

PROPERTY TAX CIRCUIT BREAKERS

OVERVIEW

This document provides general information on property tax circuit breakers and analyzes Montana property tax assistance programs. The first section summarizes basic circuit breaker features included in a 2009 report published by the Lincoln Institute of Land Policy, “Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers.”¹ The second section of the report considers whether Montana property tax relief programs adhere to the recommendations included in the report.

LINCOLN INSTITUTE OF LAND POLICY REPORT

WHAT IS A CIRCUIT BREAKER?

A circuit breaker is a form of property tax relief based on household income, with the amount of relief increasing as household income decreases. A property tax circuit breaker inserts an element of ability to pay into the property tax system. Twenty-nine states and the District of Columbia offer some form of circuit breaker.²

John Shannon of the U.S. Advisory Commission developed the term in the 1960’s by applying the notion of an electrical circuit breaker preventing an electrical current from being overloaded to property tax relief that protects taxpayers from property taxes beyond their means.³

TYPES OF CIRCUIT BREAKERS

There are two main types of circuit breakers: threshold circuit breakers and sliding-scale circuit breakers. Hybrid circuit breakers and quasi circuit breakers are also discussed briefly.⁴ States may have multiple circuit breaker programs of different types that benefit different populations such as homeowners, renters, the elderly, the

¹ John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany P. Paquin, “[Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers](#),” Lincoln Institute of Land Policy, 2009.

² Circuit Breaker 2018 Summary Table, Lincoln Institute of Land Policy, <https://www.lincolinst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs>.

³ Bowman, et. al., p. 5.

⁴ Descriptions of circuit breakers from Bowman, et. al., p. 15-17. Number of states using types of circuit breakers from Circuit Breaker 2018 Summary.

disabled, and veterans. Table 3.1, taken from the report, provides examples of how the threshold and sliding-scale circuit breakers effect taxpayers differently.

THRESHOLD CIRCUIT BREAKERS

A threshold circuit breaker provides property tax relief for property taxes that exceed some percentage of income. There are two types of threshold circuit breakers: single-threshold formulas and multiple-threshold formulas.

SINGLE-THRESHOLD FORMULAS

A single-threshold formula sets one threshold percentage and provides relief for all property taxes that exceed that percentage of income. An example of a single-threshold formula is to cap property taxes at 10% of income and provide relief for taxes that exceed that amount. See Table 3.1 for an example of a single-threshold formula.

Seven states and the District of Columbia use single-threshold formulas.

MULTIPLE-THRESHOLD FORMULAS

A multiple-threshold formula provides for property tax relief by using multiple threshold percentages instead of a single percentage. The thresholds generally apply incrementally so that the relief is calculated at the lower threshold for all beneficiaries' first dollar of income. Applying the threshold incrementally prevents notch effects whereby a lower level of relief is provided for all income if the household income increases above a threshold level. See Table 3.1 for an example of a multiple-threshold formula.

Eight states and the District of Columbia use multiple-threshold formulas. The Montana elderly homeowner and renter income tax credit is an example of a multiple-threshold formula.

SLIDING-SCALE CIRCUIT BREAKERS

TABLE 3.1 Benefit Determination under Alternative Circuit Breaker Formulas, Assuming \$2,000 Property Tax Bill for each Household			
	Low income \$10,000	Moderate income \$20,000	Middle income \$40,000
Each household pays \$2,000 in property tax before circuit breaker			
Property Tax	\$2,000	\$2,000	\$2,000
Tax as % of Income	20.0	10.0	5.0
Single Threshold Property tax capped at 5% of income			
Tax Due	\$500	\$1,000	\$2,000
Tax Relief (Credit)	\$1,500	\$1,000	\$0
Tax as % of Income	5.0	5.0	5.0
Multiple Threshold No property tax allowed for first \$5,000 income; capped at 2% of income for income from \$5,001–\$10,000; capped at 4% for \$10,001–\$20,000 income; capped at 6% for \$20,001–\$40,000 income			
Tax Due	\$100	\$500	\$1,700
Tax Relief (Credit)	\$1,900	\$1,500	\$300
Tax as % of Income	1.0	2.5	4.25
Sliding Scale Credit = (Property tax) x (relief Percentage)			
Relief Percentage	75.0	50.0	25.0
Tax Due	\$500	\$1,000	\$1,500
Tax Relief (Credit)	\$1,500	\$1,000	\$500
Tax as % of Income	5.0	5.0	3.75
Note: Fisher (2009) notes that in 2007 the median homeowner paid \$1,728 in property taxes.			

A sliding-scale circuit breaker provides a defined amount of property tax relief at specified income levels. All participants within the income bracket receive the same percentage of property tax reduction. See Table 3.1 for an example of a sliding-scale formula.

Eleven states use sliding-scale circuit breakers. The number of income levels varies by state, with most using three to six income brackets. Montana's Property Tax Assistance Program and Disabled Veterans Program are examples of sliding-scale circuit breakers.

HYBRID CIRCUIT BREAKERS

A hybrid circuit breaker combines features of threshold circuit breakers and sliding-scale circuit breakers. Three states use hybrid circuit breakers.

QUASI CIRCUIT BREAKERS

Quasi circuit breakers provide tax relief based on income, but the relief is not determined based on the property tax bill. Seven states use quasi circuit breakers.

ADDITIONAL FEATURES OF CIRCUIT BREAKERS

Many circuit breakers include income ceilings and benefit limits, which are discussed in more detail in this section.

INCOME CEILINGS

An income ceiling limits the circuit breaker to households with a certain income. All states with circuit breakers include an income ceiling and the income limit may be different for single people than for a married couple or head of household. Income ceilings vary significantly, but they are difficult to compare because states define income differently.⁵ The Lincoln Institute of Land Policy report recommends adjusting income limits by inflation, so benefits are not eroded over time.⁶

BENEFIT LIMITS

States may limit benefits received under a circuit breaker to control costs, to keep benefit recipients engaged when considering property tax increases, and to prevent large relief payments for high-value housing. Three types of

⁵ Circuit Breaker 2018 Summary Table.

⁶ Bowman, et. al., p. 23.

benefit limits are discussed below: maximum benefit provisions, copayment requirements, and limiting tax relief for high-value homes.⁷

Two other benefit limits that require less explanation are: limits to claimants who reside in the state for a minimum amount of time and limits on the amount of land eligible for the property tax relief. Montana's programs use both types of limits.

MAXIMUM BENEFIT PROVISIONS

A maximum benefit provision limits the benefit that a claimant may receive. Six of the 29 states with circuit breakers, including Montana, have at least one circuit breaker program that does not limit the maximum benefit. Among the circuit breakers with limits, the 2018 limits ranged from \$200 for programs in Connecticut and Oklahoma to \$10,000 for New Jersey's circuit breaker for the elderly, blind, and disabled.⁸

COPAYMENT REQUIREMENTS

Copayments require some or all claimants to pay a portion of property taxes above a certain threshold. Without a copayment requirement, increases in property taxes do not affect claimants whose entire property tax bill is relieved. Six states, including Montana, had copayment requirements in 2018.⁹

LIMIT TAX RELIEF FOR HIGH-VALUE HOMES

Another way to limit benefits is to only provide tax relief for a certain portion of a home's value. This prevents large benefits for high-value homes against which the owner may be able to borrow against home equity.

Another version of this type of limit is to set a maximum home value or property tax bill above which the taxpayer is not eligible for the circuit breaker.

⁷ Bowman, et. al., p. 23-26.

⁸ Circuit Breaker 2018 Summary Table.

⁹ Circuit Breaker 2018 Summary Table.

RECOMMENDED FEATURES OF A CIRCUIT BREAKER

The following table shows design features for a property tax circuit breaker as recommended by the Lincoln Institute of Land Policy.

Recommended Design Features for Property Tax Circuit Breakers	
Recommended Feature	Reason for Recommendation
Provide adequate tax relief and reliable funding	Without both adequate relief and funding, circuit breakers cannot provide meaningful tax assistance to those in need
Cover owners and renters of all ages	Renters pay property taxes indirectly, and excessive tax burdens are not limited to the elderly
Use a broad definition of income, including Social Security benefits	Avoids providing different tax relief to households with similar property tax burdens
Use a multiple-threshold formula; Apply brackets incrementally	Targets property tax relief to those with greatest need; prevents notch effects
For generous threshold circuit breakers, include a copayment requirement	Without a copayment, taxpayers whose property tax bills exceed the threshold level are insulated from any property tax increase; can promote excessive spending
Set a limit on the maximum property value considered in the circuit breaker formula	Limits the tax relief sent to those with very expensive homes
Consider placing no other limits on income, benefits, or net worth	Other limits are not necessary with a properly designed circuit breaker; also they can impose unintended changes in distribution of benefits
Provide funding by the state	Local funding is problematic due to the wide range in local fiscal capacity and mobility of taxpayers
Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters	Provides timely and highly visible property tax relief
Set up a simple, streamlined application system	Will maximize participation and reduce administration and compliance costs
Establish and fund an outreach program	Participation rates will likely be low without outreach efforts

Source: Lincoln Institute of Land Policy, “Property Tax Circuit Breakers,” p. 3.

The table on the next page examines Montana property tax relief policies on the Lincoln Institute of Land Policy recommendations. Montana has two programs to reduce taxable value for eligible participants, the Property Tax Assistance Program and the Disabled Veterans Program, and an income tax credit for elderly homeowners and renters.

ANALYSIS OF MONTANA CIRCUIT BREAKERS ON LINCOLN INSTITUTE OF LAND POLICY RECOMMENDATIONS

Recommendation	Property Tax Assistance Program		Disabled Veteran Program		Property Tax Credit for Elderly	
	<u>15-6-301, 15-6-302, 15-6-305, 15-6-312</u>		<u>15-6-301, 15-6-302, 15-6-311, 15-6-312</u>		<u>15-30-2337 through 15-30-2341</u>	
Provide adequate tax relief and reliable funding	?	2018: 23,018 participants received \$17,189,717 (\$747 average) ✓ Funding is formula based and does not require inclusion in budget	?	2018: 2,567 participants received \$4,175,978 (\$1,627 average) ✓ Funding is formula based and does not require inclusion in budget	?	2018: 13,567 participants received \$6,955,393 (\$513 average) ✓ Funding is formula based and does not require inclusion in budget
Cover owners of all ages	✓		✓		X	Covers owners and renters age 62 and older
Cover renters of all ages	X	Does not cover renters	X	Does not cover renters	✓	
Use a broad definition of income, including Social Security benefits	X	Uses federal adjusted gross income excluding capital losses, which excludes non-taxable social security and pension income	X	Uses federal adjusted gross income excluding capital losses, which excludes non-taxable social security and pension income	✓	Uses federal adjusted gross income but adds back nontaxable income
Use a multiple-threshold formula; Apply brackets incrementally	X	Uses sliding-scale formula	X	Uses sliding-scale formula	✓	Uses multiple-threshold formula
For generous threshold circuit breakers, include a copayment requirement	X	No threshold above which copayment required	X	No threshold above which copayment required	✓	Copayment for incomes above \$35,000
Set a limit on the maximum property value considered in the circuit breaker formula	✓	Limited to first \$200,000 in value	X	No limit	X	No limit

Recommendation	Property Tax Assistance Program <u>15-6-301, 15-6-302, 15-6-305, 15-6-312</u>		Disabled Veteran Program <u>15-6-301, 15-6-302, 15-6-311, 15-6-312</u>		Property Tax Credit for Elderly <u>15-30-2337 through 15-30-2341</u>	
Consider placing no other limits on income, benefits, or net worth	X	2019 income limits: \$23,337 single, \$31,116 for married/head of household	X	2019 income limits: \$53,955 single veteran, \$62,256 married/head of household veteran, \$47,038 unmarried surviving spouse	X	\$45,000 income limit, copayment for \$35,000+ Credit limited to \$1,000
Provide funding by the state	X ✓	State receives less money from 101 mills, but local property taxes are shifted to other local taxpayers	X ✓	State receives less money from 101 mills, but local property taxes are shifted to other local taxpayers	✓	Income tax credit reduces state general fund revenue
Use state-reimbursed property tax credits for homeowners and state-issued rebate checks for renters	✓	Participants pay taxes on a reduced taxable value	✓	Participants pay taxes on a reduced taxable value	X	Credit is claimed with income taxes, so property taxes are paid first, and credit is received later
Set up a simple, streamlined application system	✓	Application is to the state and, once approved, annual application is not required	✓	Application is to the state and, once approved, annual application is not required	✓	Credit is claimed on income tax form, some burden for those who otherwise would not file
Establish and fund an outreach program	?	Property tax bills include mention of program, DOR uses press releases, social media posts, radio ads, and mentions in radio/TV programs	?	Property tax bills include mention of program, DOR uses press releases, social media posts, radio ads, and mentions in radio/TV programs	?	Property tax bills include mention of program (but renters do not receive property tax bills)