

## D.C. Tax Revision Commission Policy Options

# Policy Option #22: Eliminate Homeowner/Renter Property Tax Credit

### MEMORANDUM

**Proposal:** Eliminate the homeowner/renter property tax credit (Schedule H)

**Tax Type:** Income

**Origin:** Robert Buschman

**Commission Goal:** Broaden the tax base

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### **Current Law**

The D.C. Homeowner and Rental Property Tax Credit, known as “Schedule H,” reduces property taxes for residents whose homeowner property tax bill exceeds a percentage of their household income. Renters also benefit from the credit if their imputed property tax payment (20% of rent) exceeds a percentage income. The maximum credit is \$1,000 and is only available to those with income less than \$40,000. The credit equals the difference between a resident’s property tax bill and 3% or 4% her adjusted gross income—the percentage is 3% for residents with less than \$25,000 in income and 4% for residents with more. The credit is refundable, so if the credit exceeds the resident’s income tax liability then the taxpayer receives the excess in a refund.

The program was substantially expanded in the FY 2014 budget. Among other changes, the max benefit was raised from \$750 to \$1,000 (and indexed to inflation) and the threshold was raised from \$20,000 to \$40,000. The threshold is set to rise to \$50,000 in tax year 2016. These changes are estimated to increase the number of filers eligible for the credit from 52,000 in 2012 to 150,000 in 2016.

### **Proposed Change**

Replace Schedule H with more directed tax relief. The replacement may either be a different form of low-income tax relief through the individual income tax (such as a higher standard deduction) or relief that is directly tied to the property tax bill.

### **Reason for Change**

Providing property tax relief via the individual income tax adds unnecessary complexity to the tax system. Additionally, the current program can also cause problems for taxpayers who need assistance when their biannual property tax bill is due in March and September but who only receive relief after filing their income tax form.

### **Pros**

- By broadening the tax base, D.C. could fund more targeted and/or broad forms of tax relief.
- If this tax relief program were shifted from the individual income tax to the property tax than residents would receive financial assistance when property tax bills are due.
- The current program benefits those with low income and high-value properties. More broad tax relief could benefit a broader group of residents.

- Removing Schedule H would simplify the individual income tax—removing an administrative burden for both residents filing taxes and government auditors who manage the program.

### **Cons**

- If the property tax credit were not replaced with another tax relief program then low-income residents who currently benefit from the program could lose substantial financial assistance. The mean credit in 2010 was \$573.
- If this tax relief program were shifted from the individual income tax to the property tax, renters could not receive a benefit from the program.

### **Revenue Impact**

The Office of Revenue Analysis estimates that in the first year of implementation eliminating Schedule H, without making any corresponding changes, would raise \$7.5 million in new tax revenue.