

# HJ 36: CIRCUIT BREAKERS

The Revenue Interim Committee expressed interest in a circuit breaker to provide residential property tax relief. This briefing provides an overview of how circuit breakers work, Montana's experience with circuit breakers, and highlights a recommended circuit breaker used in Michigan.

## 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 and assists taxpayers who pay the highest share of their income in property taxes.<sup>1</sup>

With a 5% circuit breaker, the credit is equal to the property taxes that exceed 5% of income. A household with \$25,000 in income and a \$1,500 property tax bill would receive a \$250 credit - the difference between \$1,500 and \$1,250 (which is 5% of \$25,000).

"Property tax circuit breakers are meant to prevent homeowners from being overburdened by property taxes, just as an electrical circuit breaker prevents electric current overloads." – *Property Tax Relief for Homeowners*

Circuit breakers can be made available to both homeowners and renters. For renters, a percentage of rent paid is defined in law for purposes of calculating the circuit breaker.

## CIRCUIT BREAKER DESIGN OPTIONS

States often build on the basic design of a circuit breaker to provide more targeted relief and to limit the cost of the circuit breaker.

<sup>1</sup> The information about circuit breakers in this section is adapted from Adam H. Langley and Joan Youngman, "Property Tax Relief for Homeowners," Lincoln Institute of Land Policy, p. 39-42.

## MULTIPLE-THRESHOLD CIRCUIT BREAKERS TARGET RELIEF

A single-threshold circuit breaker is one in which the same percentage of relief is provided to all households. Another option is a multiple-threshold circuit breaker in which a different percentage is applied to different levels of income.

## BE MINDFUL OF INCOME CEILINGS, BENEFIT LIMITS, MAXIMUM HOME VALUES

Some states limit who is eligible for a circuit breaker by including limits on incomes and home values eligible for the circuit breaker and by limiting the maximum credit amount. If these are set too low, the circuit breaker may not provide meaningful relief.

## COPAYMENTS ENSURE STAKE IN PROPERTY TAX DECISIONS

A copayment is a percentage applied to the circuit breaker credit that reduces the credit amount. Including a copayment ensures that taxpayers feel the effects of tax increases and helps control voter-approved property tax increases. Without a copayment, taxpayers who benefit from a circuit breaker could vote to increase property taxes and see little or no increase in their own tax bill.

## BEST PRACTICES SUGGEST MULTIPLE-THRESHOLD WITH COPAYMENT

The Lincoln Institute for Land Policy recommends a multiple-threshold circuit breaker with a copayment "to help control program costs and reduce incentives for higher local spending."<sup>2</sup>

## MONTANA'S ELDERLY HOMEOWNER AND RENTER CREDIT

Montana currently offers a circuit breaker income tax credit for elderly homeowners and renters. The elderly homeowner and renter credit is for homeowners and renters age 62 or older who reside in Montana at least 9 months of the year and who live in an eligible residence for at least 6 months of the year. The credit is based on property taxes paid or rent equivalent property taxes, which is equal to 15% of gross rent. The maximum credit is \$1,150<sup>3</sup> and it may be refunded if it exceeds the taxpayer's tax liability.

The credit uses a multiple-threshold formula and is available to households with gross household income below \$45,000. For taxpayers with gross household incomes below \$35,000, the amount of the credit is equal to the amount by which property taxes exceed a percentage of income. The applicable percentage ranges from 0.6% to 5%

<sup>2</sup> Langley and Youngman, p. 41.

<sup>3</sup> Ch. 476, L. 2021 increased the maximum credit to \$1,150 in 2022. The previous maximum was \$1,000.

and is based on income. If gross household income is less than \$14,600, the credit is equal to the full amount of property taxes billed or rent equivalent taxes (subject to the maximum credit amount).

ELDERLY HOMEOWNER AND RENTER TAX CREDIT INCOME AND CREDIT AMOUNTS

Gross Household Income <sup>4</sup>	Household Income	Credit for Property Taxes that Exceed % of Income
\$0 - \$13,599	\$0 - \$999	Credit is equal to property taxes or rent-equivalent property taxes
\$13,600 - \$14,599	\$1,000 - \$1,999	
\$14,600 - \$15,599	\$2,000 - \$2,999	0.6%
\$15,600 - \$16,599	\$3,000 - \$3,999	1.6%
\$16,600 - \$17,599	\$4,000 - \$4,999	2.4%
\$17,600 - \$18,599	\$5,000 - \$5,999	2.8%
\$18,600 - \$19,599	\$6,000 - \$6,999	3.2%
\$19,600 - \$20,599	\$7,000 - \$7,999	3.5%
\$20,600 - \$21,599	\$8,000 - \$8,999	3.9%
\$21,600 - \$22,599	\$9,000 - \$9,999	4.2%
\$22,600 - \$23,599	\$10,000 - \$10,999	4.5%
\$23,600 - \$24,599	\$11,000 - \$11,999	4.8%
\$24,600 and over*	\$12,00 and over*	5%

\*Households with gross household income above \$35,000 also pay a copayment.

Households with gross household income above \$35,000 receive a reduced credit, which could be thought of as a copayment or a phaseout. The copayment amount varies by income as shown in the following table.

ELDERLY HOMEOWNER AND RENTER CREDIT COPAYMENT

Gross Household Income	Copayment
\$35,000 - \$37,500	60%
\$37,501 - \$40,000	70%
\$40,001 - \$42,500	80%
\$42,501 - \$44,999	90%

<sup>4</sup> Section [15-30-2340](#) provides the credit amounts using the defined term "household income," which is gross household income less a \$12,600 reduction for 2022. Before 2022, the reduction to gross household income was \$6,300.

In tax year 2019, 15,250 taxpayers claimed about \$8 million in elderly homeowner and renter tax credits. The 2021 Legislature increased the maximum credit amount and increased the reduction from gross household income used to calculate the credit. The changes are estimated to increase the value of credits claimed for tax year 2022 to \$10 million.<sup>5</sup>

## 2021 RIC PROPOSED CIRCUIT BREAKER CREDIT FAILS TO PASS

The 2019-2020 Revenue Interim Committee recommended [Senate Bill 10](#) (SB 10), a bill providing for a multiple-threshold circuit breaker with a copayment for homeowners and renters of all ages. The bill used many concepts contained in the elderly homeowner and renter credit, including the same definition of income and rent-equivalent property tax and the same occupancy requirements.<sup>6</sup>

The main difference between SB 10 and the elderly homeowner and renter credit is the calculation of the credit. The multiple-threshold formula reduces property taxes above a specified percentage of income that varies for each \$20,000 increment of income. The circuit breaker does not include an income limit but the 18.1% that applies to income above \$100,000 means that the credit phases out as income increases. The thresholds proposed in SB 10 are shown in the following table.

### MULTIPLE-THRESHOLD CIRCUIT BREAKER FROM SB 10 (2021)

Gross Household Income	Marginal Threshold
\$0-\$20,000	2.1%
\$20,001-\$40,000	5.3%
\$40,001-\$60,000	8.5%
\$60,001-\$80,000	11.7%
\$80,001-\$100,000	14.9%
Above \$100,000	18.1%

SB 10 also included a 25% copayment, however, the copayment was calculated differently than for the elderly homeowner and renter credit and from other state copayment calculations. The copayment in SB 10 applied before calculating the multiple-threshold formula rather than determining the preliminary credit amount and then applying the copayment. Calculating the copayment before applying the multiple-threshold results in a lower circuit breaker credit.

<sup>5</sup> [House Bill 191 \(2021\), Fiscal Note 2.](#)

<sup>6</sup> For a detailed overview see: Megan Moore, [HJ 35-02: Circuit Breaker Bill](#), HJ 35 Tax Study Committee, July 2020.

The circuit breaker in SB 10 was intended to replace the elderly homeowner and renter credit as well as three property tax assistance programs that reduce the taxable value for eligible property owners: the property tax assistance program, the disabled veteran assistance program, and the intangible land value property exemption. This aspect of the bill likely contributed to its failure to pass out of the Senate Taxation Committee; some taxpayers would receive a smaller benefit under SB 10 than under current law. The Senate Taxation Committee considered ways to prevent the bill from creating "losers" by amending it twice and reviewing revised fiscal notes, but the bill failed. The following table summarizes the fiscal impacts of the introduced and amended versions of SB 10.

SUMMARY OF SB 10 VERSIONS AND FISCAL IMPACTS<sup>7</sup>

	SB 10 – Introduced	SB 10 – First Amendment	SB 10 – Second Amendment
<b>Overview of Provisions</b>			
<b>Circuit breaker (income tax credit)</b>	New circuit breaker credit replaces elderly homeowner and renter credit (2EC), no age restrictions	Taxpayer may claim new circuit breaker credit <u>or</u> 2EC	Taxpayer may claim new circuit breaker credit <u>or</u> 2EC
<b>Property tax assistance programs (property value reduction)</b>	Repeals property tax assistance program, disabled veteran assistance program, and intangible land value exemption	Keeps property tax assistance programs; taxpayer may only participate in one program	Keeps property tax assistance programs; taxpayer may only participate in one program
<b>Circuit breaker thresholds<sup>8</sup></b>	\$0 to \$20,000: 2.1% \$20,001 to \$40,000: 5.3% \$40,001 to \$60,000: 8.5% \$60,001 to \$80,000: 11.7% \$80,001 to \$100,000: 14.9%; Above \$100,000: 18.1%	Same as introduced version of SB 10	\$0 to \$20,000: 3.1% \$20,001 to \$40,000: 6.3% \$40,001 to \$60,000: 9.5% \$60,001 to \$80,000: 12.7% \$80,001 to \$100,000: 15.9%; Above \$100,000: 19.1%

<sup>7</sup> Unless otherwise noted, all dollar figures are from fiscal notes (available at <https://leg.mt.gov/laws/bills/20211/FNPDF/SB0010>) and estimates are for FY23.

<sup>8</sup> For sample credit calculations see Megan Moore, [HJ 35-02: Circuit Breaker Bill](#), HJ 35 Tax Study Committee, July 2020.

	SB 10 – Introduced	SB 10 – First Amendment	SB 10 – Second Amendment
<b>Estimated Fiscal Impacts</b>			
<b>New circuit breaker</b>			
<b>Estimated usage<sup>9</sup> (number/avg. credit)</b>	Homeowners: 37,230/\$980 Renters: 20,021/\$466	Homeowners: 33,709/\$1,039 Renters: 15,130/\$498	Homeowners: 24,567/\$1,073 Renters: 10,179/\$485
<b>General Fund impact</b>	-\$48,497,000	-\$42,568,000 <sup>10</sup>	-\$31,303,000
<b>Elderly homeowner and renter credit</b>			
<b>Estimated usage (number/avg. credit)</b>	Credit not available	Homeowners: 7,651 Renters: 3,152	Homeowners: 9,232 Renters: 2,345
<b>General Fund impact</b>	+\$8,534,000 from repeal of credit	-\$5,508,668 <sup>11</sup>	-\$6,382,688 <sup>12</sup>
<b>Property Tax Assistance Programs</b>			
<b>Estimated usage</b>	Programs not available	Expect to be very similar to current law, few taxpayers are eligible for more than one program	Expect to be very similar to current law, few taxpayers are eligible for more than one program
<b>General Fund impact</b>	+\$3,676,000 from repeal of programs	De minimis	De minimis
<b>Total General Fund impact<sup>13</sup></b>	-\$36,287,000	-\$48,076,668	-\$37,685,688
<b>Additional Fiscal Impacts</b>			
<b>Local property tax impacts</b>	Reduction in local mills from repeal of property tax assistance programs: \$37 million statewide increase in taxable value (1.2% of statewide tax base)	Property tax assistance programs remain available so no changes to local property taxes	Property tax assistance programs remain available so no changes to local property taxes

<sup>9</sup> All estimated usage is based on data for tax year 2019.

<sup>10</sup> Estimate for FY19.

<sup>11</sup> Estimate for FY19. Email from with Dylan Cole, Department of Revenue, March 30, 2022.

<sup>12</sup> Estimate for FY 19.

<sup>13</sup> Excludes fiscal impacts of expenditures. Totals include FY19 estimates for elderly homeowner and renter credit.

## REPEAL OF PROPERTY PROGRAMS IN SB 10 CREATES "LOSERS"

Most taxpayers who qualify for a property tax assistance program or the elderly homeowner and renter credit would receive a smaller benefit under SB 10 than under current law.<sup>14</sup>

Nearly all taxpayers who qualify for the intangible land value property exemption and the disabled veteran program are worse off under SB 10, which repeals those programs.

The intangible land value property exemption, which exempts the appraised land value that exceeds 150% of the appraised value of the primary residence and improvements (but not below the statewide average value of land), does not include an income test.

The disabled veteran program reduces the taxable value of the residence by 50%, 70%, 80%, or 100% depending on income. The income limits for the disabled veteran program for 2022 are \$54,067 single, \$62,385 married or head of household, and \$47,136 surviving spouse.

### PROPERTY TAX ASSISTANCE PROGRAMS AND ELDERLY CREDIT USAGE, 2019-2020

Program	Claimants	Average Benefit	General Fund Impact	Local Tax Shifts
Elderly Homeowner and Renter Credit	15,263	\$528	\$8,060,688	N/A
Property Tax Assistance Program	22,650	\$819	\$2,814,211	\$15,725,362
Disabled Veteran Program	2,824	\$1,814	\$807,196	\$4,315,708
Land Value Exemption	152	\$2,620	\$69,748	\$328,471

About 90% of participants in the property tax assistance program would receive a smaller benefit under SB 10 than under current law. The property tax assistance program reduces the taxable value on the first \$200,000 in appraisal value by 30%, 50%, or 80%, depending on income. The 2022 income limits are \$23,385 single and \$31,181 married or head of household.

For taxpayers who currently claim the elderly homeowner and renter credit, more than two-thirds would qualify for a smaller credit under SB 10 than under current law. Of the 15,263 credit claimants, 10,793 taxpayers get a larger credit under current law. Under SB 10, 770 renters and 3,690 homeowners would get a bigger credit.

<sup>14</sup> Figures included in this section from email with Dylan Cole, Department of Revenue, March 30, 2022.

Because SB 10 repeals the intangible land value property exemption and the disabled veteran program (the first of which has no income limit and the second with a relatively high income limit), claimants of those programs are worse off under the credit in SB 10 because it phases out as income increases. The credit calculated under SB 10 is also lower for most beneficiaries of the property tax assistance program and the elderly homeowner and renter credit.

If a new circuit breaker program is contemplated, the committee may consider leaving current property tax assistance programs in place to minimize "losers." If the committee wishes to offer only one circuit breaker income tax credit, one could be designed to be as generous as the elderly homeowner and renter credit. Alternatively, the committee could recommend a new circuit breaker credit and allow elderly claimants to choose between the new credit and the existing elderly homeowner and renter credit.

## MICHIGAN HOMESTEAD PROPERTY TAX CREDIT

The Lincoln Institute of Land Policy highlights Michigan's Homestead Property Tax Credit as a good example of a circuit breaker.<sup>15</sup> This section summarizes the basic features of the Michigan credit.<sup>1617</sup>

Michigan offers a 3.2% single-threshold credit for claimants under 65 and a multiple-threshold credit for taxpayers 65 or older or disabled that ranges from 0% to 3.2%. The credit provides property tax relief for taxes that exceed the applicable percentage of income. The thresholds for senior citizens and disabled taxpayers are shown below.

### MICHIGAN HOMESTEAD CREDIT THRESHOLDS FOR SENIOR CITIZENS AND DISABLED

Income	Marginal Threshold
\$3,000 or less	0%
\$3,001-\$4,000	1%
\$4,001-\$5,000	2%
\$5,001-\$6,000	3%
More than \$6,000	3.2%

<sup>15</sup> Langley and Youngman, p. 42.

<sup>16</sup> "Homestead Property Tax Credit Information," <https://www.michigan.gov/taxes/property/ind-exempt-defer/homestead-property-tax-credit-information> and [2021 MI-1040CR Instructions](#), accessed March 23, 2022.

<sup>17</sup> Michigan offers another credit for certain veterans, surviving spouses, active military personnel, and blind people who own their homes. Eligible claimants may claim the Michigan Homestead Property Tax Credit or the Homestead Property Tax Credit Claim for Veterans and Blind People.



Homeowners base their credit on value-based property taxes, while renters claim 23% of rent paid during the tax year. Property that is exempt from property taxes is not eligible for the credit and, if housing costs are subsidized, only the portion paid by the claimant is used for the credit calculation.

The Michigan credit is available to taxpayers with incomes of \$60,600 or less. Michigan uses a broad definition of taxable and nontaxable income to determine eligibility for the credit. The starting income definition is like the one used in Montana for the elderly homeowner and renter credit. Michigan then allows deductions from income for adjustments included on the federal tax return (student loan interest deduction, moving expenses, payments to an IRA, etc.) and medical insurance premiums paid during the tax year. Montana law provides for a \$12,600 reduction in income for all elderly homeowner and renter credit recipients.

Most Michigan credit claimants, other than those who are disabled, pay a copayment for the homestead credit. For taxpayers under age 65, the copayment is 40%. Taxpayers 65 or older pay a copayment that ranges from 0% to 40% based on adjusted household income.

All claimants with income above \$51,600 receive a smaller credit. The credit is reduced to 90% for income between \$51,601 and \$52,600 and is reduced by another 10% for each additional \$1,000 in income until the credit phases out completely at \$60,601.

For 2021, the credit is also limited to residences with a taxable value of \$136,600 or less. Residential taxable value is equivalent to 50% of the market value plus an annual increase of the lower of 5% or the rate of inflation (subject to additional increases for changes in ownership or improvements to the property).<sup>18</sup>

#### Example for taxpayer under 65 with \$40,000 income and \$2,500 taxes

$$\$40,000 * 3.2\% = \$1,280$$

$$\$2,500 - \$1,280 = \$1,220$$

$$\$1,220 * 60\% = \$732$$

$$\$732 * 100\% = \$732 \text{ credit}$$

<sup>18</sup> "FAQs," Garden City, Michigan website, available from <https://www.gardencitymi.org/Faq.aspx?QID=153>, accessed April 2, 2022.

## COMPARISON OF CIRCUIT BREAKERS AND DECISION TOOL

The following table is intended to assist the committee in designing a circuit breaker. Decision points are identified on each line with information included about Montana's elderly homeowner and renter credit, the introduced version of SB 10, and Michigan's Homestead Property Tax Credit.

Design Feature	Montana – 2EC	Montana - SB 10	Michigan Homestead Credit	Decision
Eligibility	Homeowners and renters age 62 or older	Homeowners and renters	Homeowners and renters	
Single-threshold or multiple-threshold	Multiple-threshold	Multiple-threshold	Multiple-threshold for taxpayers 65 and older or disabled, single-threshold for others	
Percentage of income used for relief calculation	\$0 - \$14,599: 0% \$14,600 - \$15,599: 0.6% \$15,600 - \$16,599: 1.6% \$16,600 - \$17,599: 2.4% \$17,600 - \$18,599: 2.8% \$18,600 - \$19,599: 3.2% \$19,600 - \$20,599: 3.5% \$20,600 - \$21,599: 3.9% \$21,600 - \$22,599: 4.2% \$22,600 - \$23,599: 4.5% \$23,600 - \$24,599: 4.8% \$24,600 and over: 5%	Threshold amounts apply to each income increment: \$0 to \$20,000: 2.1% \$20,001 to \$40,000: 5.3% \$40,001 to \$60,000: 8.5% \$60,001 to \$80,000: 11.7% \$80,001 to \$100,000: 14.9% Above \$100,000: 18.1%	<u>Under 65:</u> 3.2% <u>65+ or disabled:</u> \$3,000 or less: 0% \$3,001 - \$4,000: 1% \$4,001 - \$5,000: 2% \$5,001 - \$6,000: 3% More than \$6,000: 3.2%	

Design Feature	Montana – 2EC	Montana - SB 10	Michigan Homestead Credit	Decision
Definition of income	Very broad with \$12,600 adjustment	Very broad	Very broad with federal adjustments and reduction for medical insurance premiums	
Occupancy requirement	9 months in Montana, 6 months in eligible residence	9 months in Montana, 6 months in eligible residence	6 months	
Income limit	\$45,000	No limit	\$60,600	
Rent-equivalent property tax	15%	15%	23%	
Copayment	\$35,000 - \$37,500: 60% \$37,501 - \$40,000: 70% \$40,001 - \$42,500: 80% \$42,501 - \$44,999: 90%	25% (copayment is calculated on total property taxes not threshold amount)	<ul style="list-style-type: none"> <li>• 40% for taxpayers under 65</li> <li>• 0%-40% for taxpayer 65+ based on income</li> <li>• 0% for disabled</li> </ul>	
Phase-out		Occurs naturally based on credit formula	Credit amount reduced by 10% for each \$1,000 above \$51,600	
Maximum home value	No maximum	No maximum	Taxable value of \$136,600 or less	
Maximum credit	\$1,150	No maximum	\$1,500	
Interaction with other property tax relief	Property tax assistance programs available	Repeals other property tax assistance programs	Alternative credit available for veterans, active-duty military, blind	

	Montana – 2EC	Montana - SB 10	Michigan Homestead Credit	Decision
<b>Examples</b>				
<u><b>Example 1</b></u> Age: 65+ Income: \$29,000 Tax: \$1,500	\$680	\$228	\$389	
<u><b>Example 2</b></u> Age: Under 62 Income: \$18,000 Rent: \$6,000 (annual)	No credit	\$297	\$482	
<u><b>Example 3</b></u> Age: Under 62 Income: \$40,000 Tax: \$2,500	No credit	\$395	\$732	