

D.C. Tax Revision Commission Policy Options

Policy Option #42: Provide “Circuit Breaker” Relief via the Property Tax Instead of the Individual Income Tax

MEMORANDUM

Proposal: Deliver “circuit breaker” tax relief via the property tax instead of the individual income tax

Tax Type: Property

Origin: Mike Bell

Commission Goal: Fairness

Current Law

D.C. allows an income tax credit, the Homeowner and Rental Property Tax Credit, known as “Schedule H,” for residents whose property tax bill exceeds a percentage of their household income. D.C. also allows renters to benefit from the credit if their imputed property tax payment (20% of rent) exceeds a percentage of their 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% of 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 fiscal year 2014 budget. Among other changes, the maximum benefit was raised from \$750 to \$1,000 (and indexed to inflation) and the income limit was raised from \$20,000 to \$40,000. The limit 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.

Programs such as Schedule H are often referred to as “circuit breakers” because they protect taxpayers from a property tax “overload” just like an electric circuit breaker.

Proposed Change

Provide “circuit breaker” tax relief directly through the property tax instead of the income tax. The new tax relief program could mirror the current credit’s benchmarks (i.e. limited to residents with less than \$40,000 in income, a max credit of \$1,000, refundable, etc.) but residents would benefit from a lower property tax payment rather than receiving an income tax credit.

Reason for Change

Providing property tax relief via the property tax rather than the income tax is a simpler and more efficient way to assist low-income taxpayers.

Most states provide property tax relief via the individual income tax to help localities that may not have the resources to provide tax relief. The property tax is generally a local tax, but the income tax is

generally a state tax. D.C. levies both the income tax and the property tax, obviating the need to split fiscal responsibilities.

Pros

- Would provide more direct and timely tax relief. A taxpayer pays property taxes twice a year (in March and September) but currently receives a one-time credit with their income tax. Therefore, the tax relief is not always available when the property tax payment is due.
- Because residents must apply for Schedule H on their income tax form, many eligible residents fail to comply and do not receive tax relief. By providing the credit through the property tax, any eligible taxpayer would receive the credit—simplifying the tax system for residents.

Cons

- Providing tax relief via the property tax would make the benefit unavailable to renters. These taxpayers would have an increased tax burden unless a renter's income tax credit is created.
- Could add administrative complexity to the property tax. To verify eligibility, the Office of Tax and Revenue (OTR) would need to match a resident's current year property tax payment with her previous year's income tax return. Currently, the resident establishes her eligibility for the property tax credit on the income tax return for which she claims the credit.
- Some residents pay property taxes via their monthly mortgage payment. Unclear how the new credit would affect these taxpayers.

Revenue Impact

The Office of Revenue Analysis (ORA) does not have a revenue estimate for this option. The change from an income tax credit to a property tax credit would be designed as revenue neutral.

ORA has provided the following data on the use of Schedule H in 2011:

- 5,326 renters claimed the credit, costing a total of \$2.9 million in tax revenue.
- 1,211 homeowners claimed the credit, costing a total of \$0.68 million in tax revenue.

Please note: These numbers reflect use before the program was expanded.