

HB

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HB 474 IS A VERY SIMPLIFIED VERSION WHICH DOES NOT PROTECT THE LOCAL GOVERNMENT FROM THE REVENUE LOSS AND WHICH IMPOSES AN IMPOSSIBLE ADMINISTRATIVE BURDEN AS WELL AS LOSING THE PRESENT COUNTY NEWS - February 11, 1972 - Page 5
DRIVING UP INCOME TAX RETURNS.

Circuit Breaker: Safety Device For The Property Tax

The following is excerpted from a publication of the Advisory Commission On Intergovernmental Relations (ACIR).

The property tax now yields in excess of \$40 billion annually. A replacement for this venerable local tax source is not readily at hand despite the widespread interest in relieving this levy of the burden of supporting the local share of elementary and secondary school costs. Even if school costs were miraculously shifted off the local property tax it would still have to yield \$20 billion or more and continue as a major revenue producer.

To make sure that the property tax does not do gross violence to equity concepts, it must be equipped with a safety mechanism -- a circuit-breaker -- that automatically works when the tax becomes excessive in relation to income thereby shielding low

income property owners and renters from tax overload situations.

Ability-to-Pay

The State of Wisconsin in 1964 pioneered with an approach to relieve individuals of excessive tax burdens while not heaping new fiscal burdens on localities.

The concept is similar in principle to the circuit-breaker that prevents electrical overload. It protects the poor from tax overload without disrupting the flow of revenue from those able to pay. It is State financed to maintain the fiscal solvency of local governments and State administered to promote the greatest efficiency, provide the widest base, and maintain the dignity of the recipients.

The idea of the circuit-breaker has already caught on in other States and they, in turn, have developed their own plans for shielding low income, elderly

property taxpayers from tax overload situations.

For example, the Vermont legislature has taken the position that any residential tax payment in excess of 7 per cent of total family income is excessive. The State rebates to the elderly taxpayer (home owner or renter) that part of the tax payment in excess of the 7 per cent figure. In order to give the renter tax relief, Vermont assumes that 30 per cent of the renter's payment to the landlord goes for property taxes. Wisconsin uses a 25 per cent calculation.

How It Works

The most prevalent type of circuit-breaker program operates in conjunction with the State personal income tax, is administered by the income tax division of the State tax department and is funded entirely out of State money. The State determines the amount of property tax burden it deems

what is excessive also varies. The Minnesota circuit-breaker comes into play when the property tax burden exceeds 6 per cent of household income; Vermont's cuts in at 7 per cent; and under the 1969 Wisconsin formula, the circuit-breaker begins to work when the property tax reaches more than 11 per cent of family income.

To avoid providing property tax relief to the little old lady who lives in the mansion on the hill, several of the States have written into the law income ceilings or limits on the amount of rebate. They also have progressive rates to provide the most relief to the most needy cases. Income ceilings range downward from a \$10,000 limit in California, the ceiling in Vermont is not explicit.

Who Should Be Eligible?

The flexibility of the circuit-breaker extends to the type of recipients as well as the amount of relief. Except for

low-income communities within the same metropolitan area.

Answering the Objections

Like any innovative program, the circuit-breaker has opponents who raise various objections. Most of them can be answered quite simply.

Some complain that the circuit-breaker does not cure the real disease, poverty. True, but something must be done now, while the Federal Government is working out a broad program to eradicate poverty. The circuit-breaker makes sure that States and localities do not impose extraordinary property tax burdens on the poor while poverty remains among us.

Others complain that the circuit-breaker approach makes welfare operators out of State tax collectors. This over-simplified worry is nullified by recent experience which indicates that this approach represents the most

excessive. The excessive amount — with certain restrictions to avoid abuse — is then rebated.

To obtain the relief, the applicant files a statement as a supplement to his income tax return. He lists all forms of money income, including all social security and veterans benefits and railroad retirement payments. After audit, he is allowed a credit against his State income tax liability — if he has sufficient income to pay an income tax — or he receives back in the mail a direct cash refund, the case with 98 per cent of the recipients.

Although the circuit-breaker is part of the income tax process, the Wisconsin applicant does not have to pay his property tax bill and then wait until income tax filing time to get his refund. As soon as the property tax bill comes, he may file the statement and receive the cash when he needs it. Because the program is administered by the State tax department and the refund sent through the mails, there is no more stigma than when a Federal income taxpayer receives a tax reduction because he incurred extraordinary medical expenses. Local social welfare workers and county courthouse clerks are bypassed.

In California, Maine, and Pennsylvania the circuit-breaker takes the form of direct State cash rebates to all eligible property taxpayers. Although these States have income taxes they administer the circuit-breaker program separately proving that a State personal income tax is not a prerequisite to the adoption of the concept.

Determining Overload Situations

The property tax takes a different bite out of householders in different parts of the Nation. Because the average burden varies,

Oregon, States using the procedure grant relief only to aged persons, (62 or older). But death of the breadwinner, physical disability or severe unemployment would make the property tax just as devastating to a younger family as to the elderly.

Colorado, Maine, Minnesota, Vermont and Wisconsin at present grant circuit-breaker relief to renters as well as homeowners, on the theory that most landlords pass on most of the property tax burden to their tenants. Vermont assumes 30 percent of the rental payment goes for property taxes, Wisconsin assumes 25 per cent, Maine and Minnesota use 20 per cent and Colorado uses a ten per cent figure.

The possibilities don't stop here. A State wanting to provide relief for small farms or businesses could write circuit-breakers into their property taxes as well. The circuit-breaker would assure that the neediest taxpayers in any class would receive the most help.

How Much Does It Cost?

One of the great advantages of the circuit-breaker is that it is a State-financed relief program. Too often State legislators grant relief in the form of partial tax exemptions but force the local governments and school districts to pick up the tab. Local governments and local property owners should not be forced to underwrite property tax relief because it impairs their fiscal position and aggravates tax inequities. This is especially true in metropolitan areas where the poor tend to cluster together within the same jurisdiction. In sharp contrast, State-financed property tax relief in an indirect way tends to reduce intergovernmental fiscal disparities between high and

efficient and dignified way to administer a local property tax relief program.

There are some who claim that State-financed property tax relief might encourage local officials to adopt reckless spending policies. The small amount of relief to local governments that the circuit-breaker provides is not enough to make local officials spendthrifts. Besides, the majority of citizens paying property taxes without relief will continue to exert a powerful restraint on local budget expansion.

Those who wish to recover the relief after the death of the homeowner object that the circuit-breaker provides unwarranted aid to the children who will inherit the property. A man's home must be viewed as a rough yardstick of his—not his children's—ability to pay taxes out of current income. When this is demonstrably not the case, the homeowner should be entitled to unconditional relief. It is becoming increasingly repugnant to the public to force the liquidation of an estate in order to pay property taxes, even if the liquidation is held off until the death of the benefited homeowner. In short, the property tax should not be viewed as the poor man's inheritance tax.

Finally, some complain that tax relief for the elderly can enable a homeowner to hold his property off the market thereby working against the highest and best use of land. This cut-off-the-nose-to- spite-the-face logic would deny relief to a substantial body of taxpayers carrying extraordinary burdens in order to take care of a very few exceptional situations. Moreover, this objection vastly overstates the effect that a tax rebate of a couple hundred dollars can have on a person's decision either to sell or to hold the homestead.