11 Recommended Design Features for Property Tax Circuit Breakers and How Vermont Stacks Up

From Lincoln Land Institute:			Comparing to Actual Programs	
Recommended Feature		Reason for Recommendation	Done in Vermont?	If not, what is an example?
1	**Provide adequate tax relief and reliable funding**	Without both adequate relief and funding, circuit breakers cannot provide meaningful tax assistance to those in need	Yes - VT's circuit breaker is among the highest funded in the nation (i.e. highest cost in terms of % of property tax collections) and provides the most funding to the most taxpayers. Of the state programs that are open to residents of all ages, VT is one of six with an income eligibility cap >$40,000, and one of three with a max benefit >$1,400 (w/ ME&MN).	
2	**Cover owners and renters of all ages**	Renters pay property taxes indirectly, and excessive tax burdens are not limited to the elderly	Yes to including all ages. Magnitude of benefits are different for renter rebate ($3,000 max) than homestead income sensitivity ($8,000 max).	**Maine:** The maximum payment is $2,000 for both renters and owners. The refund is calculated on the benefit base of the first $3,350 (single) or $4,400 (with spouse or dependent) of property taxes or the first $16,750 (single) or $22,000 (with spouse or dependent) of rent. For renters the base is considered 20% of annual rent (15% if heat is included). The benefit is 50% for that portion of property tax owed or rent paid that exceeds 4% of income but does not exceed 8% of income, plus 100% for that portion of the benefit base that exceeds 8% of income.
3	**Use a broad definition of income, incl. SS benefits**	Avoids providing different tax relief to households with similar property tax burdens	Yes. (see HI-144 at https://tax.vermont.gov/sites/tax/files/documents/HS-122.pdf)	

4	**Use a multiple-threshold formula; Apply brackets incrementally**	Targets property tax relief to those with greatest need; prevents notch effects	Yes, two brackets for muni cap, three brackets for education cap. BUT Lincoln Land Institute's main point is to avoid benefit cliffs and Vermont has one at the $47K program eligibility level, if not from bracket to bracket.	**Maryland (four brackets):** Only property taxes on the first $300,000 of assessed value are eligible for the credit. The threshold is 0% for the first $8,000 in income, 4% for the next $4,000, 6.5% for the next $4,000, and 9% for income over $16,000 up to the eligibility cap.
5	**For generous threshold circuit breakers, include a copayment requirement**	Without a copayment, taxpayers whose property tax bills exceed the threshold level are insulated from any property tax increase; can promote excessive spending	No (at least not for the <$47K circuit breaker; income sensitivity for households >$47K does effectively have a copayment).	**Wisconsin:** For taxpayers with income <= $8,060, credit equals 80% of property taxes. For taxpayers with income > $8,060, credit equals 80% of the amount by which property taxes exceed 8.785% of income over $8,060. Mathematically, credit = .80 * (property tax – .08785*(income-$8,060))
6	**Set a limit on the maximum property value considered in the circuit breaker formula**	Limits the tax relief sent to those with very expensive homes	Yes ($400,000)	
7	**Consider placing no other limits on income, benefits, or net worth**	Other limits are not necessary with a properly designed circuit breaker; also they can impose unintended changes in distribution of benefits	Yes.	

8	**Provide funding by the state**	Local funding is problematic due to the wide range in local fiscal capacity and mobility of taxpayers	Yes.	
9	**Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters**	Provides timely and highly visible property tax relief	Yes.	
10	**Set up a simple, streamlined application system**	Will maximize participation and reduce administration and compliance costs	No. Both homeowner and renter programs in Vermont have high error rates and admin costs.	Vermont's proposed renter rebate reform package that passed the House and is now in the Senate will be simpler for renters.
11	**Establish and fund an outreach program**	Participation rates will likely be low without outreach efforts	Yes.	

Note:
While Vermont generally considers it's <$47K program to be a circuit breaker and the larger program to be income sensitivity, the Lincoln Land Institute classifies Vermont as having two circuit breakers. The Institute's broad definition of circuit breakers also results in their assessment that 33 states plus DC have circuit breakers. The Center on Budget and Policy Priorities (CBPP) has narrower definition that is limited to threshold formulas. According to CBPP, "If the value of the rebate is driven by a family's income rather than the share of the family's income that goes toward paying the property tax, the program is not considered a circuit breaker" (Lyons, Farkas, and Johnson 2007). As a result, CBPP counts 17 states plus DC as having circuit breakers, including Vermont's <$47K program.

Sources:
11 Features from https://www.lincolninst.edu/sites/default/files/pubfiles/property-tax-circuit-breakers-full_0.pdf; Maine: https://www.lincolninst.edu/residential-tax-relief/maine-residents-property-tax-rent-refund-program-general-refund-program-4; Vermont: https://legislature.vermont.gov/statutes/section/32/154/06066 and https//tax.vermont.gov;
Maryland: https://www.lincolninst.edu/residential-tax-relief/homeowners-property-tax-credit-program-local-option-circuit-breaker-11;
Wisconsin: https://www.lincolninst.edu/residential-tax-relief/homestead-credit-circuit-breaker-wisconsin-2018

The Tax Structure Commission has discussed the administrative challenges inherent with circuit breakers. In *Property Tax Circuit Breakers*(p37&41), Lincoln Land Institute lays out the three broad administrative approaches used throughout the country, which states use which approach, and the comparative implications of each approach.

TABLE 6.1

Administrative Approaches Used in the States (2008)

Direct Rebate Check	Income Tax Credit	Property Tax Exemption or Credit
California	Arizona	Connecticut (Owners)
Colorado	District of Columbia	Idaho
Connecticut (Renters)	Massachusetts	Iowa (Owners)
Illinois	Michigan	Maryland (Owners)
Iowa (Renters)	Missouri	Montana (Under 62 and Disabled Veterans programs)
Kansas	Montana (Elderly)	Nebraska
Maine	New Mexico	North Dakota
Maryland (Renters)	New York	Utah
Minnesota	Oklahoma	Vermont (Owners)
New Hampshire	Rhode Island	Washington
New Jersey	Wisconsin	
Nevada	West Virginia	
Oregon		
Pennsylvania		
South Dakota		
Vermont (Renters)		
Wyoming		

Sources: Lyons, Farkas, and Johnson (2007); Significant Features of the Property Tax (2009); and state sources.

TABLE 6.2
Overview of Three Administrative Approaches

Concerns	Direct Rebate Check	Income Tax Credit	Property Tax Exemption or Credit
Voter awareness of property tax relief	Moderate	Minimal	Highest
Impact on program participation	Depends on simplicity of application process and outreach	Likely to maximize participation	Depends on simplicity of application process and outreach
Can be administered in states with no income tax	Yes	No	Yes
Paperwork burden on taxpayers	Taxpayers need to document both their income and property tax bill through a separate form	Taxpayers filing an income tax return add an additional schedule; for those who do not, same as other options	Taxpayers need to document their income for local assessor or other administrative office
Administrative costs for local governments	Depends on whether state or local governments process applications	None	Moderate: need to document income
Administrative costs for state government	Need to establish a separate refund process	Varies: minimal for states with same definition of income used for income tax; higher for states that use different income definitions for circuit breaker relief and income tax	Need to assist local governments with administration and ensure prompt reimbursement for foregone taxes
Timeliness of relief	Depending on state procedures, there may be only a short delay between payment of property tax and when circuit breaker benefits are received	Longer delay between payment of property tax bill and when circuit breaker benefits are received	No delay for owners since circuit breaker directly reduces property tax bill; longer delay for renters who need separate refund process

The Tax Structure Commission has also discussed the issue of wealth vs. income. In *Property Tax Circuit Breakers* (p12-13), Lincoln Land Institute addresses the question whether circuit breakers should have asset tests.

The following is an excerpt from *Property Tax Circuit Breakers* by Bowman et. al (2009):

Considering Net Worth

Income alone does not determine economic well-being. If two families of four have the same $40,000 annual income, but one has a net worth of $500,000 and the other a net worth of $50,000, they are not equally well-off. The high net worth of the first family makes it better able to pay property taxes and less deserving of public subsidy. This raises the question of whether circuit breaker eligibility should also be related to net worth.

Reporting net worth requires claimants to list and value their relevant assets and obligations. Equity would require inclusion of works of art and jewelry, for example, as well as real estate, automobiles, stocks and bonds, and savings accounts. This presents difficulties of discovery and valuation, which are greater for some assets than for others.

Discovery is a problem for administrators, and it is an important one. Claimants typically know what assets they have, but they have an incentive to underreport assets if it seems they can do so successfully. To make the net worth test meaningful and fair, audit and verification procedures are required. Some assets are relatively easy to conceal, such as household items, although entry into the home to look for them would be unpopular and infeasible.

Even when discovery is not a problem, valuation may be (particularly for assets for which there is little market information). Another consideration is that some assets' values may fluctuate widely, even within a short time period. Value on a given date must be specified, more or less arbitrarily, and the value on that date may be considerably higher or lower than at other times during the year. Moreover, not all assets change in value at the same time or rate, so the measures for various claimants are affected differently.

A net worth test makes sense since it is reasonable to expect people with valuable assets to borrow against them, if need be, to meet their tax obligations, rather than to have those obligations forgiven or subsidized. However, the practical problems noted above are serious concerns. Perhaps the best way to incorporate net worth into considerations of property tax relief eligibility is to focus on home value. Homes are easier to value than other assets and must be revalued periodically for property tax purposes. With the growing market for reverse mortgages over the last decade, it is becoming more reasonable to expect households with very high-value homes to borrow against those homes to pay their taxes.