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Montana Department of Revenue

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To: Revenue and Transportation Interim Committee

From: Dan Dodds, Tax Policy Analyst

Subject: Elderly Homeowner/Renter Credit

Montana residents who are at least 62 years old and have gross household income of less than $45,000 are eligible for an income tax credit based on the property taxes they pay directly, if they own their own home, or indirectly through their rent. The credit is an example of what are known as "property tax circuit breakers," which are intended to limit low income households' property taxes to no more than a given percentage of their incomes.

Members of this committee have asked for estimates of the impacts of expanding the credit. This memo provides those estimates, but also provides background information to put the impact estimates in context. The memo has five sections:

- **The mechanics of the credit**: While the idea behind the credit is simple, the structure of the credit is not. This section explains how the credit is calculated.
- **How the credit affects individual taxpayers**: This section examines the impact on taxpayers who take the credit.
- **How the credit affects state and local budgets and other taxpayers**: This section examines how the credit is paid for and the impact on state and local government and school district budgets.
- **Use of the elderly homeowner/renter credit**: This sections shows information on use of the credit in 2006. .
- **Options for expanding the credit**: This section uses the information on credits for 2006 to estimate the impacts of changing each of the components of the structure of the credit.

Mechanics of the Credit

There are five steps to calculating an eligible household's credit.

First, the property tax the household paid directly or indirectly through rent is tabulated. For a household that owns their home, this is just their property tax for the year. For a household that rents, it is assumed to be 15% of their rent for the year. A household that bought or sold their

home during the year or owns a mobile home on a rented lot may have paid both property taxes and rent. These households add the property tax they paid and 15% of the rent they paid.

Second, an income-based property tax limit is calculated from the household's income. It equals a percent of the household's income, and depends on the household's gross income less a $6,300 exclusion. Table 1 shows the percentages. For a household with net income of $12,000 or more, the limit is 5% of net income. For households with lower income, the limit is a smaller percent of income.

Table 1
Income-Based Property Tax Limit

Net Household Income	Income-Based Property Tax Limit % of Net Income
Less than $2,000	0.0%
$2,000 - $2,999	0.6%
$3,000 - $3,999	1.6%
$4,000 - $4,999	2.4%
$5,000 - $5,999	2.8%
$6,000 - $6,999	3.2%
$7,000 - $7,999	3.5%
$8,000 - $8,999	3.9%
$9,000 - $9,999	4.2%
$10,000 - $10,999	4.5%
$11,000 - $11,999	4.8%
$12,000 or More	5.0%

Third, the income-based property tax limit is subtracted from direct and indirect property taxes to give a base credit amount.

Fourth, if the resulting credit is more than $1,000, the credit is limited to $1,000.

Fifth, the credit is phased out for households with gross income between $35,000 and $45,000. These households receive a percent of the base credit amount, and households with higher income receive a smaller percent. The percents are shown in Table 2.

Table 2
Credit Phase-Out

Household Income	Percent of Base Credit Amount
Less than $35,000	100%
$35,000 - $37,500	40%
$37,501 - $40,000	30%
$40,001 - $42,500	20%
$42,501 - $44,999	10%
$45,000 or More	0%

Table 3 shows seven example credit calculations. The first three rows show property tax and rent each household paid and their gross household income. The first three examples are the same except that the taxpayers in Example #1 own their home, the taxpayers in Example #2 rent, and the taxpayers in Example #3 own a mobile home on a rented lot so that they pay both property tax and rent. Examples #4 through #7 are all homeowners, with property taxes, income, or both increasing as you move to the right in the table.

Table 3
Example Calculations of Homeowner/Renter Credit

Example	#1	#2	#3	#4	#5	#6	#7
Property Tax	$900	$0	$675	$900	$2,000	$6,000	$6,000
Rent	$0	$6,000	$1,500	$0	$0	$0	$0
Gross Household Income	$12,000	$12,000	$12,000	$40,000	$40,000	$40,000	$45,000
Property Tax	$900	$0	$675	$900	$2,000	$6,000	$6,000
+ 15% of Rent	$0	$900	$225	$0	$0	$0	$0
= Direct & Indirect Property Tax	$900	$900	$900	$900	$2,000	$6,000	$6,000
Gross Household Income	$12,000	$12,000	$12,000	$40,000	$40,000	$40,000	$45,000
- Exclusion	-$6,300	-$6,300	-$6,300	-$6,300	-$6,300	-$6,300	-$6,300
= Net Household Income	$5,700	$5,700	$5,700	$33,700	$33,700	$33,700	$38,700
x % from Table 1	2.8%	2.8%	2.8%	5.0%	5.0%	5.0%	5.0%
= Income-Based Property Tax Limit	$159.60	$159.60	$159.60	$1,685.00	$1,685.00	$1,685.00	$1,935.00
Direct & Indirect Property Tax	$900.00	$900.00	$900.00	$900.00	$2,000.00	$6,000.00	$6,000.00
- Income-Based Property Tax Limit	-$159.60	-$159.60	-$159.60	-$1,685.00	-$1,685.00	-$1,685.00	-$1,935.00
= Base Credit Amount	$740.40	$740.40	$740.40	$0.00	$315.00	$4,315.00	$4,065.00
Base Credit After $1,000 Cap	$740.40	$740.40	$740.40	$0.00	$315.00	$1,000.00	$1,000.00
x Credit % from Table 2	100%	100%	100%	30%	30%	30%	0%
= Credit	$740.40	$740.40	$740.40	$0.00	$94.50	$300.00	$0.00

The second group of rows shows the first step in calculating the credit. The property tax and 15% of the rent the household paid are added together to give total property tax the household paid directly and indirectly. The households in Examples #1, #2, and #3 all paid $900 in direct and indirect property taxes. Household #1 paid $900 in property taxes, #2 paid $6,000 in rent, and #3 paid $675 in property taxes and $1,500 in rent.

The third group of rows shows the calculation of the income-based property tax limit. First, the $6,300 exclusion is subtracted from gross household income to give net household income. Then this is multiplied by the appropriate percentage from Table 1 to give the income-based property tax limit. Households #1, #2, and #3 all have gross income of $12,000 and net income of $5,700. The percentage in Table 1 corresponding to net income of $5,700 is 2.8%. Multiplying net income of $5,700 by 2.8% gives the income-based property tax limit of $159.60.

The fourth group of rows shows the calculation of the base credit amount by subtracting

the income-based property tax limit from direct and indirect property tax payments. Households #1, #2, and #3 all paid $900 in direct and indirect property taxes. This is reduced by $159.60 to give their base credit amounts of $740.40.

The final rows show the application of the $1,000 cap and the phase-out. Households #1, #2, and #3 all have credits that are under the cap. The capped credit is multiplied by the credit percentage from Table 2. The credit percentage in Table 2 corresponding to gross household income of $12,000 is 100%, so these households' credits are $740.40.

Example #4 shows a household that pays the same property taxes as #1, #2, and #3 but has a gross income of $40,000. Their net income is $33,700, and the corresponding percentage in Table 1 is 5%. Household #4's income-based property tax limit is 5% of $33,700 or $1,685. This is more than the $900 they paid in property taxes, so Household #4 does not receive a credit.

The household in Example #5 has the same income as Household #4, but paid $2,000 in property taxes. Subtracting their income-based property tax limit of $1,685 from $2,000 gives a base credit amount of $315, which is under the cap. The credit percentage in Table 2 for gross income of $40,000 is 30%. Household #5 receives a credit equal to 30% of $315, or $94.50.

Household #6 is the same as #5, except that they paid $6,000 in property taxes. Subtracting $1,685 from $6,000 gives $4,315, which is over the cap. Household #6's base credit amount is therefore $1,000. Their credit is 30% of $1,000, or $300.

Household #7 is the same as #6, except that their income is $45,000. Their credit percentage from Table 2 is 0%, so they do not receive a credit.

How the Credit Affects Individual Taxpayers

With the homeowner/renter credit, the taxpayer pays property taxes of up to a certain percent of the household's income, the state pays part or all of the next $1,000 of property taxes, and the taxpayer pays any taxes above that.

The credit depends on the household's income, but it also depends on the market value of the taxpayer's home. In 2006, the tax rate on residential property was 3.14%, the homestead exemption was 32.6% of market value, and the average consolidated mill levy on residential property in a city or town was 645 mills. With these rates, each dollar of tax represents $73 of market value ($73 x 67.8% x 3.14% x 0.645 = $1). A household, like #1, with gross income of $12,000, would pay the tax on the first $11,651 ($159.60 x 73) of market value on their home, be rebated the tax on the next $73,000 of market value, and pay the tax on any market value in excess of $84,651. Household #5, with gross income of $40,000, would pay the tax on the first $123,005 ($1,685 x 72) of market value on their home, be rebated 30% of the tax on the next $73,000, and pay the tax on any market value over $196,005.

Table 4 shows credits for a range of combinations of income and residential market value (assuming 32.6% homestead exemption, tax rate of 3.14% and 645 mills).

Table 4
Income, Market Value of Home, and Elderly Homeowner/Renter Credit

Market Value	$30,000	$60,000	$90,000	$120,000	$175,000	$235,000	$350,000
Property Tax	$410	$819	$1,229	$1,638	$2,389	$3,208	$4,778
Income							
$1,000	$410	$819	$1,000	$1,000	$1,000	$1,000	$1,000
$2,000	$398	$807	$1,000	$1,000	$1,000	$1,000	$1,000
$5,000	$270	$679	$1,000	$1,000	$1,000	$1,000	$1,000
$10,000	$0	$369	$779	$1,000	$1,000	$1,000	$1,000
$15,000	$0	$69	$479	$888	$1,000	$1,000	$1,000
$20,000	$0	$0	$229	$638	$1,000	$1,000	$1,000
$25,000	$0	$0	$0	$388	$1,000	$1,000	$1,000
$30,000	$0	$0	$0	$138	$889	$1,000	$1,000
$35,000	$0	$0	$0	$0	$256	$400	$400
$40,000	$0	$0	$0	$0	$117	$300	$300
$45,000	$0	$0	$0	$0	$0	$0	$0

Households with higher property values and lower incomes, in the upper right part of Table 4, would be subject to the $1,000 cap. Households with lower property values and higher incomes, in the lower left part of Table 4, pay taxes that are less than their income-based property tax limit and would not receive a credit. Households with incomes higher than $35,000 receive a partial credit. (See table 2.)

How the Credit Affects State and Local Budgets and Other Taxpayers

The elderly homeowner/renter credit in effect reduces property taxes paid by eligible taxpayers without reducing property tax revenue for local governments, school districts, and the university system. The credits are paid out of the state general fund. Thus, the state general fund pays part or all of the local and university system property taxes for households who receive the credit. The state receives the property taxes for school equalization, but rebates part or all of them to the taxpayer.

Without the credit there would be additional revenue for state programs or other taxes that go into the state general fund could be cut. Credits totaling $10.741 million were claimed for 2006 in the spring of 2007. Income tax revenue in FY 2007 was $827.095 million. Without the elderly homeowner/renter credit it would have been $837.836 million, 1.3% higher. There were 596,349 full year resident returns filed for 2006. The revenue loss from the elderly homeowner/renter credit was $18.01 per full year resident income tax return.

Use of the Elderly Homeowner/Renter Credit

Table 5 shows claims for the elderly homeowner/renter credit for 2006.[1] Claimants who reported property tax but no rent or both property tax and rent are reported as homeowners. Those who reported both are assumed to own a mobile home that is on a rented lot. Claimants who reported only rent are reported as renters. Income is total gross household income reported on the claimants' form 2ECs.

Table 5
Households Claiming Homeowner/Renter Credit for 2006

Income Range	Homeowners	Renters	Total
less than $10,000	1,063	1,571	2,634
$10,000 to $14,999	2,457	1,910	4,367
$15,000 to $19,999	3,204	1,188	4,392
$20,000 to $24,999	2,966	677	3,643
$25,000 to $29,999	2,535	326	2,861
$30,000 to $34,999	2,016	193	2,209
$35,000 to $39,999	1,424	135	1,559
$40,000 to $44,999	851	70	921
Total	16,516	6,070	22,586

Table 6 shows average homeowner/renter credits claimed by homeowners and renters in each income range.

Table 6
Average Elderly Homeowner/Renter Credit, 2006

Income Range	Homeowners	Renters	Total
less than $10,000	$629	$404	$495
$10,000 to $14,999	$612	$394	$516
$15,000 to $19,999	$593	$394	$539
$20,000 to $24,999	$552	$405	$524
$25,000 to $29,999	$512	$462	$506
$30,000 to $34,999	$488	$633	$500
$35,000 to $39,999	$172	$264	$180
$40,000 to $44,999	$73	$113	$76
All	$502	$403	$476

[1] All data presented for 2006 is based on unaudited Form 2ECs. Errors or other problems with returns create some discrepancies between tables. For example, three returns that did not have the property tax and rent lines filled in are excluded from Tables 5 and 6 but are included in other tables.

Table 7 shows the number and the total amount of credits claimed by taxpayers claiming credits of different sizes. Almost half of taxpayers claimed a credit of less than $400. Fifteen percent claimed credits at the cap of $1000, and about 35% claimed credits between $400 and $1000. Taxpayers at the $1,000 cap received almost one-third of the total amount of credits.

Table 7
Size of Credits Claimed for 2006

	Households		Credits	
Credit Amount	Number	%	Amount	%
$0 to $99	2778	12.3%	$140,221	1.3%
$100 to $199	2873	12.7%	$429,295	4.0%
$200 to $299	2901	12.8%	$718,625	6.7%
$300 to $399	2683	11.9%	$916,642	8.5%
$400 to $499	2039	9.0%	$908,665	8.5%
$500 to $599	1656	7.3%	$906,514	8.4%
$600 to $699	1309	5.8%	$848,792	7.9%
$700 to $799	1166	5.2%	$870,261	8.1%
$800 to $899	942	4.2%	$799,220	7.4%
$900 to $999	755	3.3%	$715,538	6.7%
$1000	3487	15.4%	$3,487,019	32.5%
Total	22589		$10,740,792	

Table 8, on the next page, shows the taxpayers claiming the elderly homeowner/renter credit grouped by income and property tax paid. For each group, it shows the number of taxpayers in that income and property tax range claiming the credit and the percent they are of the total number claiming the credit. The row totals show the number of credits claimed by taxpayers in each income range and the percent they are of the grand total. The column totals show the number of credits claimed by taxpayers in each property tax range and the percent they are of the grand total. Most of the taxpayers receiving the credit have lower incomes and pay lower amounts of property tax.

Table 9, also on the next page, shows the average credit claimed by taxpayers in each income and property tax range. It also shows the percent of total credits claimed by taxpayers in each range. The average credits show a pattern similar to the calculated credits in Table 4. Taxpayers in the upper right-hand part of the table, who pay high property tax relative to their income, are subject to the $1,000 cap. There are relatively few taxpayers in the lower left hand part of the table and they claim smaller credits. Taxpayer in the bottom two rows have their credits reduced because their income is more than $35,000.

Table 8
Taxpayers Claiming Elderly Homeowner Renter Credit for 2006

	Property Tax ≤ $1000		$1001 to $2000		$2001 to $3000		$3001 to $4000		Over $4000		Total	
Income Range	number	%	number	%	number	%	number	%	number	%	number	%
Less than $10,000	2,241	9.9%	325	1.4%	56	0.2%	7	0.0%	5	0.0%	2,634	11.7%
$10,000 to $14,999	3,260	14.4%	965	4.3%	110	0.5%	25	0.1%	9	0.0%	4,369	19.3%
$15,000 to $19,999	2,078	9.2%	1,968	8.7%	272	1.2%	46	0.2%	28	0.1%	4,392	19.4%
$20,000 to $24,999	743	3.3%	2,402	10.6%	407	1.8%	60	0.3%	31	0.1%	3,643	16.1%
$25,000 to $29,999	39	0.2%	2,256	10.0%	453	2.0%	85	0.4%	29	0.1%	2,862	12.7%
$30,000 to $34,999	0	0.0%	1,496	6.6%	582	2.6%	92	0.4%	39	0.2%	2,209	9.8%
$35,000 to $39,999	1	0.0%	805	3.6%	601	2.7%	104	0.5%	48	0.2%	1,559	6.9%
$40,000 to $44,999	0	0.0%	244	1.1%	552	2.4%	92	0.4%	33	0.1%	921	4.1%
Total	8,362	37.0%	10,461	46.3%	3,033	13.4%	511	2.3%	222	1.0%	22,589	100.0%

Table 9
Average Elderly Homeowner Renter Credit and Percent of Total Credits, 2006

	Property Tax ≤ $1000		$1001 to $2000		$2001 to $3000		$3001 to $4000		Over $4000		Total	
Income Range	$	%	$	%	$	%	$	%	$	%	$	%
Less than $10,000	$406	8.5%	$999	3.0%	$1,000	0.5%	$1,000	0.1%	$1,000	0.0%	$495	12.1%
$10,000 to $14,999	$368	11.2%	$945	8.5%	$1,000	1.0%	$1,000	0.2%	$1,000	0.1%	$516	21.0%
$15,000 to $19,999	$254	4.9%	$759	13.9%	$1,000	2.5%	$1,000	0.4%	$1,000	0.3%	$539	22.0%
$20,000 to $24,999	$118	0.8%	$552	12.3%	$1,000	3.8%	$1,000	0.6%	$1,000	0.3%	$524	17.8%
$25,000 to $29,999	$44	0.0%	$392	8.2%	$990	4.2%	$1,000	0.8%	$1,000	0.3%	$506	13.5%
$30,000 to $34,999		0.0%	$302	4.2%	$897	4.9%	$1,000	0.9%	$1,000	0.4%	$500	10.3%
$35,000 to $39,999	$218	0.0%	$82	0.6%	$266	1.5%	$348	0.3%	$358	0.2%	$180	2.6%
$40,000 to $44,999	_	0.0%	$20	0.0%	$84	0.4%	$149	0.1%	$158	0.0%	$76	0.7%
Total	$326	25.4%	$522	50.9%	$667	18.8%	$714	3.4%	$736	1.5%	$475	100.0%

Table 10 shows estimates of the number of homeowner and renter households in Montana in 2006. It is based on detailed counts of households by age, income and ownership from the 2000 Census, grown to match the totals from the 2006 American Community Survey.

Table 10
Number of Households In Montana, 2006
Estimated from 2000 Census and 2006 American Community Survey

	Householder 62 or Older			Householder 61 or Under		
Income Range	Homeowners	Renters	Total	Homeowners	Renters	Total
Less than $10,000	4,906	5,833	10,739	6,945	16,080	23,026
$10,000 to $14,999	7,034	4,269	11,304	5,364	9,021	14,385
$15,000 to $19,999	9,067	2,162	11,229	7,683	7,257	14,940
$20,000 to $24,999	8,033	1,913	9,946	8,318	7,825	16,143
$25,000 to $29,999	6,382	1,080	7,463	10,119	7,262	17,380
$30,000 to $34,999	5,652	1,149	6,801	9,739	5,926	15,665
$35,000 to $39,999	5,418	1,026	6,444	11,820	5,745	17,565
$40,000 to $44,999	4,044	940	4,985	10,621	4,983	15,603
$45,000 to $49,999	3,119	767	3,887	10,702	4,587	15,288
$50,000 and over	22,812	2,563	25,374	106,873	17,150	124,023
Total	76,467	21,702	98,172	188,184	85,836	274,018

Table 11 shows estimates of the percent of eligible households that claimed the credit in 2006, based on the number of households who claimed the credit, shown in Tables 5 and 8, and the estimated number of households, shown in Table 10.

Table 11
Percent of Eligible Households Claiming Credit

Income Range	Homeowners	Renters	Total
less than $10,000	21.7%	26.9%	24.5%
$10,000 to $14,999	34.9%	44.7%	38.6%
$15,000 to $19,999	35.3%	54.9%	39.1%
$20,000 to $24,999	36.9%	35.4%	36.6%
$25,000 to $29,999	39.7%	30.2%	38.3%
$30,000 to $34,999	35.7%	16.8%	32.5%
$35,000 to $39,999	26.3%	13.2%	24.2%
$40,000 to $44,999	21.0%	7.4%	18.5%
All	32.7%	33.0%	32.8%

Table 11 shows that a little less than one-third of households that appear to be eligible for the credit based on their age and income actually claimed the credit. The percentage is higher in the middle of the eligible income range and lower at higher and lower incomes.

There probably are many reasons why taxpayers who are eligible for the credit do not take it. Some are in the situation of Household #4 in Table 3: They appear to be eligible based on their age and income, but would not actually receive a credit. Others may not be aware of the credit, may think they are not eligible, or may not want the stigma of being labeled "low income" or "elderly". For some, filing the Form 2EC may be too daunting or too much trouble. This may be especially true for those who are not sure if they are eligible or view their credit as too small to be worth the effort.

Options for Expanding the Credit

This section examines five options for expanding the credit. They are

- eliminating the age requirement,
- increasing the $1,000 cap on the credit,
- raising the income levels in Table 1 used in calculating the base credit amount,
- raising the income limits in the credit phase-out in Table 2, and
- finding ways to increase participation in the current credit.

Eliminating the Age Requirement

The current credit is limited to households where at least one member is 62 or older. Table 12 estimates the number of additional credits that would be claimed if there were no age requirement. It assumes that younger households would have the same participation rates as currently eligible households with the same income. The first pair of columns show the number of homeowner and renter households under age 62 in each income range, from Table 10. The second pair of columns shows the 2006 participation rates for households with a member 62 or older, from Table 11. The right-hand columns shows the number of additional participants, which is the product of the number of households and the participation rate.

Table 12
Additional Credit Claims with No Age Limit on Eligibility
Assuming Current Participation Rates and Average Credits

	Additional Households Eligible		Participation Rate		Additional Participants		
Income Range	Home-owners	Renters	Home-owners	Renters	Home-owners	Renters	Total
Less than $10,000	6,945	16,080	21.7%	26.9%	1,505	4,331	5,836
$10,000 to $14,999	5,364	9,021	34.9%	44.7%	1,874	4,036	5,910
$15,000 to $19,999	7,683	7,257	35.3%	54.9%	2,715	3,988	6,703
$20,000 to $24,999	8,318	7,825	36.9%	35.4%	3,071	2,769	5,840
$25,000 to $29,999	10,119	7,262	39.7%	30.2%	4,019	2,192	6,211
$30,000 to $34,999	9,739	5,926	35.7%	16.8%	3,474	995	4,469
$35,000 to $39,999	11,820	5,745	26.3%	13.2%	3,107	756	3,863
$40,000 to $44,999	10,621	4,983	21.0%	7.4%	2,235	371	2,606
Total	70,609	64,099			22,000	19,438	41,438

Table 13, on the next page, estimates the additional cost.

The first pair of columns shows the additional participants, from Table 12. The second pair of columns shows the average credits, from Table 6. The additional participants in each group is multiplied by the average credit for the group to give the additional amount of credits that would be claimed by households in each income range, shown in the right-hand columns.

Table 13
Cost of Removing Age Limit on Eligibility
Assuming Current Participation Rates and Average Credits

	Additional Participants		Average Credit		Additional Credits		
Income Range	Home-owners	Renters	Home-owners	Renters	Home-owners	Renters	Total
Less than $10,000	1,505	4,331	$629	$404	$946,624	$1,749,741	$2,696,164
$10,000 to $14,999	1,874	4,036	$612	$394	$1,146,005	$1,589,273	$2,735,111
$15,000 to $19,999	2,715	3,988	$593	$394	$1,609,698	$1,570,849	$3,180,374
$20,000 to $24,999	3,071	2,769	$552	$405	$1,694,141	$1,122,165	$2,816,523
$25,000 to $29,999	4,019	2,192	$512	$462	$2,057,263	$1,012,697	$3,070,176
$30,000 to $34,999	3,474	995	$488	$633	$1,694,366	$629,551	$2,324,067
$35,000 to $39,999	3,107	756	$172	$264	$533,097	$199,377	$732,388
$40,000 to $44,999	2,235	371	$73	$113	$163,788	$41,992	$205,791
Total	22,000	19,438			$9,844,982	$7,915,645	$17,760,595

Eliminating the age requirement would result in 41,438 additional credits with a cost of about $17.8 million in state general fund revenue.

Increasing the Cap

The credit is capped at $1,000 per household. The cap was originally set at $150 when the credit was enacted in 1981. The credit was raised to $400 in 1983 and to $1,000 in 1995. Table 14 shows the number of households claiming the credit for 2006 who were subject to the cap and the number who would have been subject to higher caps ranging from $1,100 to $3,000. It also shows the additional credits that would have been paid out for 2006 with each higher cap.

Table 14
Impact of Raising Cap on Homeowner/Renter Credit

Cap	Capped Taxpayers	Cost of Raising Cap from $1,000
$1,000	5,172	
$1,100	2,872	$448,056
$1,200	2,434	$712,770
$1,300	2,002	$933,398
$1,400	1,679	$1,116,604
$1,500	1,397	$1,269,881
$1,600	1,172	$1,397,721
$1,800	825	$1,593,747
$2,000	612	$1,736,117
$2,200	453	$1,841,352
$2,400	357	$1,922,608
$2,600	275	$1,985,552
$2,800	220	$2,034,793
$3,000	186	$2,075,649
none	0	$7,337,829

Most taxpayers who are subject to the cap are only a few hundred dollars over the cap. More than half had credits before the cap that were $1,200 or less.

Table 15 shows the average credit before the cap for the same ranges of income and property tax as in Table 9.

Table 15
Average Elderly Homeowner / Renter Credit Before Cap

Income Range	Property Tax ≤ $1000	$1000 to $2000	$2000 to $3000	$3000 to $4000	Over $4000
Less than $10,000	$406	$1,318	$2,346	$3,510	$6,148
$10,000 to $14,999	$368	$1,109	$2,134	$3,195	$14,693
$15,000 to $19,999	$254	$808	$1,775	$2,891	$7,279
$20,000 to $24,999	$118	$560	$1,512	$2,572	$7,974
$25,000 to $29,999	$44	$392	$1,273	$2,251	$4,807
$30,000 to $34,999	$0	$302	$1,012	$2,055	$4,766
$35,000 to $39,999	$218	$82	$283	$636	$1,556
$40,000 to $44,999	$0	$20	$86	$232	$512

As would be expected, the upper right corner of Table 15 shows taxpayers with lower incomes and higher property taxes generally have higher pre-cap credits and would benefit most from an increase in the cap.

Increasing Income Levels in Base Credit Calculation

The income levels in Table 1 that are used in determining the base credit amount were set when the credit was enacted in 1981. They have not been adjusted for inflation. The consumer price index in 2008 is 2.33 times higher than it was in 1981. Table 16 shows what average pre-cap credits would have been for 2006 if the base credit calculation had been adjusted for inflation.

Table 16
Average Elderly Homeowner / Renter Credit Before Cap
With Inflation-Adjusted Base Credit Amount Calculation

Income Range	Property Tax ≤ $1000	$1000 to $2000	$2000 to $3000	$3000 to $4000	Over $4000
Less than $10,000	$420	$1,334	$2,357	$3,512	$6,159
$10,000 to $14,999	$503	$1,255	$2,281	$3,325	$14,833
$15,000 to $19,999	$489	$1,055	$2,026	$3,140	$7,517
$20,000 to $24,999	$385	$828	$1,782	$2,842	$8,247
$25,000 to $29,999	$209	$585	$1,465	$2,443	$5,000
$30,000 to $34,999		$381	$1,084	$2,129	$4,829
$35,000 to $39,999	$401	$1,213	$1,823	$2,842	$5,262
$40,000 to $44,999		$1,594	$2,103	$3,078	$4,759

Most taxpayers with property taxes of over $1,000 would have pre-cap credits that are higher than the cap. Total credits with the inflation adjustment would have been $25,568,987 before applying the $1,000 cap and $13,450,778 after the cap. Increasing the income levels in the base credit calculation while retaining the current cap would increase the size of some individual credits with a cost of about $2.7 million.

Increasing Income Limits for Eligibility

When it was enacted in 1981, the elderly homeowner/renter credit had no income limit. The 1997 legislature limited the credit to households with income of $35,000 or less. The 1999 legislature raised the limit to $45,000 but allowed taxpayers with household incomes between $35,000 and $45,000 only a partial credit, as shown in Table 2.

Increasing the income limit would have three effects. Some taxpayers who get a partial credit now would receive larger credits, some taxpayers who are not eligible now would receive credits, and some taxpayers who are eligible now but do not take the credit probably would. Table 17 shows the possible impact of increasing the limit to $50,000 and beginning the phase-out at $40,000.

Table 17
Credits with $50,000 Income Limit

	2006 Credits			Credits with Higher Income Limit			Difference	
Income Range	Credits Claimed	Average Credit	Total Credits	Credits Claimed	Average Credit	Total Credits	Credits Claimed	Total Credits
$35,000 to $39,999	1,344	$208	$279,932	2,105	$500	$1,051,593	761	$771,661
$40,000 to $44,999	772	$91	$70,287	1,187	$181	$214,986	415	$144,699
$45,000 to $49,999	—	—	—	713	$76	$54,564	713	$54,564
Total	2,116	299	$350,219	4,005	757	$1,321,143	1,889	$970,924

The first three columns show actual 2006 credits claimed by households with income over $35,000.

The next three columns show credits with the higher income limit. The number of credit claims was calculated by multiplying the number of households in each income group by the actual 2006 participation rate for the next lower income group. For example, 21.0% of homeowners with income between $45,000 and $49,999 are assumed to claim the credit with the increased income limit. This is the percentage of homeowners with income between $40,000 and $44,999 that actually claimed the credit for 2006.

Each income group would have the phase-out percentages that actually applied to the next lower income group in 2006. Therefore, the average credit for each income group is assumed to be the same as the actual 2006 average credit for the next lower income group.

The right-hand columns show the difference between the credits that would be claimed with the higher income limit and the credits actually claimed for 2006.

The total increase in credits is $970,924. Of this, only $54,464 would be claimed by households that are over the current income limit. Most of the increase is due to taxpayers who claimed the credit for 2006 claiming larger credits and more taxpayers who already are eligible taking the credit.

Increasing Participation

Tables 18 and 19 show the impact of reducing estimated non-participation by one-fourth. Table 18 calculates the number of additional households who would claim the credit. The first pair of columns shows the number of owner and renter households in each income group, from Table 10. The second pair shows the number of households who claimed the credit in 2006, from Table 5. The third pair of columns shows the number of credits that would have been claimed if one-fourth of the households in each group who did not claim the credit in 2006 had decided to. The right-hand columns show the additional credits.

Table 18
Reducing Eligible Households Who Do Not Claim Credit by 25%

	Households		2006 Credit Claims		Claims with 25% Fewer Non-Participants		Additional Credit Claims		
Income Range	Home-owners	Renters	Home-owners	Renters	Home-owners	Renters	Home-owners	Renters	Total
Less than $10,000	4,906	5,833	1,063	1,571	2,024	2,637	961	1,066	2,026
$10,000 to $14,999	7,034	4,269	2,457	1,910	3,601	2,500	1,144	590	1,734
$15,000 to $19,999	9,067	2,162	3,204	1,188	4,670	1,432	1,466	244	1,709
$20,000 to $24,999	8,033	1,913	2,966	677	4,233	986	1,267	309	1,576
$25,000 to $29,999	6,382	1,080	2,535	326	3,497	515	962	189	1,150
$30,000 to $34,999	5,652	1,149	2,016	193	2,925	432	909	239	1,148
$35,000 to $39,999	5,418	1,026	1,424	135	2,423	358	999	223	1,221
$40,000 to $44,999	4,044	940	851	70	1,649	288	798	218	1,016
Total			16,516	6,070	25,021	9,146	8,505	3,076	11,581

In Table 19, the first pair of columns shows the number of additional credits from Table 19, and the second pair shows the average credits from Table 6. The right-hand columns show the additional credits that would result from the additional households each claiming the average credit for their group.

Table 19
Cost of Additional Participation

	Additional Credit Claims		Average Credit		Additional Credits		
Income Range	Home-owners	Renters	Home-owners	Renters	Home-owners	Renters	Total
Less than $10,000	961	1,066	$629	$404	$604,298	$430,466	$1,034,764
$10,000 to $14,999	1,144	590	$612	$394	$699,742	$232,228	$931,970
$15,000 to $19,999	1,466	244	$593	$394	$869,029	$95,913	$964,942
$20,000 to $24,999	1,267	309	$552	$405	$698,813	$125,225	$824,038
$25,000 to $29,999	962	189	$512	$462	$492,305	$87,086	$579,391
$30,000 to $34,999	909	239	$488	$633	$443,344	$151,219	$594,563
$35,000 to $39,999	999	223	$172	$264	$171,322	$58,745	$230,067
$40,000 to $44,999	798	218	$73	$113	$58,498	$24,618	$83,116
Total					$4,037,351	$1,205,501	$5,242,852

Reducing the number of non-participants by one-fourth would result in over 11,000 additional credits with a value of about $5.2 million.

While it is easy to think of reasons why eligible households might not claim the credit, actually increasing participation would require a research project to determine which reasons are most important and how they can be overcome. This would need to be followed by changes in the credit and how it is administered.

Combinations

In general, the cost of expanding the credit in several ways would not be the sum of the costs of the individual changes. For example, the cost of removing the age limit is about $17.8 million, and the cost of raising the income limit by 45,000 is about $1.0 million. The cost of doing both would be more than $18.8 million, because the estimate for eliminating the age limit assumes current participation rates and average credits, but raising the income limit would increase both.