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Expanding the Property Tax Circuit Breaker Program to Low-Income Families Raising Children

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A circuitbreaker is a state-finance property tax credit for which benefits are phased out as income increases. Its name derives from an analogy with an electrical circuitbreaker, which shuts off the flow of electricity when a system is overloaded. Likewise, when the ratio of property tax to income is too high, the circuitbreaker provides relief.

State Tax Relief for the Poor (2d ed.)

Summary

Connecticut's current circuit breaker program provides property tax relief to low-income elderly and disabled homeowners and renters. It does so through credits against the local property tax (for homeowners) and state grants (for renters). This short white paper makes the case for an expansion of the circuit breaker program to our lowest-income families with children who:

- Like low-income elderly and disabled persons, also face Connecticut's high housing costs with limited income;
- Like low-income elderly and disabled persons, have not benefited from recent expansions in the property tax credit against the state income tax (as they have no income tax liability);
- ***Unlike*** low-income elderly and disabled persons, also must pay (from their limited incomes) the additional expenses associated with child-rearing, yet benefit from no accommodation in our current tax code for these expenses (such as through dependent exemptions or deductions for child-rearing expenses).

The paper summarizes the current circuit breaker program (eligibility, levels of property tax relief, manner in which the relief is claimed by eligible applicants), then argues for expansion to low-income families with children as an essential tool in supporting our "working poor" families and summarizes what statutory changes would be necessary to expand the program to this equally-needy group.

What is the Property Tax Circuit Breaker Program?

Connecticut's current Circuit Breaker Program provides targeted **local property tax relief for certain low-income elderly or disabled residents**. It reduces the property tax burden on certain vulnerable, low-income persons, without depriving municipalities of needed revenue. The circuit breaker program has two components:

- **Homeowner's property tax credit.** The circuit breaker program offers property tax reductions to eligible low-income elderly and disabled homeowners through a credit against the local property tax bill. [CGS 12-170aa to 12-170cc]

- **Renter's relief.** The circuit breaker program also provides state grants that partially reimburse low-income elderly and disabled renters for the property taxes they have paid indirectly through their rent and utility bills. [CGS 12-170d to 12-170g]

For both the homeowner's credit and renter's grant, the amount of the benefit varies inversely with income – as income increases, the benefit decreases. The state reimburses towns for all property tax revenues lost through the credit and pays the state renter's grant directly to eligible recipients after the town submits the claim to OPM.[1]

Who Is Currently Eligible?[2]

The current circuit breaker program is limited to certain low-income elderly and disabled persons who have lived in the state for at least a year and are claiming the property tax relief for their primary residence. Specifically, the applicant must:

- be **elderly** (65 years of age or older; living with a spouse who is 65 or older; or at least 50 years of age and a surviving spouse of a person who at the time of his death was eligible for the program provided the surviving spouse was living with the recipient at the time of his/her death) or **totally disabled** (18 or older and permanently and totally disabled, as determined through eligibility for permanent total disability benefits under the Social Security Act or comparable programs);

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[1] The Connecticut General Statutes also authorize an optional municipal property tax relief program for elderly or permanently and totally disabled homeowners. CGS 12-129n. Towns can use tax abatements, tax deferrals, and tax freezes to provide relief and are granted the authority to set the maximum income level that is allowable to qualify for participation in the program. (Cheshire, for example, grants an abatement for eligible married couples with income under $36,300, while Orange sets its maximum income threshold at $28,900, the level set for state property tax relief). Towns may provide this optional relief to homeowners already receiving relief under the state-reimbursed circuit breaker program. CGS 12-170aa. Towns that provide relief under this statute, however, receive no state reimbursement for the tax revenue they forgo. See OLR Research Report, ***Elderly Property Tax Freeze*** [99-R-1075, January 28, 1999]; OLR Research Report, ***Optional Property Tax Relief in Five Towns*** [99-R-0277, February 11, 1999].

[2] The Office of Policy and Management administers the circuit breaker program, and provides comprehensive information about it (including a Question and Answer Booklet about the renter's tax relief program) on its website: http://www.opm.state.ct.us/igp/grants/RENTERS.htm.

- **have resided in Connecticut** for any one year prior to filing the claim and be residing in the state when filing the claim;

- be occupying the real property as his/her **primary place of residence**; and

- have **qualifying annual income** (in 1999) [3] of not more than $23,900 (for unmarried persons) or $29,300 (for married persons) for 1999.[4]

In addition, persons claiming the ***renter's grant*** must have received **no government aid or subsidy** (other than certain specified types of aid such as: Social Security Income, emergency energy assistance, Medicaid, Supplemental Security Income) that is to be used, directly or indirectly, for payment of rent and utilities for the residence for which the grant is claimed.

What Is "Qualifying Income"?

The circuit breaker program defines "qualifying income" broadly to include both taxable and non-taxable income. "Qualifying income" includes federal adjusted gross income ***plus*** all other taxable and non-taxable income not included in adjusted gross income. Examples of items that count as "qualifying income" include: wages and bonuses, tax-exempt interest payments, gross Social Security receipts and federal Supplemental Security Income benefits, IRA distributions, pensions, and alimony. Certain types of income, however, are specifically ***exempted*** from being counted as "qualifying income" including: Medicaid and other medical insurance benefits or reimbursements, food stamps, gifts or inheritances, energy assistance, AFDC payments, life insurance proceeds.[5] For married couples, income for both the husband and wife must be counted in establishing qualifying income.[6]

How Much Property Tax Relief Is Currently Provided?

Homeowner's credit. The amount of the homeowner's credit varies inversely with income and depends, as well, on the claimant's marital status and property tax liability. The property tax credit is equal to a specified percentage of the property tax, up to the maximum amounts shown on the table below. The maximum homeowner's credit possible is $1,250 for a married homeowner with income less than or equal to $11,900. The

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[3] "Qualifying income" is adjusted by October 1 of each year to reflect the Social Security inflation adjustment.

[4] This is the qualifying 1999 income for applications filed in 2000. For applications filed in 1999, yearly qualifying income in 1998 could not exceed $23,600 for unmarried persons and $28,900 for married couples.

[5] Office of Policy and Management, Question and Answer Booklet for the Elderly and Totally Disabled Renters' Tax Relief Program (April, 1999).

[6] Couples who are legally separated and maintaining separate residences can file as "unmarried;"each must file separate applications for their respective incomes and residences and each much qualify on his/her own circumstances. Couples who are not divorced and not legally separated but living apart may apply for the program provided they meet all other eligibility requirements. However, the expenses on only one residence may be considered and the income of **both** the husband and wife must be reported on the application form.

minimum credit is $100. The following table illustrates how the credit varies by income and marital status:

Homeowners Credit - Yearly Qualifying Income for Applications to be Filed in 2000 for 1999 Benefit Year				
Qualifying Income		**Tax Reduction as % of Property Tax**	**Tax Reduction for Any Year**	
Over	Not Exceeding		Maximum Credit	Minimum Credit
Married Homeowners				
$0	$11,900	50%	$1,250	$450
$11,900	$16,100	40%	$1,000	$350
$16,100	$20,000	30%	$ 750	$250
$20,000	$23,900	20%	$ 500	$150
$23,900	$29,300	10%	$ 250	$100
$29,300		None	None	None
Unmarried Homeowners				
$0	$11,900	40%	$1,000	$350
$11,900	$16,100	30%	$ 750	$250
$16,100	$20,000	20%	$ 500	$150
$20,000	$23,900	10%	$ 250	$100
$23,900		None	None	None
Source: CT General Assembly, Office of Fiscal Analysis, ***Connecticut Tax Expenditure Report*** (December, 1999); OPM October 15, 1999 Memorandum to Assessors and Directors of Social Services, ***Qualifying Income –Tax Relief Programs***. NOTE: Since 1998, the income ranges have been expanded (the 1998 credit phased out at $28,900). The minimum credit for both married and unmarried homeowners was increased since 1998; the maximum credit did not change. Note that the 1999 Tax Expenditure Report shows this change for married homeowners, but shows that the income ranges ***declined*** for unmarried homeowners.				

For example, a single homeowner earning between $16,100 and $20,800 will receive a 20% credit against their property taxes, which could mean anything from a minimum of a $150 credit to a maximum of a $500 credit depending on her property tax liability.

In 1998, 46,954 homeowners applied for the credit. The average credit received was $479. The cost to the state for reimbursements to the towns was $22.49 million.

Renter's grant. Eligible low-income elderly and disabled renters[7] are entitled to a state grant that is based on the percent of their rent that is considered to be paid toward property taxes. The grant is equal to the ***lesser*** of: 1) 35% of the amount the claimant paid for rent, electricity, gas, water and fuel used during the preceding calendar year less 5% of

[7] OPM defines a "rental unit" to include any property that is not owned by a claimant that is occupied as his/her primary residence or home, by virtue of an oral or written lease. OPM includes the following as examples of rental property: apartments, cooperatives, land lease for mobile homes, condominiums, hotel/motel rooms, boarding houses, nursing homes or convalescent hospitals. How "rent and utility" charges are calculated differ depending on the type of rental housing; OPM provides guidance in its 1999 ***Question and Answer Booklet for the Elderly and Totally Disabled Renters' Tax Relief Program.***

his/her qualifying income, OR 2) the maximum grant amount on the following table, OR 3) the minimum grant amount in the following table:

Renters Grant - Yearly Qualifying Income for Applications to be Filed in 2000 for 1999 Benefit Year			
Qualifying Income		**Amount of Grant**	
Over	Not Exceeding	Maximum	Minimum
Married Renters			
$0	$11,900	$900	$400
$11,900	$16,100	$700	$300
$16,100	$20,000	$500	$200
$20,000	$23,900	$250	$100
$23,900	$29,300	$150	$ 50
$29,300		None	None
Unmarried Renters			
$0	$11,900	$700	$300
$11,900	$16,100	$500	$200
$16,100	$20,000	$250	$100
$20,000	$23,900	$150	$ 50
$23,900		None	None
Source: OPM October 15, 1999 Memorandum to Assessors and Directors of Social Services, ***Qualifying Income –Tax Relief Programs***. Note: Although the income ranges were increased for the renter's grant, as they were for the homeowner's credit, the minimum renter's grant was ***not*** increased since 1998 as the minimum homeowner's credit was.			

No credit is available if 5% of the claimant's qualifying income ***exceeds*** 35% of the claimant's total rent and utility payments. Rent and utility costs are to be apportioned if the claimant shares expenses with another person, or rented in Connecticut for only part of the calendar year.

In 1998, 27,039 renters applied for the grants. The average renters' grant payment was $394. The total cost to the state of these grants was $10.67 million.

How Does Someone Apply For the Credit/Grant?

Homeowners apply for the property tax credit with the assessor of the towns in which they reside at any time from February 1 through May 15. Reapplication is required every two years.

Renters must apply to the town assessor or the designated town agent between May 15 and September 15. Renters must apply for tax relief on an annual basis.

The statutes define what types of documents are needed by applicants to prove their qualifying income and, for renters, their rental and utility expenses.

Why Is It Essential That We Expand The Circuit Breaker Program To Low-Income Families Raising Children?

Just like the state's low-income elderly and disabled residents, Connecticut's low-income families who are raising children have great difficulty making ends meet. Their need for property tax relief is no less than the need of the state's low-income elderly and disabled residents for the following reasons:

- **Housing costs in Connecticut are high, particularly for rental housing that can accommodate a family with children.** Connecticut's rental housing costs place particular strain on our lowest-income families with children. The Social State of Connecticut 1999 reports that Connecticut has one of the most expensive rental markets in the nation; the income needed to afford a one-bedroom apartment in Connecticut is $24,344 and the income needed to afford a two-bedroom apartment is $30,341. The property tax circuit breaker can help reduce these housing costs, making housing affordable at lower income levels.

- **Children are invisible in Connecticut's tax code**. The monetary investments that families make to meet the essential needs of their children go unrecognized in our state tax code; our income tax code has no exemptions for children and no deductions for child-rearing expenses. While this presents a challenge to low-income families with children generally, it presents a particular challenge to those families who are moving off of cash assistance. Though they remain liable for all their housing expenses, they have new work-related expenses to bear – for child care, for transportation. Yet, our tax code makes no adjustment to assist these low-income families in meeting their child-rearing expenses. A circuit breaker would help reduce a family's housing expenses.

- **Connecticut's property taxes are regressive**. A 1995 analysis of state and local tax burden in Connecticut found that the state's poorest 20% of families paid about 6% of their income in property taxes, while the most wealthy 1% of Connecticut families paid only 1.6% of their income in property taxes.[8] Expansion of the circuit breaker to low income families with children would enhance the progressivity of our tax system.

- **Property taxes are not adjusted to accommodate any decline in income a young family raising children may face.** Low-income families raising children have few assets; they have little to cushion them against financial downturns. Parents who have been displaced from manufacturing jobs and moved into lower-paying service sector jobs, or were able to find only work that was part-time or part-year, face particular challenge in meeting their housing costs; their property taxes remain constant even though their income declined. Expansion of the circuit breaker provides some cushion against such downturns.

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[8] Citizens for Tax Justice & The Institute on Taxation & Economic Policy, ***Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*** (June, 1996).

- **Our lowest income families with children have not benefited from recent property tax relief** . While our lowest income families do not pay state income tax, they all pay local property tax - either directly if homeowners, or indirectly through rent. The current and recently expanded property tax credit against the state income tax provides ***no*** benefit to our lower income families raising children, as they have no income tax liability. Expansion of the circuit breaker allows our lowest income families with children to share in the state's initiative to provide property tax relief.

Why Provide Property Tax Relief Through An Expansion Of The Property Tax Circuit Breaker Program?

Connecticut's circuit breaker program is a well-established, economically-efficient program to target property tax relief to some of the state's most vulnerable low-income residents. Expansion of the program to families raising children is a logical next step in mitigating the impact of Connecticut's relatively high property taxes on our lowest income families. No new administrative structures are needed to implement this expansion. The state needs only to expand the category of eligible persons to include families raising children who have similarly low-income.

At least nine states, including Maine, Maryland, New York, and Vermont, have expanded their circuit breaker programs to lower-income homeowners and renters of all ages (not only elderly and disabled). [Gold & Liebschutz, 1996].

What Are The Key Issues In Expanding Connecticut's Property Tax Circuit Breaker Program To Low-Income Families Raising Children?

The following amendments are necessary to the Connecticut statutes authorizing the homeowner's credit and the renter's grant:

- **Eligible persons.** Expand the categories of persons eligible for the circuit breaker credit to include a parent(s) or legal guardian(s) of at least one dependent child under age 18 who is residing together with the children in the home for which property tax relief is sought. The same income guidelines and residency requirements would apply. Suggested text:

  For renters: Amend CGS 12-170d(a)(1) by adding a subsection (C):
  At the close of the calendar year for which a grant is to be claimed be the parent or legal guardian of a child under the age of 18 and be residing together with that child in the home for which the grant is claimed.

  For homeowners: Amend CGS 12-170aa(b)(1) to add a subsection (C):
  At the close of the preceding calendar year be the parent or legal guardian of a child under the age of 18 and be residing together with that child in the home for which the reduction in property tax is claimed.

- **Qualifying income exclusions.** Exclude from what is included as "qualifying income" (in CGS 12-170d(a)(3) for renters and CGS 12-170aa(b)(1) for homeowners): "any Medicaid or other medical assistance payments made on behalf of the child(ren)" of the claimant.

  Rationale. Current law excludes Medicaid payments made on behalf of the homeowner/renter or his/her spouse. Medical assistance benefits paid on account of the children should also be excluded from "qualifying income."

- **Government assistance that a renter may receive and not be disqualified from renter's relief.** For the renter's grant program (CGS 12-170d(a)(4), add to the types of government assistance that may be received and not disqualify the renter from the grant: "child care assistance" and "transportation assistance" as follows:

  "…***(4) shall not have received financial aid or subsidy from federal, state, county or municipal funds, excluding Social Security receipts, emergency energy assistance under any state program….subsidized housing accommodations, AND CHILD CARE AND TRANSPORTATION ASSISTANCE, during the calendar year for which is grant is claimed, for payment, directly or indirectly, of rent, electricity, gas, water, and fuel applicable to the rented residence.***

  Rationale: Child care and transportation assistance are targeted assistance programs that are being provided to families raising children to enable them to transition off and remain off cash assistance. They should not be included as a financial aid or subsidy that disqualifies from the property tax circuit breaker program.

For the renter's grant program [CGS 12-170d(a)], the statute should be further amended to allow parents/guardians with minor children to receive some cash assistance from the Department of Social Services in the calendar year prior to the year in which the renter files an application for a grant and still remain eligible for the renter's grant. To avoid double payment, renter's grants can be reduced by the amount of the housing assistance actually received and funds attributable to such grant reductions can then be transferred annually from OPM to DSS, as appropriate.

Rationale: Families who are moving off Temporary Family Assistance are very vulnerable economically. On average, their wages are not much above the cash assistance grant, and they are incurring additional work-related expenses. If receipt of TFA benefits in the year preceding a claim for a renter's grant totally disqualifies a low-income family with children from eligibility for the grant, families with children who are the most vulnerable economically will not receive this assistance. Even a single month of TFA benefits would act to disqualify the family from circuit breaker relief for an

entire year. Reducing the renter's grant by the housing assistance received is fairer than circuit breaker eligibility for an entire year.

Sources

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