

Approved \_\_\_\_\_

2/1/89

Date

MINUTES OF THE House COMMITTEE ON Taxation

x *Keith Roe*

The meeting was called to order by Representative Keith Roe at  
Chairperson

9:00 a.m./p.m. on January 31, 1989 in room 519-S of the Capitol.

All members were present except:  
Representative Reardon, excused  
Representative Aylward, excused

Committee staff present:  
Tom Severn, Research  
Chris Courtwright, Research  
Don Hayward, Revisor's Office  
Lenore Olson, Committee Secretary

Conferees appearing before the committee:  
Representative Wagnon  
Representative Sawyer  
Secretary of Revenue Ed Rolfs

A motion was made by Representative Smith and seconded by Representative Shore to introduce a bill which would provide conformity on the standard deduction and personal exemption similar to Representative Wagnon's proposal on January 27, 1989. The motion passed.

Representative Wagnon testified in support of HB-2051. (Attachment 1) She stated that this bill was developed in order to blunt the effect of large increases on people with modest incomes, the disabled and elderly, and families with dependent children.

Representative Sawyer testified in support of HB-2051. (Attachment 2) He reviewed examples of HB-2051 refunds vs. current law refunds under three different scenerios.

Secretary of Revenue testified on HB-2051 regarding the fiscal note on this bill. He said that the recommendation to the Budget Director on the homestead portion would be in the neighborhood of ten to eleven million dollars instead of nine million.

Chairman Roe concluded the hearing on HB-2051.

The minutes of January 27, 1989, were approved.

The meeting adjourned.



JOAN WAGNON  
REPRESENTATIVE FIFTY FIFTH DISTRICT  
1606 BOSWELL  
TOPEKA, KANSAS 66604



COMMITTEE ASSIGNMENTS  
MEMBER TAXATION  
JUDICIARY  
AGENDA CHAIR DEMOCRAT CAUCUS

## Testimony on HB 2051

House Democrats have been monitoring the progress of reappraisal closely. Preliminary data indicates that while the classification amendment will protect most homeowners from massive property tax increases, some homes which are currently assessed far below the class average could experience large property tax increases.

HB 2051 was developed in order to blunt the effect of large increases--the inevitable "horror stories"--on people with modest incomes who are least able to withstand such an increase, the disabled and elderly, and families with dependent children. In simple terms, if the increase in property tax after reappraisal is more than 50%, the state would pay half that increase the first year and one-fourth the second year. Such a "circuit breaker" approach is time-limited (two years only) and restricted to low and moderate income families or individuals who meet certain criteria. This is New Section 4 of the bill, beginning on line 189.

In addition to the reappraisal circuitbreaker, this bill would revise the Homestead Property Tax Refund Act to increase the income eligibility limits and the amount of refund. A table is attached showing the changes. Representative Sawyer will speak to the need for the changes in the Homestead act as currently enacted.

Together, these measure could be an effective buffer for the adverse effects of reappraisal and provide appropriate property tax relief for less affluent taxpayers.

Stephen Gold, tax expert for the National Conference of State Legislatures, wrote in one of his publications, "For a long time the property tax has apparently been the most unpopular tax in the land." He also notes that Midwestern states, formerly noted for unusually high property taxes, recently have been "prominent purveyors of property tax relief." Every state in the Midwest has some sort of property tax circuit breaker, including Kansas with its Homestead Property Tax refund provisions. In fact, classification is a type circuit breaker designed to offset the one time shifts occurring after reappraisal. But all of us know that even though classification protected homes in general, within a class there could be dramatic change. This proposal was not designed to prevent the change in values--only to ease the transition for those moderate income households with fewer resourced to absorb the change.

*1-31-89  
Attachment 1*

Features of Homestead Property Tax Refund Changes:

Change amount of refund from \$400 to \$600

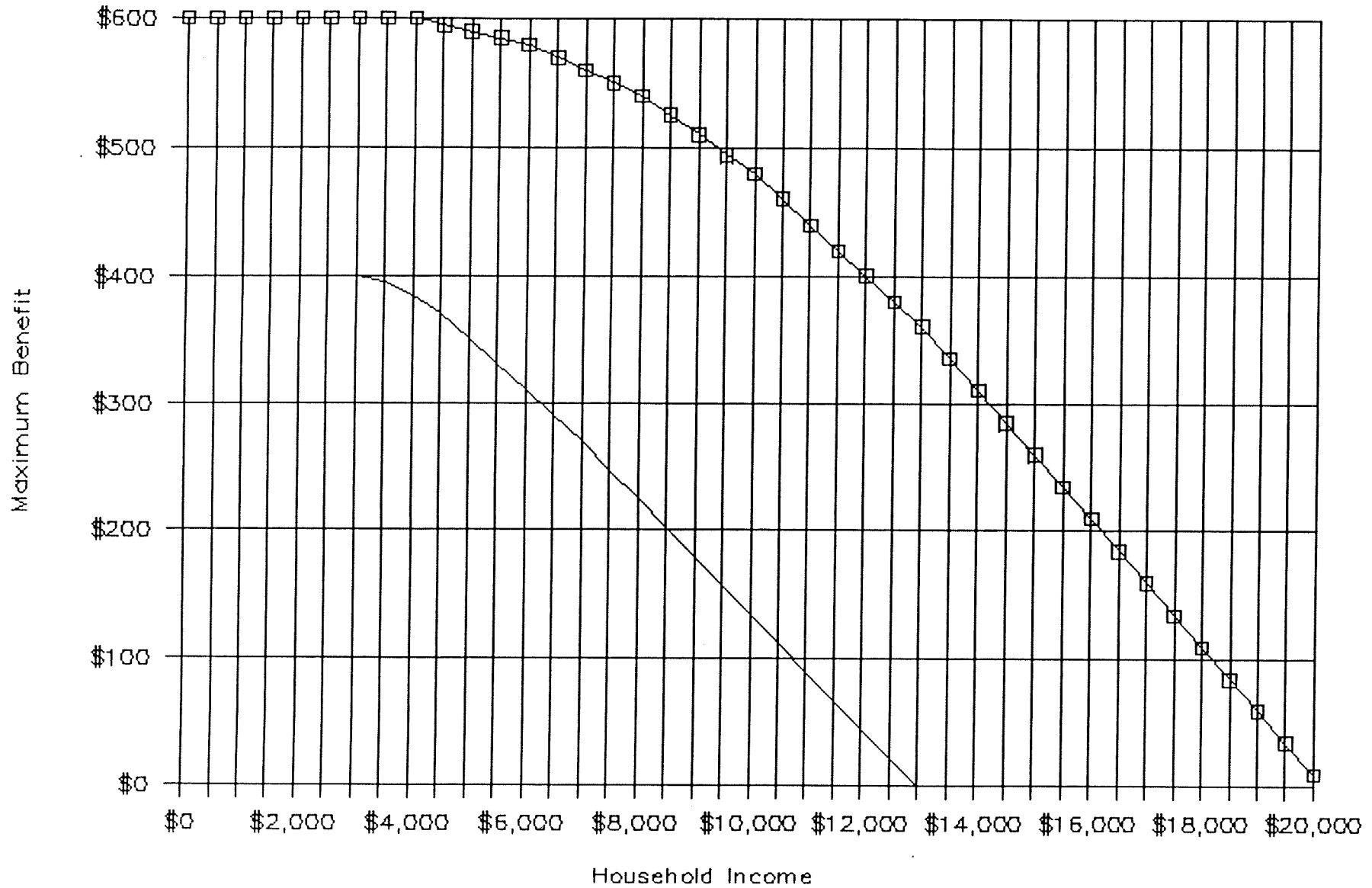
Change income ceiling for eligibility from \$12,800 to \$20,000  
(applies only to elderly/disabled or families  
with dependent children)

Circuitbreaker Features:

- In lieu of Homestead--can't get both
- Household income less than \$28,000
- Must have 50% increase in property tax after reappraisal
- Must meet other homestead criteria--dependent children,  
elderly or disabled

# New Homestead Program Benefits

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## VIII. Property Tax Relief

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In most states, it is property taxes that impose the heaviest tax burdens on low income households. In many such states, property tax relief is needed by low income households as much or more than income tax relief.<sup>39</sup>

Most states do have in place some form of property tax relief program for the poor. However, the large majority of these states limit this relief to the elderly or to the elderly and the disabled -- ignoring most low income families with children.

While the tax focus in most states in 1987 and 1988 will be on the income tax structure, property tax relief may be possible in some areas. This may be particularly true in states in which property tax relief is, or can be, tied to a state's income tax structure.

The most common form of state low income property tax relief is known as a "circuitbreaker." In many states, providing or expanding property tax relief for the poor means enacting or expanding a "circuitbreaker" program.

### Circuitbreakers

The circuitbreaker's name derives from an analogy to an electrical circuitbreaker that shuts off the flow of electricity when the system becomes

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39. For a more complete discussion of property tax relief, see Steven D. Gold, *Property Tax Relief*, D.C. Heath, Lexington, MA, 1979; Mitchell A. Zahn and Steven D. Gold, *State Tax Policy and Senior Citizens*, National Conference of State Legislatures, Denver, CO, 1985, chapter 4; and Steven D. Gold, *State Tax Relief for the Poor*, National Conference of State Legislatures, Denver, CO, 1987.

overloaded. Similarly, property tax circuitbreakers are designed to provide tax relief when property tax burdens overload those with low incomes.

Under most circuitbreakers, a low income household is eligible for property tax relief when property taxes exceed a certain percentage of the household's income. Eligibility for tax relief -- and the amount of relief provided -- generally depend both on a household's property tax burden and on its income level. At a given income level, the amount of relief offered by a circuitbreaker increases as property tax burdens rise, and it declines as property tax burdens fall. Similarly, the relief is greater for those with smaller incomes, and declines as income rises. (In only five of the 31 states that now have circuitbreakers is any relief available to a family whose total income exceeds \$20,000 a year.)

Of the 31 states that now have circuitbreaker programs, the programs in 12 are limited to the elderly and in 10 others, to the elderly and the disabled. Only nine states have programs that are available to non-elderly, non-disabled taxpayers. The failure of most states with circuitbreakers to extend them beyond the elderly and the disabled is the greatest shortcoming of state circuitbreaker programs.

Another problem with some circuitbreaker programs is that they are limited to homeowners and exclude renters. Most economists agree that renters do, in effect, pay property tax -- it is "passed along" by landlords and reflected in the rents charged to tenants. Fortunately, 25 of the 31 states with circuitbreakers do cover at least some low income renters (in these states, a percentage of a tenant's rent, usually 15 percent to 25 percent, is considered to be a property tax payment.)

The table that follows shows the features of each state's circuitbreaker program. As the table indicates, there are only seven jurisdictions with "universal" circuitbreakers available to elderly and non-elderly alike and to renters as well as homeowners: Michigan, Minnesota, New York, Oregon, Vermont, Wisconsin, and the District of Columbia.

States interested in relieving property taxes on low and moderate income residents can consider adopting a circuitbreaker if they do not have one, or extending an existing program that is limited only to the elderly or homeowners to the non-elderly and to renters. Even in the seven jurisdictions that already have universal circuitbreakers, programs could be adjusted to offer a greater degree of relief. (For example, New York has a particularly modest program.)

As noted, the greatest shortcoming of most circuitbreaker programs -- and the most important area in which to press for change -- is the exclusion of the non-elderly, particularly of poor families with children. Children have constituted the most rapidly growing component of the poverty population in recent years, and poor families with children are generally in substantial need of property tax relief.

In states in which extending the circuitbreaker to all low income non-elderly taxpayers is deemed too costly or otherwise found to be politically infeasible, a more modest alternative can be considered. This would be to adopt the Kansas approach. The Kansas circuitbreaker is limited to the elderly, the disabled, and

low income families with at least one dependent child under age 18.<sup>40</sup> Limiting the extension of a circuitbreaker to families with children, rather than to all of the non-elderly low income population, can reduce the cost of an expansion.

Circuitbreakers have a number of attractive features. They help add an element of "ability to pay" into the property tax structure. And because they are designed to be of greater benefit to those with greater need, circuitbreakers make the property tax inherently fairer. Most circuitbreakers are also carefully targeted to those with incomes below specific levels, so that their cost can be made relatively modest. (Even among the eight circuitbreakers with the broadest coverage -- the seven "universal" circuitbreakers plus the Kansas circuitbreaker -- the median per state resident cost is only about \$22.)

### Circuitbreakers and State Income Tax Systems

In about half of the states that have circuitbreakers, there is a direct connection between the state's circuitbreaker and its income tax. In some of these states, the circuitbreaker is computed as a credit that directly offsets income tax liability (for example, if a household's state income tax liability is \$300 and it qualifies for a \$250 circuitbreaker, it pays just \$50 in income tax). To the extent that a taxpayer's property tax circuitbreaker exceeds his or her income tax liability, the taxpayer receives a refund for the difference.

In some states, property tax circuitbreaker forms are mailed out with income tax forms and the two are returned together. In some of these states, taxpayers receive a separate refund check against their property taxes, independent of their income tax refund.

In the remaining states with circuitbreakers, there is no tie between the circuitbreaker and the income tax. This lack of a connection between the circuitbreaker and the state income tax is most common in states in which the circuitbreaker is limited to elderly homeowners -- and is thus more logically administered as part of the property tax collection system.

This connection between property tax circuitbreakers and state income tax systems is of particular interest to those working for low income tax relief in states where most or all of the current legislative action seems likely to be concentrated on income taxes. Instituting or expanding a property tax circuitbreaker may be within the scope of changes that can be made in a state's income tax system, especially in states where the circuitbreaker is already linked to the income tax system.

The possibility of instituting or expanding a circuitbreaker can be especially important to low income families. Because property tax burdens on the poor usually far outstrip income tax burdens, extending the circuitbreaker to non-elderly families would provide many low income families with significantly more tax relief than would removing them from state income tax rolls.

<sup>40</sup> Kansas' circuitbreaker also covers both renters and homeowners in these categories.

Features Of Circuitbreakers, 1985

State	Percent of Rent Considered As Property Tax	Income Ceiling/a	Maximum Benefit
<u>All ages, homeowners and renters</u>			
District of Columbia/h	15%	\$20,000	\$ 750
Kansas/h,g	15%	12,800	400
Michigan	17%	83,650	1,200
Minnesota	varies	40,000	1,125
New York	25%	18,000	375/d
Oregon	17%	17,500	750(h)/375(r)
Vermont	20%	32,000	750
Wisconsin	25%	16,500	1,200/i
<u>All ages, homeowners; only elderly renters</u>			
Maryland/h	15%	none	\$1,200(h)/450(r)
<u>Only elderly, homeowners and renters</u>			
Arizona	varies	\$ 5,500	\$ 413
California/h	/c	12,000	/j
Colorado/h	20%	11,200	500
Connecticut/f	22%	16,000	1,250
Illinois/h	30%	14,000	700
Iowa/h	25%	12,000	1,000/i
Maine/h	25%	7,400	400
Missouri	20%	12,000	700
Montana	15%	none	400
Nevada	6%	15,100	500
New Mexico	6%	16,000	250
North Dakota	20%	10,000	2,000(h)/190(r)
Pennsylvania/h	20%	15,000	500
Rhode Island	20%	12,500	200
Utah	/g	10,000	300
West Virginia	12%	5,000	125/i
<u>Elderly homeowners only</u>			
Arkansas		\$12,000	\$ 250
Idaho/h,f		13,120	400
Nebraska		10,400	/j
Ohio/h		15,000	/j
Oklahoma/h		7,200	200
South Dakota/h		7,375	55%/i

Notes: h - Maximum benefit for homeowners.  
r - Maximum benefit for renters.

The property tax rent equivalent and income ceiling amounts are 1985 data. Average benefit and cost per capita are FY 1984 data.

- When there are separate maximum income levels for single persons and married couples, the amount stated in this table is for married couples.
- Disabled persons receive the same benefits as senior citizens.
- Kansas: Persons under age 55 must have a dependent under age 18 to be eligible for circuitbreaker benefits.
- New York: The maximum benefit for senior citizens is \$375, the maximum benefit for all others is \$75.
- California: \$250 of rent is considered to be for property tax, regardless of the amount of rent paid.
- Connecticut, Idaho: the income limit shown is for 1986 and is adjusted annually for inflation.
- Utah: For elderly renters, from 5 to 95 percent of rent paid is reimbursed, with a decreasing portion of rent paid being reimbursed as income increases.
- The formula uses a maximum tax amount to set the ceiling benefit.
- The formula uses a maximum assessed value to set the ceiling benefit.

Source: Gold, Steven, *State Tax Relief for the Poor*, as derived from Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism: 1985-86 Edition*, pp. 110-16, and supplemented by additional information provided by states.

If a state does institute or expand a circuitbreaker, one other point needs to be kept in mind. The state (and various social service agencies, religious and advocacy groups, labor unions, and community-based organizations serving low income people) will need to publicize the circuitbreaker so that eligible people know of its availability and how to apply. In a number of states with circuitbreakers, a substantial proportion of those eligible for tax relief under the program fail to apply for the benefits, presumably because they are unaware either that a circuitbreaker exists or that they may be eligible for it. (See page 53 for a further discussion of the importance of promotional efforts.)



### Other Forms of Property Tax Relief

In addition to circuitbreakers, there are several other forms of property tax relief that can assist low income taxpayers. However, these other approaches generally are not as beneficial for the poor as are circuitbreakers.

#### Renter Credits and Deductions

Some states allow certain renters a credit or deduction against their state income tax. Often these credits or deductions provide a flat amount per taxpayer, rather than varying by income and by property tax burden, as does the circuitbreaker. Nine states had renter credits or deductions in 1985.<sup>41</sup>

For example, Hawaii has a renter credit available to all renters with incomes below \$20,000 a year. These renters are able to claim a credit of \$50 for each personal exemption they claim, so that a married couple with two children would receive a credit of \$200 against its income tax.

While the Hawaii renter credit provides significant low income relief, many of the other state renter credits and deductions have shortcomings. They tend not to be well targeted to low income families (only two of the nine states with these provisions restrict them to low and moderate income taxpayers) and consequently tend either to be quite costly or to provide only very modest relief. Still, for a state unwilling to establish a circuitbreaker, these devices can serve as a way of incorporating into a state's income tax system a measure of property tax relief that can assist the poor.

#### Homestead Exemptions and Credits

Homestead exemptions or credits are devices to reduce property tax burdens for taxpayers who own their homes. Under a homestead exemption, a state sets an amount that is subtracted from the assessed value of a homeowner's residence before the property tax bill is computed. Normally, the amount subtracted is the same for all qualifying homeowners.

While a homestead exemption is subtracted from the assessed value of the home, a homestead credit is a standard amount that is subtracted from the amount of property tax that a homeowner would otherwise owe.

Although homestead programs help to relieve property taxes on some low income homeowners in many states, they have a fundamental drawback as a form of low income tax relief: they are of no benefit to renters, who comprise the majority of the poor. In addition, homestead programs tend not to be well targeted to the poor. Although in some states the homeowner must have an

41. Alaska, Arizona, California, Hawaii, Indiana, Massachusetts, New Jersey, Oregon, and Wisconsin. However, Alaska's program is limited to the elderly and only 720 households participate, and Oregon's larger program expired in 1986 and is not expected to be renewed. Oregon also has a smaller program, which is designed so that the rents of elderly households with incomes below \$5,000 will not exceed 40 percent of income.

### Promoting Tax Relief Provisions

For certain forms of low income tax relief to work effectively, states will need to address an additional issue: publicizing and conducting "outreach" for the relief program so that low income families know it exists and how to apply.

This effort is not necessary for most of the options that reduce state income burdens, such as increases in standard deductions, personal exemptions, etc. But it is necessary in all tax relief programs in which a household must apply in order to get a refund check back from the state.

For example, if a circuitbreaker program is instituted or an existing circuitbreaker is extended to the non-elderly poor, few low income households are likely to learn on their own of their eligibility. Those relief provisions which must be actively claimed -- such as circuitbreakers, refundable sales tax credits (discussed in Chapter IX), and comprehensive credits (discussed in Chapter X) -- need to be accompanied by a coordinated campaign to alert eligible households that relief is available and to inform them of the steps they must take to claim it.

Ideally, such promotion will extend over a period of several years until knowledge of the new mechanisms becomes widespread. Such promotional activities are generally quite inexpensive.

The experience of many states with circuitbreakers or other tax relief programs that provide a refund check to eligible low income households has been that the percentage of those eligible who participate in the program and receive the benefits has been lower than projected. Careful planning and promotional efforts can help ensure that a larger proportion of the intended beneficiaries are reached.

(Ironically, the fact that a substantial proportion of those eligible do not receive the benefits of these programs may make it easier to institute or expand them. Because participation is usually well below 100 percent of those eligible, the cost of these programs is significantly less than would otherwise be the case. Those urging their state to implement or expand one of these programs should make sure that the state officials who estimate the cost of the program take this fact into account.)

States can also enhance the degree of participation in low income relief by carefully designing the administration of relief provisions. The provisions themselves should not be so complicated as to discourage those eligible from claiming them. Clear and straightforward instructions are also important. Finally, where possible, states should consider processing tax forms in such a way to identify tax returns of low income people who are eligible for relief but have not claimed it on their returns. The Internal Revenue Service does just that in administering the federal Earned Income Tax Credit (EITC). If the IRS' computers indicate that a low income taxpayer is eligible for the EITC, the taxpayer is automatically given the EITC, whether or not he or she has claimed it on the federal income tax return.

income below a certain limit before the homeowner qualifies for the homestead exemption or credit, in many other states there is no income limit. In addition, all qualified homeowners generally receive the same relief, regardless of their income or their property tax burden. Further, some states limit this relief to elderly people. In 1985, of the 38 states that had a homestead program, the programs in 13 states were limited to the elderly (and 13 others gave the elderly extra benefits).

#### Deferrals

Of much less importance, though not without merit, are programs to defer all or part of property taxes for a qualified homeowner until the home is sold or until the death of its owner. These programs are a way of addressing the cash flow problems that property tax assessments can cause for low income homeowners.

Thirteen states had such programs in 1985; all but three limited participation in the deferral program to the elderly. Most states with these programs also limit participation to people with low incomes, and most states place restrictions on how much tax can be deferred.

Because of the restrictions on who can qualify for these programs, because the programs usually are not accompanied by vigorous outreach efforts to inform those potentially eligible about the programs' existence, and because of the hesitancy of many homeowners to put a lien on their properties, participation in these programs tends to be quite low. They are not a major form of low income property tax relief. (It may also be noted that since these programs have low participation rates and involve the deferral of taxes with interest, rather than their forgiveness, the cost of deferral programs tends to be very low.)

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## IX. Sales Tax Relief

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Sales taxes are the second largest source of state and local tax burdens on low income households, exceeded only by property taxes. Sales taxes are inherently regressive because, as discussed earlier, they impose greater burdens on low income families. Forty-six states have a sales tax.

As a first step in addressing the highly regressive nature of sales taxes, most states exempt certain types of purchases from the sales tax. Most important among these is the exemption for the purchase of food to be consumed at home. This exemption is in place in 30 states.

While exemptions for items such as food are quite helpful to low income families, sales taxes remain regressive despite them and still take a significant bite out of poor families' incomes.

The most effective way of relieving sales tax burdens on low income people is either through targeted sales tax credits or through more comprehensive low income credits (the latter are discussed in the next chapter).

#### Sales Tax Credits

Seven states use credits to offset a portion of sales tax burdens on their residents (Hawaii, Idaho, Kansas, New Mexico, South Dakota, Vermont, and Wyoming). In these states the credits are "refundable" -- that is, households that qualify for a credit can be sent a refund check in the amount of the credit. In all of these states except Idaho, the credits are at least partially targeted to low income households and phased out as income rises, so that they are of particular benefit to low and moderate income people.

South Dakota and Wyoming limit the sales tax credit to the elderly and disabled. Kansas covers families with children, along with the elderly and disabled -- the same groups it covers under its property tax circuitbreaker.

HB 2051

EXAMPLES OF HB 2051 REFUNDS VS. CURRENT LAW REFUNDS UNDER THREE DIFFERENT SCENERIOS.

1. A Qualifying couple has total household income of \$8,000 and pays \$1,000 annually in utilities:

<u>Property Tax Level</u>	<u>Current Law Refund</u>	<u>HB 2051 Refund</u>
\$200	\$ 25	\$160
300	125	260
400	225	360
600	225	560

2. Total household Income = \$10,000  
Utilities = \$1,000

<u>Property Tax Level</u>	<u>Current Law Refund</u>	<u>HB 2051 Refund</u>
\$200	\$ 0 *	\$110
300	35	210
400	135	310
600	135	510
750	135	510

\*Must have property taxes of \$270 or more to receive a refund.

3. Total household income = \$12,000  
Utilities = \$1,000

<u>Property Tax Level</u>	<u>Current Law Refund</u>	<u>HB 2051 Refund</u>
\$200	-0-	\$ 40
300	-0- *	140
400	\$ 45	240
600	45	440
750	45	440

\*Must have property taxes of \$360 or more to receive a refund.

1-31-89  
Attachment 2