

**Analysis of Education Tax Burdens, the Property Tax Adjustment,
and the Property Tax Adjustment Cap**

January 2006

Prepared in accordance with
Act No. 185, Sec. 23
of the 2006 Legislative Session

Prepared by the Joint Fiscal Office and Legislative Council

I. Statutory Charge

Legislation enacted last session requires: (a) an analysis of the relative education tax burdens borne by nonresidential, homestead, and income-sensitized taxpayers under Act 68; (b) an examination of the proper characterization of the property tax adjustment; and (c) an analysis of the property tax adjustment under Act 68. The full text of Sec. 23 of No. 185 of the Acts of 2005 Adj. Sess. (2006) is included in the appendix to this report.

II. Education Tax Burdens under Act 68

Act 68 was first implemented in FY2005. Under Act 68, the education grand list is divided into two distinct property classes: homestead property and nonresidential property. Homestead property is owner-occupied primary residences and all contiguous land. Nonresidential property is all other taxable real property, including businesses, second homes, apartment buildings, and noncontiguous land.

The homestead property class is subdivided into two groups of taxpayers: Vermonters who pay an education tax that is based on the value of their homestead and Vermonters who pay an education tax that is based on their household income. Since the income-based homestead tax is limited to the "housesite" - the residence and up to two acres of adjacent land - these groups are not mutually exclusive.

A. Homestead and nonresidential shares of the total education tax

Between FY2005 and FY2007, the net education tax grew by \$113.2 million or by 17.3%. However, over the same period, the net *homestead* tax grew by \$44.0 million or by 16.3% while the *nonresidential* tax grew by \$69.2 million or by 17.9%. Although there was a small difference in the rates of growth in the education tax between the homestead and nonresidential classes, the relative share of the net education tax borne by each class of property remained roughly the same over this period: 41% homestead property and 59% nonresidential property.

Net Homestead versus Nonresidential Education Tax (millions)

	FY2005	FY2006	FY2007	Change FY05 to FY07	Average Annual Change
Total net education tax	\$655.8	\$721.0	\$769.0	\$113.2	
Percent change		9.9%	6.7%	17.3%	8.3%
Net homestead portion	\$270.0	\$302.4	\$314.0	\$44.0	
Percent change		12.0%	3.8%	16.3%	7.8%
Nonresidential portion	\$385.8	\$418.6	\$455.0	\$69.2	
Percent change		8.5%	8.7%	17.9	8.6%
Net homestead share of tax	41.2%	41.9%	40.8%	-.03%	
Nonresidential share of tax	58.8%	58.1%	59.2%	.03%	
Homestead share of grand list	50.2%	48.2%	49.9%	-.03%	
Nonresidential share grand list	49.8%	51.8%	50.1%	.03%	

B. Income-based and property-based shares of the homestead tax¹

Measuring the relative shares of the homestead tax borne by resident homeowners who receive a property tax adjustment and resident homeowners who do not receive a property tax adjustment is problematic because the two groups have not remained constant over time for the following reasons:

- The legislature expanded the eligibility thresholds for the property tax adjustment in FY2007. The household income limit for a full property tax adjustment was raised from \$75,000 to \$85,000, and the housesite value limit for a partial property tax adjustment was raised from \$160,000 to \$200,000.
- Changes in household income may make a resident homeowner eligible for a property tax adjustment in one year, but not the next. Growth in household income over this period has been slow; in FY2007, the average household income of Vermonters declined.
- Growth in the value of housesites may make a resident homeowner eligible for the property tax adjustment even if household income and school spending remain unchanged. House prices in Vermont increased at double-digit rates over this period.

The share of the homestead tax that is borne by resident homeowners who are eligible for a property tax adjustment appears to have grown since FY2005 in spite of the fact that household income has grown much slower than homestead property values. However, as indicated in the following table, the number of Vermonters who pay an education tax that is based on their household income has grown by over 9,000 taxpayers or from 55.1% to 60.5% of all homesteads over the past three years.

¹ More than 30% of Vermonters have homesteads that exceed a primary residence and two acres of contiguous land. These taxpayers pay an education tax that is based partially on their household income and partially on the value of their homestead.

Homestead Tax Based on Household Income versus Homestead Value (millions)²

	FY2005	FY2006	FY2007	Change FY05 to FY07	Average Annual Change
Net homestead education tax	\$270.0	\$302.9	\$314.0	\$44	
Percent change		12.2%	3.7%	16.3%	7.8%
Tax based on household	\$87.3	\$98.7	\$112.2	\$24.9	
Percent change		13.1%	13.7%	28.5%	13.4%
Tax based on homestead value	\$182.7	\$ 204.2	\$201.8	\$19.1	
Percent change		11.8%	-1.2%	10.5%	5.1%
Household income-based share	32.3%	32.6%	35.7%	3.4%	
Homestead value-based share	67.7%	67.4%	64.3%	-3.4%	
Total number of homesteads	168,335	167,110	168,338		
With property tax adjustment	92,801	96,306	101,829	9.7%	4.8%
Percent with adjustment	55.1%	57.6%	60.5%		

The following table examines homestead taxes on Vermonters who received property tax adjustments in both FY2006 and FY2007 and calculates the change in their net homestead tax over the two-year period. Although this excludes 18,423 or about 82% of Vermonters who received property tax adjustments in FY2007, it avoids the problem created by growth in the percentage of Vermonters who are eligible to pay an education tax based on their household income.

As indicated in the table, the average growth in net homestead tax for these taxpayers between FY2006 and FY2007 was only 1.1%. Taxpayers in the two lowest household income quintiles actually paid less in FY2007 due to falling household incomes. Net education taxes for taxpayers in the highest household

² Vermonters with household income under \$47,000 were able to forego applying for a property tax adjustment and receive a homeowner rebate that was based on their unadjusted homestead property tax through FY2007. As a result, the amount of education tax based on household income is understated in this table. 1

income group increase by 5.1% over this period. Average household income in Vermont fell by 0.4% over this period, from \$58,059 to \$57,842.

Household income in FY2007	FY2006 Net Education Tax	FY2007 Net Education Tax	Change
\$0 to \$21,471	\$387	\$328	-15.3%
\$21,472 to \$32,494	\$655	\$642	-3.5%
\$32,495 to \$42,879	\$884	\$893	1.0%
\$42,880 to \$58,136	\$1,208	\$1,243	2.9%
\$58,137 to \$105,746	\$1,855	\$1,950	5.1%
Average	\$1,000	\$1,011	1.1%

C. Major factors affecting the shift in education tax burdens

There are a number of factors that affect the share of the education tax burden that is borne by each property class or group of taxpayers. However, these factors are so closely interrelated that it is difficult to quantify the impact of each of them separately. The most important factors driving shifts in the education tax burden are discussed briefly below.

Annual education tax rate adjustments

Act 68 set the base tax rate on homestead property at \$1.10 per \$100 of fair market value. However, most Vermonters pay an education income tax that is based on their household income rather than the value of their housesite. The base tax rate on household income is 2%. The statutory tax rate on nonresidential property is \$1.59 per \$100 of fair market value. However, both the homestead and nonresidential tax rates are reduced whenever there is a projected surplus in the education fund. Although not required by statute, the legislature has adopted the tax commissioner's recommendation to lower both tax rates by the same number of pennies in each year.

Base Education Tax Rates

	FY2005	FY2006	FY2007
Homestead tax rate	\$1.05	\$1.02	\$0.95
Nonresidential tax rate	\$1.54	\$1.51	\$1.44
Tax rate on household income	1.90%	1.85%	1.80%

Until FY2006, the base rate on household income was also reduced each year in proportion to the reduction in the homestead property tax rate. However, beginning in FY2007, a floor was established under the base rate on household income at 1.8%. If the base rate on household income had been reduced in proportion to the homestead property tax rate, it would have been 1.72. Although it is likely that the base homestead and the nonresidential education tax rates will be reduced by another five cents in FY2008, the base rate on household income will remain at 1.8% under current law. If the base rate on household income were reduced in proportion to the homestead property tax rate, it would drop to 1.6% in FY2008. Maintaining the base rate on household income at its FY2007 level will shift a portion of the education tax to Vermont residents who pay their education tax on the basis of the value of their housesite.

Growth in the education tax bases

Different rates of growth in the education tax bases can also shift the education tax that is collected from one class or another. For example, if the nonresidential tax base is growing at a faster rate than the homestead tax base, you would expect to see the nonresidential class assume a larger portion of the total education tax burden. However, as the following table shows, the nonresidential portion of the total education grand list has remained fairly constant since the implementation of Act 68 in FY2007:

Shares of Education Grand List by Property Class

	FY2005	FY2006	FY2007
Homestead property	50.2%	48.2%	49.9%
Nonresidential property	49.8%	51.8%	50.1%

Growth in education spending

When education spending per pupil increases, there is a direct impact on the homestead taxes paid by both income-based and property-based taxpayers because higher education spending per pupil results in higher homestead tax rates. However, the increase in the homestead tax does not fully cover the increase in education spending. Consequently, there is an indirect education tax increase on nonresidential taxpayers. Any surplus in the education fund that is available for education tax rate reduction is smaller.

Expansion of eligibility for an income-sensitivity adjustment

As indicated above, household income has not grown nearly as fast as homestead value. Consequently, when more Vermonters pay an income-based homestead tax, there may be shift in education tax burden to Vermonters who pay an education tax on their housesite that is based on their household income. In FY2007, an inflation adjustment to the household income limit went into effect raising the limit from \$75,000, where it had been since FY1999, to \$85,000. Consequently, more Vermonters paid an income-based homestead tax on their housesite. In addition, the housesite value limit, which allows Vermonters with household income over the limit to receive a partial adjustment, was raised from \$160,000 to \$200,000. This also allowed more Vermonters to pay an income-based homestead tax on the first \$200,000 of housesite value.

D. Outlook for FY2008

As discussed above, it is difficult to determine to what extent the education tax burden on Vermonters has shifted from those who pay an education on their

housesite that is based on household income to those who pay an education tax on the basis of housesite value. However, there are three factors at play in FY2008 that will likely lead to a shift in the education tax burden to Vermonters who pay their education tax on their housesite on the basis of household income:

- Beginning in FY2008, the property tax adjustment will be calculated using *prior* year household income and tax assessment. Consequently, Vermonters who pay an education tax on their housesite that is based on their household income will pay any increase in the homestead education tax due to increased per-pupil spending in FY2008.
- If the governor's education property tax rate recommendations for FY2008 are adopted by the legislature, the base education tax rate on homestead property and the education tax rate on nonresidential property will both drop by 5 cents. However, the base rate on household income will remain at 1.8% for the second consecutive year. If the base rate on household income were reduced in proportion to the homestead tax rate, as under prior law, the tax rate on household income would drop by 11%, from 1.8% to 1.6%.
- For the first time since the full implementation of Act 60 in FY2000, growth in the education grand list is projected to be smaller in FY2008 than in the prior year. Furthermore, growth in the education grand list is projected to continue to slow at least through 2010, when growth is projected to be nearly flat.

Consequently, the adjusted education tax bills of Vermonters who are eligible for a property tax adjustment will be higher in FY2008 than they would have been under previous law. Largely as a result of these changes to current law, growth in the property tax adjustment between FY2007 and FY2008 is projected to be 7.2% as compared to 14.0% between FY2006 and FY2007.

III. Characterization of the Property Tax Adjustment

The legislature has asked that the joint fiscal office and the legislative council examine whether the property tax adjustment or "prebate" should be characterized as a method for Vermont homestead owners to pay education taxes based on income, therefore resulting in lower net revenue to the education

fund, or as a benefit program. Further, the request asks how the property tax adjustment should be portrayed on the education fund outlook and balance sheet.

Since Act 60 and Act 68, the legislative fiscal office and the office of finance and management of the administration have portrayed the property tax adjustment differently. The legislative fiscal office fund outlook and related balance sheets show the property tax adjustment as a deduction from revenues. The administration has portrayed the property tax adjustment as a benefit and expenditure from the fund.

To carry out this assignment, the staff has:

- Reviewed the legislative context for the program.
- Reviewed relevant statements of the Government Accounting Standards Board and discussed treatment of the property tax adjustment under Generally Accepted Accounting Principles (GAAP) with GASB staff.
- Reviewed a memorandum from the commissioner of the department of finance and management.
- Held several discussions with staff of the Vermont state auditor.
- Reviewed the treatment of tax credits by other jurisdictions; however, in the case of other states, their programs tend to be in the form of state assistance state assistance to offset tax obligations to local jurisdictions – different from the case of Vermont’s statewide education property tax.

A. Key findings

The following is a review of our key findings and a discussion of the various elements of our examination that led to these findings:

- Through FY 2007, while the joint fiscal office treats income sensitivity as more appropriately a deduction from revenue from the education property tax, there appears to be sufficient latitude in the legislative history and in

generally accepted accounting principles for the treatment of income sensitivity as a benefit.

- The treatment of property tax rebates and credits in other states and locales tends to be as deductions of revenue as opposed to a benefit program.
- With the passage of Act 185 and the actual tax payment being net of income sensitivity, the argument for treatment as a net receivable is more compelling. However, the joint fiscal office has asked the auditor's office to review the issue and submit a memorandum as to its opinion.
- The legislature could consider adding language to the statute to eliminate any doubt as to its intent and clarify its intentions as to the homeowner rebate and renter rebate programs.

C. The legislative and statutory context

Act 185 § 23(b)(1) whether within the structure of education property tax, the adjustment is more accurately defined as a mechanism to allow payments based on income, or as a benefit.

The current property tax adjustment structure had its origins in the property tax rebate program instituted in 1970. The rebate was characterized in statute as a "benefit" (see 32 V.S.A. § 5968), and some of that language carried over when the "prebate" was created in Act 60 (see 32 V.S.A. § 6068). Both characterizations ("mechanism" and "benefit") accurately describe the function of the prebate.

The prebate is a mechanism for allowing eligible taxpayers to pay education taxes that are based on their household income levels. The House-passed version of Act 60 did not include a prebate, but instead proposed an education income tax. The income tax proposal was replaced in the final version of Act 60 with the prebate. Thus, the origin of the prebate was as a mechanism to recast a property tax liability on an income basis.

The prebate adjustment, however, could also be characterized as a benefit. Not all taxpayers are eligible for a property tax adjustment. Only those claimants with a household income below a prescribed level are eligible, and the adjustment calculation only applies to a limited portion of the homestead value. Those who are eligible have the option of paying the lower of the actual property tax bill or the income-adjusted amount.

D. Legislative history

The legislative history is mixed as to the guidance it offers. In Act 60 of 1997, the property tax adjustment was cast as part of the education property tax. Sec. 45 of Act 60 added 32 V.S.A. chapter 135. In § 5402, the education property tax is:

- (a) A statewide education property tax is imposed on all nonresidential and homestead property at a rate of \$1.10 per \$100.00 of equalized education property tax grand list value as most recently determined under section 5405 of this title; but the homestead property tax liability for eligible claimants under chapter 154 of this title shall not exceed the lesser of two percent of household income for the calendar year in which the tax is assessed or the amount of statewide education property tax the municipality would have assessed on the homestead if its equalized value had been reduced by \$15,000.00.

However, this language was modified twice, to the extent that in Sec. 21 of Act 144 of 2002, the definition of the homestead tax was modified so that it did not mention the income sensitivity adjustment:

- a. A statewide education property tax is imposed on all nonresidential and homestead property at a rate of \$1.10 per \$100.00 of equalized education property value as most recently determined under section 5405 of this title; ~~but the homestead property tax liability shall not exceed the adjusted liability for eligible claimants under chapter 154 of this title.~~

The Education Fund as outlined in Sec. 18 of Act 60 (16 V.S.A. § 4025) was structured to receive "All revenue paid to the state from the education

property tax under chapter 135 of Title 32.” No other mention of the income sensitivity adjustment indicates the intent that the revenues be net revenues.

However, in the 2000 budget bill, Sec. 159 of Act 147, 16 V.S.A. § 4025 was modified to expressly allow payments from the education fund for income sensitivity. This language was slightly modified again in Sec. 277 of Act 66 of 2001.

In Sec. 51 of Act 60, chapter 154 of Title 32 defined the homestead property tax income sensitivity as an adjustment to income:

§ 6061. DEFINITIONS

The following definitions shall apply throughout this chapter unless the context requires otherwise:

- (1) "Adjustment" means an adjustment of statewide or local share property tax liability or a homestead owner or renter credit, as authorized under section 6066 of this title, as the context requires.

This definition did not change.

The legislature’s interest in the property tax adjustment being an income adjustment is reflected through a number of other actions. During the 2003 session, Sec. 73 of Act 68 called for a property tax adjustment study to “study and recommend possible methods and costs of providing an education property tax adjustment through a system based upon percentages of household income, with no limit on household income.” The resulting joint fiscal office report defined the education property tax adjustment (or prebate check) as “the mechanism employed each year to adjust property tax bills based on household income. The prebate amount is the difference between the education tax liability due on property value and the tax as a percentage of household income.”

Act 68 continued the reference to the income sensitivity payment being a tax adjustment as the local share and statewide tax were merged into the state education tax.

The passage of Act 185 of 2006 creates a stronger case for the income sensitivity being a tax adjustment as opposed to a benefit. With the advent of tax bills reflecting amounts owed, the income-based nature of the tax is clear.

Act 185 § 23(b)(2) whether the property tax adjustment amount should be reflected on education fund balance sheets as a cost, or left implicit as a reduction in the revenue.

The legal structure of Act 60 and subsequent legislation leaves open the decision of whether the property tax adjustment is identified on the balance sheet as a benefit, or is simply reflected in the net revenue received.

Historically, the adjustment amount has been broken out on the balance sheet differently by the joint fiscal office and the administration's office of finance and management. This precedent is not legally controlling for future accounting. With the advent of the new property tax adjustment system in 2007, which replaces the prebate and rebate checks with an adjusted property tax bill, there is a greater rationale for simply showing the adjusted revenue amount on the balance sheet. That said, there will probably always be an interest in how big the adjustment was in each year.

E. The accounting context

For the purposes of this examination, we reviewed the Government Accounting Standards Board (GASB) statements relative to generally accepted accounting principles.

The most relevant statement is GASB Statement No. 33: *Accounting and Financial Reporting for Non-exchange Transactions*.

Property taxes are considered an imposed non-exchange transaction in that the taxes are imposed, and they are paid with no direct service exchange for the payment. Most specifically GASB statement 33 paragraph 18 holds that:

Governments should recognize revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period *for which* the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period.

GASB staff indicated that the property tax income sensitivity adjustment would be characterized as a refund for the purpose of this paragraph.⁴

KPMG, the state's single audit consultant firm, has reportedly indicated that through FY2007 the income sensitivity payment could be characterized as a benefit in that it was a payment made before the tax obligation took place.⁵

Beginning in FY2008, the income sensitivity payments and the rebates will be deducted from tax liability and no checks will be issued, eliminating several key characteristics of the program that could lead to a determination that it is a benefit rather than a net tax.

F. Other states' treatment

Vermont's statewide property tax is unique in scale and design; however, other states and localities offer rebates and credits for local and state property taxes. For the purpose of this analysis, we reviewed the treatment of 43 programs in 23 states with statewide property taxes and/or large rebate or prebate programs.

⁴ Ken Schermann, CPA, Senior project manager at the Governmental Accounting Standards Board (GASB) in Norwalk, CT; conversation 11/17/2006.

⁵ Conversations with Tanya Morehouse; Vermont State Auditor's office.

In all but four cases no appropriation was made and the property tax adjustment was treated as an adjustment to revenue at the local or state level. In most cases the taxing jurisdiction was the local government. The state's assistance was generally done in one of three ways:

- The local government offering a credit or deduction, resulting in lowered revenue for the locality with the state making up the loss through local aid
- A state-offered nonrefundable or refundable credit on state income tax to offset the local obligation
- A state appropriated assistance program to provide aid to individuals as an offset to the local property tax obligation

In no case did we find a taxing jurisdiction treat its own credit, deduction, offset, or circuit breaker program as a benefit. See appendix.

IV. Property Tax Adjustment Cap under Act 68

Under current law, taxpayers with household income under \$90,000 may pay an education tax on their housesite that is based on their household income rather than the value of their property. The mechanism through which this is accomplished is the property tax adjustment. In addition, taxpayers with household income under \$47,000 may be also eligible for a homeowner rebate if their combined education and municipal property taxes exceed a certain percentage of their household income. However, Sec. 9 of Act 185 of the Acts of 2006 provided that beginning in 2007, no taxpayer would receive a combined property tax adjustment and homeowner rebate that is in excess of \$10,000 related to any one taxable year.

A. Whether a cap is advisable and if so, whether the cap of \$10,000 should be increased or decreased

Two rationales were expressed for capping the property tax adjustment. One rationale was that for some Vermonters, household income is not a fair

measure of their ability to pay homestead property taxes either because these taxpayers are able to time the receipt of their household income or because they hold substantial wealth in other forms. The other rationale is simply that some property taxpayers should not “subsidize” other taxpayers who choose to remain in exceptionally valuable homesteads after their household income has fallen relative to their homestead’s value.

Part of the first rationale has been addressed with the consolidation of the property tax adjustment and homeowner rebate in Act 185 of 2006. Beginning in FY2008, both the property tax adjustment and the homeowner rebate will be calculated using prior year household income and property tax assessment. Consequently, it will be more difficult for taxpayers to time their household income in such a way as to minimize their education tax liability by qualifying for a property tax adjustment every other year. A possible way to address the second part of the first rationale – that some taxpayers hold substantial non-property wealth that should be included in a measure of ability to pay – is addressed below in the section on asset tests.

As a practical matter, under current law the cap will likely affect only a very small number of taxpayers. Only 66 out 101,829 claimants of the property tax adjustment in FY2007 received payments in excess of \$10,000. Only 52 of 7,084 claimants of the homeowner rebate in FY2006 received combined payments in excess of \$10,000. No claimants of the renter rebate in FY2006 received payment in excess of \$10,000. Most Vermonters receiving exceptionally large property tax adjustments and/or homeowner rebates reside in municipalities with high-value homesteads.

Lower property tax adjustment caps have been considered and rejected by the legislature in past sessions. The number of Vermonters who would be adversely affected by a lower property tax adjustment cap and an increase in property tax liability can be determined by examining the distribution of the

property tax adjustment and the homeowner rebate by dollar amount. This information is included in the appendix to this report for tax years 2005 (property tax adjustment and homeowner and renter rebates) and 2006 (property tax adjustment only).

B. What inflation index is most appropriate for a property tax adjustment cap

Current law does not provide for an annual inflation-adjustment to the property tax adjustment cap. Consequently, once subject to the \$10,000 cap, a claimant would have to pay the entire annual increase in education property taxes on his or her homestead property. The annual increase in homestead property taxes for such a claimant would be attributable to two factors: growth in the combined homestead and municipal property tax rate and growth in homestead value. An index that accounts for the average annual change in both factors could be used to adjust the \$10,000 cap annually. House price index projections for Vermont are prepared annually for the joint fiscal office and the administration.

C. Whether length of ownership of the homestead indicates that a larger property tax adjustment would be justified

Using length of ownership to determine how much property tax a resident pays raises an issue of equity and a constitutional issue of equal protection. Such a law could have unintended negative consequences as well.

(i) Equity. It is difficult to correlate length of ownership directly with any other taxpayer characteristic. It is not a reliable indicator of age or of income level. In addition, people remain in their homes or leave them for any number of reasons.

While a very long term of ownership could correlate very loosely to the age of the owner, if age is the desired qualification for removing an adjustment cap, it would be better just to use age directly. But it is not clear what goal would be achieved by reducing a taxpayer's tax liability based on age, either. Financial planners might also begin to advise owners to put parents or children on the deed or make them partial owners through a family partnership or other mechanism in order to "start the clock" on their ownership for future tax caps. In addition, Vermont's changing demographics will make age-related benefits potentially expensive in the long run.

(ii) Equal protection. Without an articulated goal correlated to length of ownership, the rule appears arbitrary and inequitable. An arbitrary and inequitable rule would raise constitutional equal protection issues and would lack a "rational basis" to overcome the constitutional objections.

(iii) Unintended consequences. Capping property taxes for owners who stay in their homes creates an incentive not to sell or move. This could result in unintended consequences. For example, neighborhoods of higher-cost homes (where a tax cap is of more value) might become neighborhoods of only older people (as capped owners would become reluctant to sell and lose their tax caps). Alternatively, whole areas or towns where property values or taxes run high might become havens for older people who stay in their homes, keeping out a mix of younger owners. And older people in large homes whose children have left would be discouraged from down-sizing to smaller homes, as they would lose their tax caps, leading to increasing numbers of large homes with single occupants and an increasing shift of the tax on those large homes from their capped owners to the rest of the population.

D. Whether an asset test could reliably indicate that an adjustment in excess of a capped amount is not justified

While an asset test can provide broad-brush information on the total household wealth of a property taxpayer, there are sufficient details which can make this test an unreliable indicator of a claimant's ability to pay property taxes.

For example, two households might each have \$150,000 in investments, but one household may hold the amount in stocks outright, while the other household owns the money through a retirement plan. Both households will eventually have access to the funds, even if they do not both have current access. If the retirement plan is a Roth IRA, that household will have access to the funds with no further reduction for income taxes, while the other household really has access to \$94,500 (after reduction for 28% Federal income tax and 9% Vermont income tax). While one way to address this scenario is to exclude retirement investments from the asset test, even this might create some inequities. For example, the \$150,000 retirement plan might be the result of an employer-provided retirement plan, including employer contributions or matching a large benefit to the employee; while the stock portfolio may be the result of an employee who worked two jobs and saved and invested because his or her employers did not provide retirement benefits. And again, if retirement income is included, inequities could arise between two owners such as, for example, one with a defined benefit plan and one with a defined contribution plan. The first has no true asset value, but could produce an income stream of, for example, \$60,000 per year; the second might have a \$500,000 asset value but only produce an income stream of \$15,000 per year.

Many of the complications arise in this analysis because the goal is to base homestead property taxes on the value of all property owned, and not on just on the value of the homestead.

It should be noted that even if an asset test is not used in the calculation of the property tax, the Vermont tax system does not ignore that wealth. If the other property owned is real property, it will be subject to its own property tax. If

the other property owned is intangible (stocks, savings accounts, retirement accounts, etc.), it will be subject to income tax at one point or another. And whether it is real, intangible, or tangible personal property (diamond ring from grandmother, antique car from grandfather, for instance), it can be subject to applicable capital gains tax when sold and to applicable estate and gift taxes when transferred.

The addition of an asset test to an already complicated property tax adjustment system would increase the complexity and would not necessarily increase equity, since the assets are already subject to other elements of the tax system.

Inequities would be exacerbated because an asset-based system would be difficult to enforce. In the income tax realm, there is a "paper trail" which identifies income. For example, a federal W-2 form is filed to report wages, a form 1099 reports interest, dividends, and other non-wage income. On audit, there is abundant information available to determine a taxpayer's true taxable income. There is no such "paper trail" for most assets, so reporting would be on the "honor" system and not capable of audit. A tax system which is not only complicated but also not susceptible of audit verification would invite underreporting and create inequity for honest taxpayers. And this lack of a "paper trail" would further reduce the reliability of an asset test.

One additional problem in trying to tax asset ownership (rather than simply taxing at the time of asset transfer) arises with assets which are held for less than the full taxable year. A definition of "ownership" would have to be designed to cover cases in which an asset was held for less than a year, or held in some form other than directly in the owner's name. If, for example, a law were adopted which required that an asset be counted only if held for more than six months, a taxpayer could simply hold assets for periods of less than six months during the

year, trading for equal-value assets before each six-month holding period was met.

E. Whether any other tests would better indicate whether a particular property tax adjustment amount is appropriate

One possible alternative to current law, which limits the amount of the property tax adjustment and homeowner rebate to a specific dollar amount, would be to limit the eligible value of the housesite or homestead instead. For example, claimants could be eligible for a property tax adjustment on the first \$1,000,000 of homestead value but be liable for any property taxes due on the portion of its value in excess of \$1,000,000.

Appendix

A. Statutory charge

Sec. 23. ANALYSIS OF EDUCATION TAX BURDENS UNDER ACT 68

(a) The joint fiscal office, with the assistance of the legislative council, shall analyze the relative education tax burdens borne by nonresidential, homestead and income-sensitized taxpayers under Act 68. The report of the joint fiscal office shall examine the impact of the following factors on any education tax shifting between classes of taxpayers:

- (1) growth in the education grand lists;
- (2) growth in household income;
- (3) growth in education spending;
- (4) growth in non-education tax revenue sources;
- (5) 32 V.S.A. § 5402b (statewide education tax rate adjustments); and
- (6) any other changes to Act 68.

(b) The joint fiscal office and legislative council shall also examine (1) whether, within the structure of education property taxation, the property tax adjustment is more accurately defined as a mechanism which enables the traditional majority of Vermont homestead owners to pay education taxes based on income or as a "benefit"; and (2) whether, within the structure of education property taxation, the property tax adjustment amount is more accurately described on the education fund balance sheets and other fiscal documents as a cost to the education fund or as an adjustment to the education property revenue due the state, or more accurately not described at all.

(c) For the purposes of this analysis, the department of taxes shall provide any information or assistance requested by the joint fiscal office. The joint fiscal office shall present its analysis to the general assembly by January 15, 2007.

(d) The joint fiscal office and legislative council shall also analyze within the context of the property tax adjustment law, and report to the general assembly by December 1, 2007, on the following:

- (1) whether a cap is advisable and if so, whether the cap of \$10,000 should be increased or decreased;
- (2) what inflation index is most appropriate for a property tax adjustment cap;
- (3) whether length of ownership of the homestead indicates that a larger property tax adjustment would be justified;

(4) whether an asset test could reliably indicate that an adjustment in excess of a capped amount is not justified; and

(5) whether any other tests would better indicate whether a particular property tax adjustment amount is appropriate.

B. Distribution of the Property Tax Adjustment and Homeowner Rebate by Dollar Amount

C. Property Tax Programs by State

School Property Tax Adjustments (2006)

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
0.01	99.99	2,965	163,449
100	199.99	7,870	1,314,090
200	299.99	10,468	2,512,848
300	399.99	6,093	2,133,834
400	499.99	6,225	2,795,251
500	599.99	5,930	3,251,635
600	699.99	5,606	3,642,119
700	799.99	5,340	4,004,262
800	899.99	5,166	4,384,912
900	999.99	4,843	4,595,719
1,000	1,099.99	4,466	4,685,298
1,100	1,199.99	4,156	4,773,104
1,200	1,299.99	3,836	4,791,978
1,300	1,399.99	3,328	4,487,379
1,400	1,499.99	2,911	4,217,860
1,500	1,599.99	2,698	4,176,356
1,600	1,699.99	2,376	3,918,152
1,700	1,799.99	2,078	3,631,983
1,800	1,899.99	1,830	3,382,247
1,900	1,999.99	1,567	3,052,915
2,000	2,099.99	1,289	2,640,655
2,100	2,199.99	1,157	2,485,098
2,200	2,299.99	1,021	2,295,753
2,300	2,399.99	927	2,176,538
2,400	2,499.99	794	1,943,720
2,500	2,599.99	679	1,730,328
2,600	2,699.99	637	1,687,225
2,700	2,799.99	582	1,600,424
2,800	2,899.99	479	1,364,350
2,900	2,999.99	466	1,373,839
3,000	3,099.99	350	1,066,870
3,100	3,199.99	345	1,086,434

School Property Tax Adjustments (2006)

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
3,200	3,299.99	244	792,055
3,300	3,399.99	299	1,001,888
3,400	3,499.99	238	820,712
3,500	3,599.99	220	781,049
3,600	3,699.99	216	788,415
3,700	3,799.99	189	708,476
3,800	3,899.99	172	662,438
3,900	3,999.99	136	536,411
4,000	4,099.99	142	574,729
4,100	4,199.99	101	418,979
4,200	4,299.99	116	493,315
4,300	4,399.99	95	413,243
4,400	4,499.99	78	346,857
4,500	4,599.99	88	400,195
4,600	4,699.99	73	339,289
4,700	4,799.99	71	336,928
4,800	4,899.99	47	228,136
4,900	4,999.99	51	252,018
5,000	5,099.99	56	282,819
5,100	5,199.99	42	216,433
5,200	5,299.99	40	210,236
5,300	5,399.99	40	213,982
5,400	5,499.99	42	228,948
5,500	5,599.99	47	260,835
5,600	5,699.99	33	186,283
5,700	5,799.99	33	189,960
5,800	5,899.99	29	169,607
5,900	5,999.99	22	130,892
6,000	6,099.99	17	102,555
6,100	6,199.99	30	184,593
6,200	6,299.99	22	137,507
6,300	6,399.99	19	120,581

School Property Tax Adjustments (2006)

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
6,400	6,499.99	14	90,184
6,500	6,599.99	10	65,487
6,600	6,699.99	18	119,493
6,700	6,799.99	10	67,314
6,800	6,899.99	12	81,981
6,900	6,999.99	11	76,498
7,000	7,099.99	10	70,400
7,100	7,199.99	12	85,980
7,200	7,299.99	5	36,230
7,300	7,399.99	8	58,768
7,400	7,499.99	5	37,236
7,500	7,599.99	8	60,255
7,600	7,699.99	12	91,804
7,700	7,799.99	4	30,902
7,800	7,899.99	5	39,242
7,900	7,999.99	7	55,774
8,000	8,099.99	2	*
8,100	8,199.99	6	48,942
8,200	8,299.99	9	74,411
8,300	8,399.99	5	41,766
8,400	8,499.99	7	59,253
8,500	8,599.99	8	68,404
8,600	8,699.99	1	*
8,700	8,799.99	6	52,436
8,800	8,899.99	8	70,762
8,900	8,999.99	4	35,798
9,000	9,099.99	4	36,095
9,100	9,199.99	1	*
9,200	9,299.99	1	*
9,300	9,399.99	1	*
9,400	9,499.99	5	47,223
9,500	9,599.99	2	*

School Property Tax Adjustments (2006)

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
9,600	9,699.99	2	*
9,700	9,799.99	9	87,771
9,800	9,899.99	2	*
9,900	9,999.99	3	*
10,000	10,099.99	4	40,197
10,100	10,199.99	3	*
10,400	10,499.99	1	*
10,600	10,699.99	3	*
10,700	10,799.99	1	*
10,800	10,899.99	2	*
10,900	10,999.99	2	*
11,100	11,199.99	1	*
11,200	11,299.99	1	*
11,300	11,399.99	3	*
11,400	11,499.99	3	*
11,500	11,599.99	2	*
11,600	11,699.99	2	*
11,700	11,799.99	2	*
11,900	11,999.99	2	*
12,100	12,199.99	1	*
12,200	12,299.99	2	*
12,600	12,699.99	2	*
12,700	12,799.99	3	*
12,900	12,999.99	1	*
13,100	13,199.99	3	*
13,600	13,699.99	1	*
13,800	13,899.99	1	*
13,900	13,999.99	4	55,804
14,100	14,199.99	1	*
14,600	14,699.99	1	*
14,900	14,999.99	2	*
15,300	15,399.99	5	76,735

School Property Tax Adjustments (2006)

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
15,700	15,799.99	1	*
17,300	17,399.99	1	*
17,700	17,799.99	1	*
18,600	18,699.99	1	*
19,700	19,799.99	1	*
23,700	23,799.99	1	*
26,200	26,299.99	1	*

Total:	101,829	106,590,553
--------	---------	-------------

Homeowner Rebates with 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
0.01	99.99	3,493	174,995
100	199.99	3,364	499,738
200	299.99	3,169	786,642
300	399.99	2,907	1,013,141
400	499.99	2,422	1,085,405
500	599.99	2,108	1,154,715
600	699.99	1,653	1,071,990
700	799.99	1,389	1,039,137
800	899.99	1,016	861,153
900	999.99	849	804,761
1,000	1,099.99	699	732,760
1,100	1,199.99	571	654,025
1,200	1,299.99	480	599,204
1,300	1,399.99	379	510,130
1,400	1,499.99	298	431,836
1,500	1,599.99	234	362,350
1,600	1,699.99	194	319,705
1,700	1,799.99	137	239,771
1,800	1,899.99	128	236,733
1,900	1,999.99	102	198,800
2,000	2,099.99	74	151,329
2,100	2,199.99	84	180,411
2,200	2,299.99	65	146,175
2,300	2,399.99	47	110,296
2,400	2,499.99	41	100,319
2,500	2,599.99	42	107,190
2,600	2,699.99	29	76,964
2,700	2,799.99	20	54,883
2,800	2,899.99	21	59,752
2,900	2,999.99	22	65,005
3,000	3,099.99	18	54,834
3,100	3,199.99	16	50,551

Homeowner Rebates with 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
3,200	3,299.99	15	48,764
3,300	3,399.99	9	30,086
3,400	3,499.99	9	31,055
3,500	3,599.99	7	24,764
3,600	3,699.99	8	29,433
3,700	3,799.99	5	18,716
3,800	3,899.99	4	15,412
3,900	3,999.99	12	47,390
4,000	4,099.99	2	*
4,100	4,199.99	4	16,536
4,200	4,299.99	2	*
4,300	4,399.99	1	*
4,400	4,499.99	1	*
4,500	4,599.99	5	22,894
4,600	4,699.99	4	18,704
4,700	4,799.99	2	*
4,800	4,899.99	2	*
4,900	4,999.99	4	19,867
5,000	5,099.99	1	*
5,100	5,199.99	2	*
5,200	5,299.99	6	31,450
5,300	5,399.99	2	*
5,400	5,499.99	1	*
5,500	5,599.99	1	*
5,600	5,699.99	1	*
5,700	5,799.99	2	*
5,800	5,899.99	4	23,371
6,000	6,099.99	1	*
6,500	6,599.99	1	*
6,700	6,799.99	1	*
7,100	7,199.99	1	*
8,000	8,099.99	1	*

Homeowner Rebates with 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
8,100	8,199.99	1	*
8,200	8,299.99	3	*
9,600	9,699.99	1	*
9,700	9,799.99	1	*
10,800	10,899.99	1	*
	Total:	26,199	14,509,725

Homeowner Rebates without 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
0.01	99.99	280	14,842
100	199.99	351	52,122
200	299.99	405	100,509
300	399.99	410	143,485
400	499.99	363	163,108
500	599.99	407	223,277
600	699.99	385	249,342
700	799.99	357	266,788
800	899.99	306	260,004
900	999.99	314	298,103
1,000	1,099.99	289	302,928
1,100	1,199.99	303	348,533
1,200	1,299.99	247	308,654
1,300	1,399.99	213	287,496
1,400	1,499.99	235	340,834
1,500	1,599.99	185	286,873
1,600	1,699.99	187	308,127
1,700	1,799.99	175	305,983
1,800	1,899.99	161	297,163
1,900	1,999.99	138	268,763
2,000	2,099.99	125	255,775
2,100	2,199.99	108	232,335
2,200	2,299.99	106	238,000
2,300	2,399.99	88	205,629
2,400	2,499.99	90	220,240
2,500	2,599.99	71	180,867
2,600	2,699.99	53	139,989
2,700	2,799.99	70	192,033
2,800	2,899.99	55	156,867
2,900	2,999.99	42	123,476
3,000	3,099.99	35	106,658
3,100	3,199.99	41	129,019

Homeowner Rebates without 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
3,200	3,299.99	39	126,472
3,300	3,399.99	32	107,094
3,400	3,499.99	25	86,192
3,500	3,599.99	28	99,720
3,600	3,699.99	26	94,987
3,700	3,799.99	26	97,578
3,800	3,899.99	21	80,771
3,900	3,999.99	20	79,198
4,000	4,099.99	17	68,731
4,100	4,199.99	16	66,381
4,200	4,299.99	21	89,461
4,300	4,399.99	19	82,627
4,400	4,499.99	16	70,966
4,500	4,599.99	12	54,458
4,600	4,699.99	8	37,101
4,700	4,799.99	7	33,394
4,800	4,899.99	10	48,463
4,900	4,999.99	10	49,501
5,000	5,099.99	7	35,317
5,100	5,199.99	4	20,559
5,200	5,299.99	7	36,592
5,300	5,399.99	3	*
5,400	5,499.99	3	*
5,500	5,599.99	7	38,809
5,600	5,699.99	7	39,502
5,700	5,799.99	7	40,219
5,800	5,899.99	5	29,279
5,900	5,999.99	2	*
6,000	6,099.99	5	30,179
6,100	6,199.99	2	*
6,200	6,299.99	4	25,061
6,300	6,399.99	4	25,405

Homeowner Rebates without 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
6,400	6,499.99	2	*
6,500	6,599.99	4	26,195
6,600	6,699.99	5	33,255
6,700	6,799.99	3	*
6,800	6,899.99	4	27,393
6,900	6,999.99	5	34,764
7,000	7,099.99	4	28,093
7,100	7,199.99	2	*
7,200	7,299.99	2	*
7,300	7,399.99	1	*
7,400	7,499.99	2	*
7,500	7,599.99	1	*
7,600	7,699.99	2	*
7,700	7,799.99	1	*
7,900	7,999.99	1	*
8,000	8,099.99	2	*
8,100	8,199.99	2	*
8,300	8,399.99	1	*
8,400	8,499.99	1	*
8,500	8,599.99	2	*
8,600	8,699.99	1	*
8,800	8,899.99	2	*
8,900	8,999.99	1	*
9,200	9,299.99	1	*
9,800	9,899.99	1	*
9,900	9,999.99	1	*
10,300	10,399.99	2	*
10,400	10,499.99	1	*
11,300	11,399.99	1	*
12,100	12,199.99	1	*
12,300	12,399.99	1	*
12,800	12,899.99	1	*

Homeowner Rebates without 2005 Prebate

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
13,500	13,599.99	1	*
13,800	13,899.99	1	*
13,900	13,999.99	1	*
14,500	14,599.99	1	*
15,300	15,399.99	1	*
15,600	15,699.99	1	*
17,500	17,599.99	1	*
25,900	25,999.99	1	*
Total:		7,084	9,371,410

Renter Rebates

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
0.01	99.99	1,732	99,767
100	199.99	1,514	219,237
200	299.99	1,070	266,849
300	399.99	1,010	352,265
400	499.99	882	394,801
500	599.99	828	454,723
600	699.99	755	489,569
700	799.99	651	486,299
800	899.99	538	455,783
900	999.99	466	441,866
1,000	1,099.99	350	365,776
1,100	1,199.99	316	362,975
1,200	1,299.99	214	267,344
1,300	1,399.99	183	245,992
1,400	1,499.99	143	206,626
1,500	1,599.99	126	195,246
1,600	1,699.99	85	139,932
1,700	1,799.99	58	101,155
1,800	1,899.99	53	97,829
1,900	1,999.99	42	81,480
2,000	2,099.99	36	73,451
2,100	2,199.99	39	83,976
2,200	2,299.99	24	53,925
2,300	2,399.99	22	51,247
2,400	2,499.99	14	34,136
2,500	2,599.99	13	32,944
2,600	2,699.99	5	13,153
2,700	2,799.99	13	35,738
2,800	2,899.99	7	19,926
2,900	2,999.99	7	20,602
3,000	3,099.99	13	39,725
3,100	3,199.99	7	21,911

Renter Rebates

<u>From</u>	<u>To</u>	<u>Number</u>	<u>Amount</u>
3,200	3,299.99	3	*
3,300	3,399.99	2	*
3,400	3,499.99	6	20,638
3,500	3,599.99	2	*
3,600	3,699.99	2	*
3,700	3,799.99	1	*
3,800	3,899.99	3	*
3,900	3,999.99	1	*
4,000	4,099.99	1	*
4,100	4,199.99	2	*
4,200	4,299.99	1	*
4,300	4,399.99	1	*
4,400	4,499.99	1	*
4,500	4,599.99	1	*
4,800	4,899.99	1	*
4,900	4,999.99	1	*
5,400	5,499.99	1	*
5,800	5,899.99	1	*
5,900	5,999.99	2	*
6,300	6,399.99	1	*
7,600	7,699.99	1	*
Total:		11,251	6,353,863

State	SWPT	Program Type	Program Description	Age Limit	Income Limit	Administrative Mechanism	Leg. Appropriates funds?	Payment by State to:	Cost	Individual tax treatment	Taxing Authority
AR	No	Credit	A credit of \$300 off the homeowners' property tax bills prior to payment. State reimburses local entity with revenue generated via 1/2 cent sales tax.	none	none	Property tax	No	Local entity	\$224.7M FY06	Individual net tax	Local
AZ	No	Credit	State pays a percentage of homeowner's school district tax bill, up to \$500. Taxpayer receives property tax bill with credit automatically deducted. Legislature appropriates funds to reimburse school districts for lost revenue.	none	none	Property tax	Yes	Local entity	\$323M in 2006	Individual net tax	Local
AZ	No	Circuit Breaker	State automatically pays the part of a homeowner's primary tax bill that exceeds 1% of the limited property value. Funds appropriated by legislature. Does not apply to bond servicing portion of property tax.	none	none	Property tax	Yes	Local entity	\$3M in 2006	Individual net tax	Local
AZ	No	Circuit Breaker	The property tax credit for the elderly is an income tax credit. Must apply. Reduces income taxes. Property taxes paid in full. Fixed credit of \$502 for elderly HHs with incomes below \$2,500. Phase out complete for HH incomes over \$5,500. Refundable. Treated as a tax expenditure by the state (\$5-6 million annual expenditure)	65	\$3,750/\$5,550	Income tax	No	N/A	\$5 million	State income tax credit	Local
CT	No	Credit	Nonrefundable state income tax credit based on property taxes paid to municipality. Max credit was increased from \$350 to \$500 for 2006.	none	none	Income tax	No	N/A	\$375M est. for 2006	State income tax credit	Local
CT	No	Circuit breaker	Property tax credit for elderly. Credit of up to \$1,250 married or \$1,000 single. Must apply. Local assessor applies credit directly to tax bill prior to payment. The credit is lost revenue to the municipality, which is then reimbursed by the state for the lost revenue, so the state bears the burden of the credit. The credit is funded by a budget appropriation.	65	\$28,000/ \$35,300	Property tax	Yes	Local entity	\$20.5M in 2005	Individual net tax	Local
DE	No	Credit	Credit for seniors against the school taxes assessed on residences. Seniors pay a diminished bill as a result of the credit. The state then reimburses the local entity (school districts) for the lost revenue. The funding is appropriated by the state legislature.	65	none	Property tax	Yes	Local entity	\$13.1 in 2006	Individual net tax	Local
FL	No	Exemption	An exemption of \$25,000 of assessed value. Constitutionally mandated, no state reimbursement to municipalities. Taxpayers face a lower bill.	none	none	Property tax	No	N/A	\$2.B est. 2006-07	Individual net tax	Local
GA	Yes	Exemption	A \$2,000 standard exemption that reduces the bill to property taxpayers prior to payment. This revenue loss is borne by the state and local governments.	none	none	Property tax	No	N/A	unavailable	Individual net tax	State and local
GA	Yes	Credit	This is a credit provided by the state that reduces taxpayer bill prior to payment. The state reimburses counties/municipalities for lost revenue via funds appropriated by the state legislature.	none	none	Property tax	Yes	Local entity	unavailable	Individual net tax	State and local
GA	Yes	Exemption	Elderly exemptions with income qualifications. Cost is borne by state and local governments with no reimbursement from state government.	62/65	varied	Property tax	No	N/A	unavailable	Individual net tax	State and local
IA	No	Credit	A credit on taxes levied on the first \$4,850 of value for all homeowners. Funded by the state via a "standing unlimited appropriation" designed to ensure full funding. Local jurisdiction gets completely reimbursed for lost revenue.	none	none	Property tax	Yes	Local entity	\$125M	Individual net tax	Local
IA	No	Credit	An additional credit on taxes levied on an additional \$1,000 value. Funded by the state via a "standing unlimited appropriation" designed to ensure full funding. Local jurisdiction gets completely reimbursed for lost revenue.	65	\$17,589	Property tax	Yes	Local entity	\$9M	Individual net tax	Local

State	SWPT	Program Type	Program Description	Age Limit	Income Limit	Administrative Mechanism	Leg. Appropriates funds?	Payment by State to:	Cost	Individual tax treatment	Taxing Authority
IN	Yes	Credit	Each taxing unit receives from the state 20% of its operating tax levies (attributable to real and non-business personal property) to be used to decrease property taxes. The amount of relief is indicated on taxpayers bill, so they do not pay full amount. Funds appropriated by state.	none	none	Property tax	Yes	Local entity	***	Individual net tax	Local ¹
IN	Yes	Credit	\$35,000 standard deduction and up to 20% deducted from the gross tax amount. Thus reduces property tax bill paid prior to payment. State reimburses local entity for lost revenue. Funded by appropriation.	none	none	Property tax	Yes	Local entity	***	Individual net tax	Local ¹
KY	Yes	Exemption	Homestead exemption is adjusted annually based on CPI. Currently in the neighborhood of \$30k-31K of value is exempted. One bill is prepared by the state but distributed by county. Taxpayers pay the county and county remits state portion to state government. Exemption applies to both state and local portions of the tax, and state makes no attempt to reimburse municipalities for lost revenue.	none	none	Property tax	No	N/A	unavailable	Individual net tax	State and local
MA	No	Exemption	A base exemption with local option for more relief. State reimburses local governments at a fixed rate per exemption and only for the number of exemptions that would qualify under the base level. Taxpayers pay a reduced bill as a result of these exemptions.	70	varied	Property tax	Yes	Local entity	\$9.89M	Individual net tax	Local
MA	No	Circuit breaker	A refundable credit against individual income tax liability. Refund may be received even by those who do not file an individual income tax return. The state does not appropriate for this credit, and so the credit simply reduces the amount of general fund.	65	\$46k-\$70k	Income tax	No	Individual	43.9M	State income tax credit	Local
MD	Yes	Credit	Credit applies to tax due on portion of reassessment that exceeds 10%. Represents a revenue loss to both state and local governments. No state-to-local reimbursement	none	none	Property tax	No	N/A	unavailable	Individual net tax	State and local
MD	Yes	Circuit breaker	Income sensitive tax credit. Maximum benefit: Up to taxes paid on the first \$300,000 of assessed value. State appropriates money to reimburse municipalities for lost revenue. Taxpayers who apply on time pay a smaller bill, late applicants receive a reimbursement voucher. Credit is refundable.	none	\$60,000	Property tax	Yes	Local entity	unavailable	Individual net tax	State and local
ME	No	Exemption	Exemption of up to \$13,000 assessed value. No income or age restrictions. State reimburses municipalities for 50% of the cost.	none	none	Property tax	Yes	Local entity	unavailable	Individual net tax	Local
ME	No	Circuit breaker	State provides aid directly to taxpayers in form of a check. State considers it a tax expenditure (net revenue loss) from the state general fund (funded via income tax revenue), which is a change from when it was previously appropriated. Must apply.	none	\$77,000/ \$102,000	Adjustment to revenue	No	Individual	unavailable	State assistance for local property tax	Local
MI	Yes	Circuit Breaker	Refundable tax credit administered through income tax system, so property tax bill is paid in full. Max credit is \$1,200. Income phase out begins at \$73,650. A state tax expenditure (not appropriated by state).	none	\$82,650	Income tax	No	Individual	\$441.5M in 2004	State income tax credit	State and local
MN	No ²	Credit	The homestead credit applies to the school and non school portion of the property tax. The state reimburses localities for the lost revenue. This is funded by an appropriation made by the state legislature.	none	none	Property tax	yes	Local entity	\$297M FY04	Individual net tax	Local
MN	No ²	Circuit Breaker	This budget activity provides property tax relief (in the form of direct payments) to homeowners based on their net property taxes relative to income. Funded via an appropriation from state and paid directly to taxpayers (must apply). Town collects full amount of tax.	none	\$85,210	Property tax	Yes	Individual	\$130M FY04	State appropriated benefit	Local

State	SWPT	Program Type	Program Description	Age Limit	Income Limit	Administrative Mechanism	Leg. Appropriates funds?	Payment by State to:	Cost	Individual tax treatment	Taxing Authority
MT	Yes	Exemption	First 31% of property taxes are exempt as of 2003. This amount is increasing incrementally to 38% in 2008. The exemption results in lost revenue for both state and local government entities. The state makes no appropriation for this expenditure and does not reimburse local entities for lost revenue. Taxpayers pay a bill based on property value after this exemption is applied	none	none	Property tax	No	N/A	unavailable	Individual net tax	State and local
MT	Yes	Credit	The property tax assistance reduction program is a credit on the income tax, so the state bears the burden. It is a refundable credit, and people can get refund checks via a special form even if they do not file personal income taxes. The state treats this as a tax expenditure and does not appropriate money for this program. Municipalities still get their complete tax revenue from the taxpayer.	none	\$18,800/ \$25,000	Income tax	No	Individual	unavailable	State income tax credit	State and local
MT	Yes	Credit	A refundable credit against individual income tax liability. Refund may be received even by those who do not file an individual income tax return. The state does not appropriate for this credit, and so the credit simply reduces the amount of general fund revenue.	62	\$45,000	Income tax	No	Individual	unavailable	State income tax credit	State and local
NC	No	Exemption	An elderly exemption for a portion of assessed value. Taxpayer pays lower bill. Loss borne by municipality, so cost represents lost revenue. State does not reimburse or appropriate.	65	\$19,700	Property tax	No	N/A	\$34.1M	Individual net tax	Local
NH	Yes	Exemption	Elderly exemption is administered through the property tax system (no state income tax in NH). Applies only to the local government share of property taxes. The exemption results in a revenue loss that the local government simply makes up by shifting the burden to non-elderly payers. No appropriation is necessary for this program.	65	\$13,400/ \$20,400	Property tax	No	N/A	unavailable	Individual net tax	Local
NH	Yes	Credit	Refundable tax credit administered through property tax. Recipients can qualify even without paying property taxes. The legislature does not appropriate funds, but allows a warrant against the education trust. Taxpayers receive a refund check from the state after paying their bills.	none	\$20,000/ \$40,000	Property tax	No	Individual	\$5M	State property tax refund	State and local
NJ	No	Circuit breaker	A rebate check directly from the state intended to offset the payment of property taxes (paid in full to local entity). Funded by an appropriation. Most people qualify for max benefit, but it is scaled by income. There is a more generous version for seniors	None	\$200,000	Property tax	Yes	Individual	unavailable	State appropriated benefit	Local
NJ	No	Credit	State pays portion of bill that exceeds the base year bill. Paid directly to local entity, so taxpayer pays diminished amount. Seniors only. State funds via appropriation.	65	\$43,693/ \$53576	Property tax	Yes	Local entity	unavailable	Individual net tax	Local
NJ	No	Credit	Income tax credit or deduction for property taxes paid. Most people take the \$50 refundable credit. Treated as a tax expenditure.	none	none	Income tax	No	Individual	unavailable	State income tax credit	Local
NV	No	Circuit breaker	Administered by the Division for Aging Services. Seniors must apply to this agency. The Agency receives an appropriation from the state legislature. The Agency mails checks directly to qualified applicants. The recipient cannot get more money back in a rebate than the total amount to taxes paid (and is limited to \$500).	62	\$25,304	N/A	Yes	Individual	\$4M	State appropriated benefit	Local
NY	No	Exemption	An exemption of first \$30,000 of assessed value. State pays school district for lost revenue. Funded by an appropriation of about \$3.4B this year. Seniors get enhanced version	None	None	Property tax	Yes	Local entity	\$3.4B	Individual net tax	Local
NY	No	Credit	A check issued by the state agency to individuals. An appropriation. No income or age limits. Cost \$960M.	None	None	Property tax	Yes	Individual	\$960M	State appropriated benefit	Local

State	SWPT	Program Type	Program Description	Age Limit	Income Limit	Administrative Mechanism	Leg. Appropriates funds?	Payment by State to:	Cost	Individual tax treatment	Taxing Authority
NY	No	Circuit breaker	An income tax credit against property taxes paid for low income earners. This is treated as a tax expenditure.	None	\$18,000	Income tax	No	N/A	unavailable	State income tax credit	Local
OR	No	None	Oregon does not have any qualifying programs.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WA	Yes	Exemption	An income sensitive exemption program for seniors. Provides for an exemption from a percentage of assessed value. State does not fund the cost of this exemption as cost is largely shifted. Taxpayers pay a lower bill.	61	\$35,000	Property tax	No	N/A	unavailable	Individual net tax	State and local
WI	Yes	Credit	A property tax credit that appears on tax bill prior to payment. Funded by state lottery revenues. Credit amount based on school tax rate. State reimburses municipality for lost revenue.	none	none	Property tax	No	Local entity	\$133M FY05	Individual net tax	Local ³
WI	Yes	Credit	A credit against property taxes that is distributed by state to local entities. Local entity uses this money to reduce property tax bills. Tax bill reduced prior to payment. Credit amount appears on tax bill.	none	none	Property tax	Yes	Local entity	\$593M for FY06	Individual net tax	Local ³
WI	Yes	Circuit breaker	Refundable tax credit administered through the income tax system and based on amount of property tax paid. Individual pays the entire amount of the property tax bill, but can get a refund check. The state legislature funds the credit via an appropriation ("self sufficient appropriation" meaning they appropriate an amount that can be exceeded if necessary). Individuals can receive the credit even if they do not need to file an income tax return.	none	\$24,500	Income tax	Yes	Individual	\$110M	State income tax credit	Local ³
WI	Yes	Credit	An income tax credit equal to 12% of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum of \$2,500 in property taxes for tax year 2000 and thereafter. The maximum credit is \$300. This credit is NOT refundable	none	none	Income tax	No	N/A	unavailable	State income tax credit	Local ³

1. Indiana has a small statewide property tax dedicated to state forestry activities.
 2. Minnesota does have a statewide property tax, but it is not levied on residences.
 3. Wisconsin has a small (1/5 mill) statewide property tax dedicated to state forestry activities.
- ***Combined value of appropriation for both HPTC and SPTRC for FY06 and FY07 is \$2,028.5M per year.