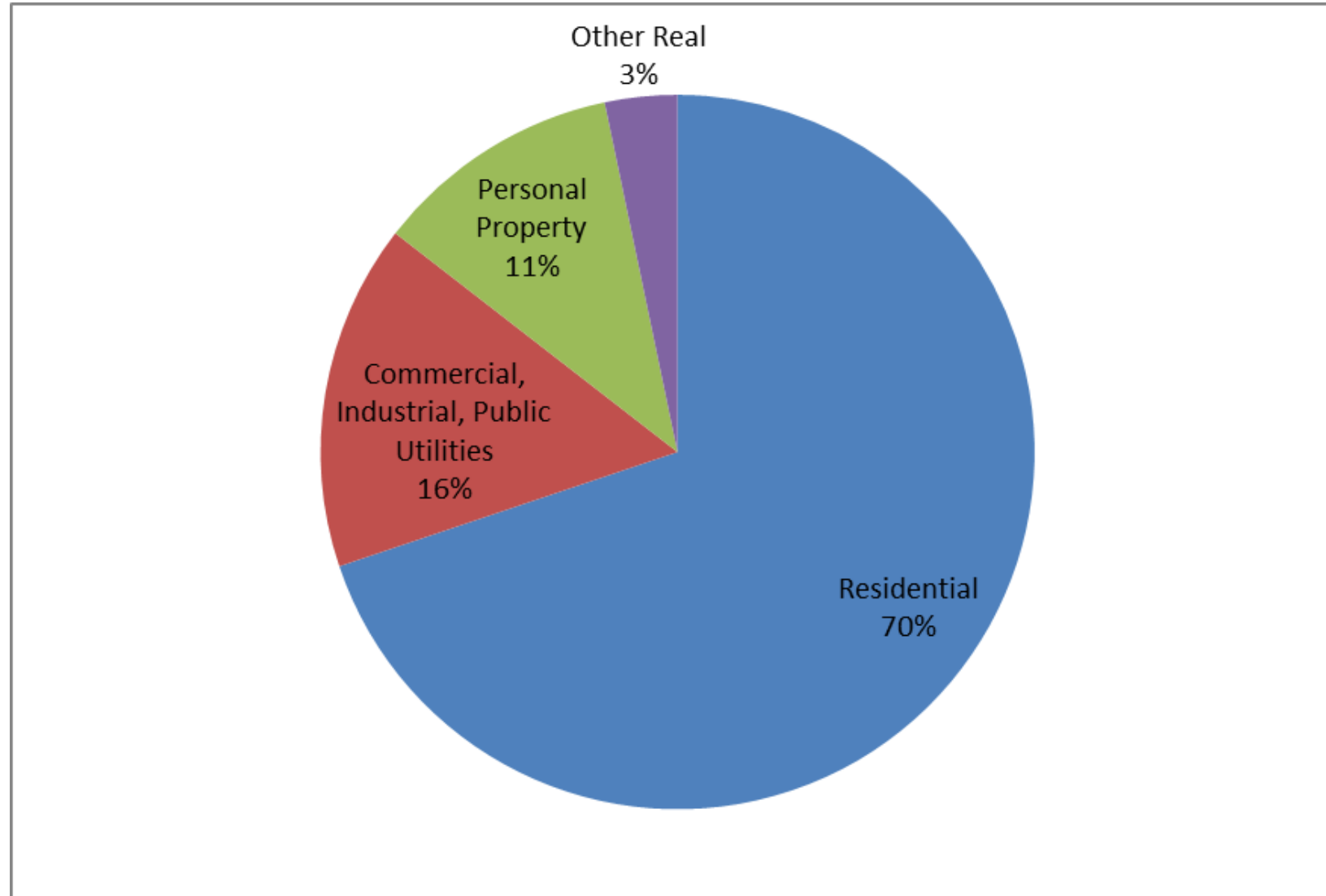


Figure 4: Connecticut Property Tax Base, FY 2013



Current Property Tax Relief Mechanisms

- CT currently has thirteen programs to reduce property tax burdens, including two circuit breakers, numerous exemptions, freezes, and a deferral program.
- The net effect of these programs is to reduce property tax burdens by a modest amount. The total tax savings from property tax exemptions and credits as a percent of total property tax revenues in Connecticut has been estimated to be less than 0.5 percent in 2012.
- In addition, Connecticut has a use-value assessment program (PA490) to provide reduced property taxes for rural properties which results in substantial tax relief and lost revenue for local government units.

State-Funded Relief Programs

- Circuit breaker for the elderly and disabled
 - Tax relief is provided in the form of a credit applied to a homeowner's property tax bill.
 - Homeowners at least 65 years of age, or Social Security disability eligible if younger than 65, apply for a property tax credit with the local assessor.
 - Credit amounts vary inversely with income, making this a sliding-scale circuit breaker.
 - Credit amounts begin at 50 percent of property tax for homeowners in the lowest income category and decline in increments of 10 percent for each of the five successive income categories, phasing out entirely at the income maximum.
 - For 2014, the income qualification limits were \$34,600 for a single person and \$42,200 for a married couple (indexed).
 - The maximum credit is \$1,000 for unmarried homeowners and \$1,250 for married homeowners.

State-Funded Relief Programs

- FY2015 total credits amounted to \$20.5 million given to 39,374 individuals.
 - The total state appropriation for this program in FY2015 was \$20.5 million, but the total reimbursements requested by local governments were \$22.5 million.
 - The difference indicates that State appropriations for this program do not fully cover the cost of the program.
 - Local government units do not receive full reimbursement.
 - In recent history, State appropriations have generally covered from 88 to 95 percent of the cost of the program

State-Funded Relief Programs

- Income tax credit for property taxes paid
 - CT income tax provides a credit for property taxes paid on residents' primary residence, motor vehicle, or both, on line 11 of Form CT-1040.
 - Not specifically named a circuit breaker, but it is.
 - Taxpayer completes Schedule 3 on page 4 of CT-1040, reporting property tax paid and income.
 - The amount of the credit is reduced for single filers with incomes in excess of \$62,500 and for married-joint filers with incomes in excess of \$100,500.
 - A Property Tax Credit Table on p. 31 of the CT income tax instruction booklet provides the phase-out parameters.
 - The maximum credit allowed has been \$300 until recently when the legislature voted to reduce the maximum credit to \$200.
 - The credit is not fully refundable

State-Funded Relief Programs

- Elderly and Disabled Freeze Programs
 - CT has current previous tax freeze programs for the elderly and disabled.
 - Previous program froze property taxes for the elderly and disabled, and provided State reimbursement to municipalities for lost revenue.
 - Closed to new enrollments since 1979.
 - Total State appropriation for this program in FY 2015 was \$235,000. Total reimbursements requested and paid were \$120,870.80. Payments were made to 34 towns plus 3 boroughs/districts containing 63 individual applicants.
 - The current freeze program, since 2006, permits municipalities the option to freeze property taxes for qualifying older taxpayers.
 - The program is strictly optional for municipalities and it does not provide State reimbursement for lost revenues.
 - Freezes property tax liability at the level of the year prior to application for the program

State-Funded Relief Programs

▪ Disability Programs

- The State disability program has a \$400,000 appropriation to provide property tax relief to totally disabled persons.
- Eligibility follows Social Security disability guidelines. There are no income qualification requirements. Eligible disabled persons receive a \$1,000 exemption reducing their assessment.
- In FY 2015 total reimbursements requested by local governments amounted to \$470,678, of which \$400,000 was paid by the State. Payments were made to 169 towns plus 24 boroughs/districts containing 13,763 individual applicants.

State-Funded Relief Programs

- **Additional Veterans Exemption Program**
 - Qualifying veterans may receive both a basic exemption, which is not reimbursed by the State to the local government unit.
 - In addition, there is a State program that provides exemptions, with reimbursements to local units for the foregone revenue.
 - Income qualification requirements for the State program are the same as those for the circuit breaker program.
 - In FY 2015 total reimbursements from the State requested were \$3.11 million, whereas the State appropriation for this program was \$2.97 million. State reimbursements were provided to 169 towns plus 4 boroughs/districts containing 17,937 individual applicants.

State-Funded Relief Programs

- State grants to renters
 - A separate program of State grants is provided for renters who are required to apply for the credit annually.
 - Income qualification requirements are the same as those for the homeowner program.
 - State payment is the lesser of: (1) the maximum amount listed in statute, and (2) 35 percent of the sum of all charges for rents, electricity, gas, water, and fuel actually paid during the preceding year, less 5 percent of the qualifying income received in the previous year.
 - The maximum credit provided is \$900 for a married couple and \$700 for a single renter

Local Option Property Tax Relief Programs

- In addition to the above state-funded programs, there are a wide range of local option property tax relief programs for the disabled, blind, and veterans, most of which are provided in the form of exemptions.
- Qualifying homeowners are given exemptions, thereby reducing their assessed values and their property tax liabilities.
- Revenue losses to the local government units are not reimbursed by the State.
- A total of 38 state-provided relief options are available to local governments in Connecticut.
- An informal survey conducted by the Connecticut Conference of Municipalities (CCM) in 2015 indicates that most of these relief programs are used by very few local governments. No one option is used by a majority of municipalities.

Local Option Property Tax Relief Programs

- Municipal exemptions
 - Exemption for the disabled
 - Exemption for the blind
 - Standard exemption for veterans
 - Additional exemption for veterans
 - Exemption for disabled veterans
 - Exemption for severely disabled veterans
- Property tax deferral program
 - CT gives municipalities the option to defer property taxes for a homeowner's principal residence.
 - Municipalities that adopt deferral programs may defer taxes that exceed 8 percent of income.
 - The deferred tax plus 6 percent interest is secured by a lien on the property.

Summary of Relief Provided

- The vast array of relief programs provided in Connecticut actually provides very modest relief for property tax payers.
 - Significant Features of the Property Tax lists 13 distinct property tax relief programs in Connecticut, including various exemptions, circuit breakers, deferrals, and other programs. Despite this range of tax relief programs, the amount of tax relief provided is quite limited.
- Bell (2015) provides an overview of property taxes in Connecticut prepared for the CT Tax Panel and indicates that the relief programs reduce effective tax rates by a very modest amount.
 - For example, in a large city like Bridgeport, the effective tax rate for residential properties, without any relief programs taken into account, is 2.95 percent. Relief programs reduce that rate to 2.90 percent. In a smaller city such as Manchester, the rate without relief is 2.76 percent, and with relief programs it is 2.64 percent.

Summary of Relief Provided

- Langley (2015) estimates that the total tax savings from property tax exemptions and credits as a percent of total property tax revenues in Connecticut was under 0.5 percent in 2012.
- Overall, the evidence is that the wide variety of relief programs does little to reduce the effective property tax rates in Connecticut.

CT Use-Value Assessment of Rural Property

- CT land use-value assessment law is Public Act 490 (PA490).
 - Allows landowners to pay tax based on the current use value of the property rather than based on the “highest and best use,” or market value of the property.
 - Tax Expenditure Report (2014) provides no estimate of the foregone revenues due to PA490, so there is no comprehensive estimate of the foregone revenues involved with this policy.
 - PA490 case studies for two communities are provided.

Two Case Studies

- Town of Coventry

- Analysis of 129 properties in 2014 that benefit from PA 490 preferential tax treatment.
- Average percentage reduction in property tax (assessment without PA490 minus current total assessed parcel value as a percent of the assessment without PA490) is 57.14 percent.
- Median reduction is 51.28 percent.
- In the aggregate, these parcels would have had total assessed value of \$27.9 million without PA490, but with PA490 preferential tax treatment the total assessed value is reduced to \$15.1 million.

Two Case Studies

- Town of Union
 - Aggregate appraised value of these properties is \$51.6 million whereas the assessed value under PA490 for these properties is \$1.8 million.
 - Most of the properties have PA 490
 - In the aggregate, the assessed value of these properties is 3.5 percent of the appraised value.
 - PA 490 results in lost revenue amounting to 96.4 percent of the revenue that would otherwise have been collected on these properties

Alternate Forms of Direct Relief

- Classification
- Assessment limits
- Homestead exemptions
- Tax deferral
- Circuit breaker

Options for Policy Reform:

- Consider replacing the current complex set of property tax exemptions and circuit breakers with a single unified circuit breaker mechanism that provides property tax relief to homeowners and renters whose property taxes are high relative to their household resources.
 - Implement a single threshold type circuit-breaker credit on the Connecticut income tax to provide targeted relief (modification of the current CT property tax credit).
 - Fund that property tax relief with general revenues generated by state income and sales taxes, as well as with increased revenues from the elimination of other relief mechanisms (e.g. State-funded exemptions, and increased revenue from tightening PA490 provisions).

Advantages and Disadvantages of Circuit Breaker Tax Relief

- Advantages:
 - Tax relief is targeted to those most needing assistance, and that targeting is based on means-testing rather than other criteria
 - Relief is provided regardless of other taxpayer or household characteristics (elderly, disabled, veterans, etc.), making implementation much simpler
 - The circuit breaker mechanism adds a degree of progressivity to the state income tax
 - The cost of the program can be determined explicitly by the state
- Disadvantages:
 - State revenues are required to pay for the credits, which involves using general fund revenues generated from other sources such as the state income or sales taxes
 - The credit mechanism lowers the tax price of local public goods (e.g. schools) for credit recipients, which may encourage them to demand more public goods

Circuit Breaker Simulations for CT

- Two alternative circuit breakers are simulated for CT using a single-threshold design.
- Tables 10 and 11 in the report provide the author's estimates using an American Community Survey (ACS) sample of Connecticut families living in single-family homes.
 - Credit design requires household income to be less than \$50,000 and for property taxes to exceed 3.5 percent of family income.
 - Variant 1 in Table 10 provides a credit amount that is 60 percent of the difference between property taxes paid and 3.5 percent of family income, subject to a cap of \$1,200.
 - Variant 2 in Table 11 is a more modest credit of 40 percent of the difference between property taxes paid and 3.5 percent of family income, subject to a cap of \$1,000.

Table 10: Simulated General Circuit Breaker for Connecticut, Variant 1

	Unweighted ACS sample of households	Weighted ACS sample of households	Scaled for CT
Sample size-- households	7,477	652,811	1.3 million
Households eligible for circuit breaker credit	1,063	95,208	195,176
Number of eligible households with capped credits	830	73,053	149,937
Total amount of credits	\$1.12 million	\$102.9 million	\$211.2 million
Total property taxes paid by all households	\$53.0 million	\$4.5 billion	\$9.3 billion

Table 11: Simulated General Circuit Breaker for Connecticut, Variant 2

	Unweighted ACS sample of households	Weighted ACS sample of households	Scaled for CT
Sample size-- households	7,477	652,811	1.3 million
Households eligible for circuit breaker credit	1,063	95,208	195,176
Number of eligible households with capped credits	715	62,950	129,202
Total amount of credits	\$920,187	\$81.8million	\$167.8 million
Total property taxes paid by all households	\$53.0 million	\$4.5 billion	\$9.3 billion

Options for Policy Reform:

- Consider tightening PA490 provisions to target tax relief more specifically.
 - Implement an objective test for agricultural use (e.g. *de minimus* level of net income from agricultural production).
 - Rationalize use-value assessment (UVA) computation methods used—a more accurate income measure and a more realistic capitalization rate.
 - Ideally, move away from general tax relief for agriculture and move toward strategic use of UVA to protect and preserve land that provides ecosystem services that are a form of public good or generates positive externalities.
 - The Tax Expenditure Report should provide an estimate of the foregone revenue due to PA490.

Options for Policy Reform:

- Consider modifications to the current property tax deferral program.
 - Reduce the threshold level of tax relative to income from eight percent to, perhaps, five percent.
 - Hold local governments harmless by having the State provide a low interest loan secured by a lien on the property that pays the property tax to the local government units.