Circuit Breakers

- State tax credit for property taxes that exceed a specific percentage of income
  - 34 states and DC (including Montana) have some form of circuit breaker
  - Used since at least 1960s

- Targeted property tax relief
  - Original target – taxpayers on fixed income whose home values have increased over time
  - States also target taxpayers based on age, income, wealth
  - Can also be used to give property tax relief to renters, who indirectly pay property tax increases on rental property

- Other policy options (adjusting tax rate, adjusting homestead exemption, acquisition value, growth caps on value or taxes) generally affect all taxpayers and therefore have a higher cost of reducing taxes for a target group

- Using a circuit breaker to target tax relief to taxpayers whose property taxes are high relative to their income may make it possible to simplify other features of the property tax system that affect all taxpayers (multiple classes, multiple rates, multiple exemptions)

Exhibit No. 4
Date 2-20-09
Bill No.

• Simple Circuit Breaker Example

- Taxpayers receive an income tax credit for property taxes on their primary residence that are more than X% of household income.

- There is a maximum credit of $Y.

- The credit is phased-out, beginning at $Z of income. The credit is fully phased-out at $W of income. (Credit is reduced by $Y/($W - $Z) for each $1 of income over $Z.)

- Household income is measured in terms of line items on the income tax return. It includes tax-exempt income and excludes losses.

- Percentage of income, maximum credit, credit phase-out, and other eligibility requirements can be adjusted to determine who receives credit, size of individual credits, and total amount of credits.

Examples

Percent of Income	1.5%
Maximum Credit	$2,000
Phase-Out Begins at	$75,000
Credit Phased Out at	$175,000

		Capped Partly Phased-Out	Capped Not Phased-Out	Not Capped Not Phased-Out	Fully Phased-Out
1	Property Tax	$4,000	$3,000	$1,500	$4,000
2	Income	$105,000	$60,000	$60,000	$175,000
3	Credit %	1.5%	1.5%	1.5%	1.5%
4	Maximum Property Tax for Income (line 2 x line 3)	$1,575	$900	$900	$2,625
5	Credit Before Cap (line 1 - line 4)	$2,425	$2,100	$600	$1,375
6	Credit After Cap (smaller of line 5 and $2,000)	$2,000	$2,000	$600	$1,375
7	Phase-Out Reduction ($0.02 for each 1$ line 2 > $75,000)	$600	$0	$0	$1,375
8	Credit (line 6 - line 7)	$1,400	$2,000	$600	$0