

Using the American Community Survey in Fiscal Impact Analysis: The Property Tax Circuit Breaker

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What is a Property Tax Circuit Breaker?

1. A tax policy designed to reduce property tax burdens for taxpayers with a high property tax-to-income ratio.
2. Typically includes a maximum percentage of income above which a qualifying filer is not expected to pay in property taxes; if this limit is exceeded, taxpayer receives a credit or rebate.
3. Currently 17 states and the District of Columbia have a circuit breaker program.



D.C.'s Property Tax Circuit Breaker – Parameters

1. Eligibility

- All ages (different formula for elderly, blind, and disabled)
- Owners and renters (15% of rent=property tax equivalent)

2. Structure

- Income (household) ceiling of \$20,000;
- Maximum benefit of \$750;
- Credit varies based on income, age, and disability status; and
- Applied as a refundable income tax credit.
- Parameters have not changed since 1978 when the program started.



D.C.'s Property Tax Circuit Breaker – Credit Formula

Household Income	Credit Formula
<i>Claimants less than 62 who are not blind or disabled</i>	
Less than \$2,999	95 percent of tax in excess of 1.5% of income
\$3,000 to \$4,999	75 percent of tax in excess of 2.0% of income
\$5,000 to \$6,999	75 percent of tax in excess of 2.5% of income
\$7,000 to \$9,999	75 percent of tax in excess of 3.0% of income
\$10,000 to \$14,999	75 percent of tax in excess of 3.5% of income
\$15,000 to \$20,000	75 percent of tax in excess of 4.0% of income
<i>Claimants 62 or older or who are blind or disabled</i>	
Less than \$4,999	100 percent of tax in excess of 1.0% of income
\$5,000 to \$9,999	100 percent of tax in excess of 1.5% of income
\$10,000 to \$14,999	100 percent of tax in excess of 2.0% of income
\$15,000 to \$20,000	100 percent of tax in excess of 2.5% of income



Illustration of D.C.'s Property Tax Circuit Breaker

A non-elderly, non-disabled taxpayer in D.C. rents an apartment for \$9,000 per year and has an annual household income of \$18,000.

Step 1: Determine "Property Tax Rent Equivalent"

- Property Tax Rent Equivalent is 15% in D.C.
- Thus, this taxpayer is assumed to pay \$1,350 in property taxes ($\$9,000 \times 15\%$).

Step 2: Calculate "excess" property tax burden

- Property Tax – (4% of Income) = Excess
- $\$1,350 - \$720 = \$630$

Step 3: Calculate circuit breaker credit

- 75% of \$630 = **\$473** in the form of refundable income tax credit

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D.C.'s Property Tax Circuit Breaker: Snapshot (TY 2007)

Number of Filers Claiming Credit – 7,209

Under 62 years of age – 5,218 or 72% of total

Age 62 or older – 1,991 or 28% of total

Total Value of Credits Claimed - \$3.8 million

This is 0.9% of total residential real property tax liability

Number Claiming Maximum Credit – 2,477 (34% of total)

Renter vs. Owner Claimants – 86% vs. 14%

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Estimating the Fiscal Impact of Changes to the Circuit Breaker

1. The Issue:

- D.C. income and property tax files are not linked.
- Even if income and property files were linked, tax files do not contain data on rents.
- Thus, we do not know the eligible universe and we cannot estimate the cost of changes from tax files.

2. The Answer?

- The American Community Survey (ACS)



Understanding the ACS

What is the ACS?

- U.S. Census Bureau, largest annual demographic survey
- Provides reliable single-year estimates at the state level
- Survey of approximately 3 million addresses, designed to replace traditional decennial census long form
- Includes data on income, property taxes, ownership status, and demographic characteristics of residents

What are limits of ACS?

- All data are self-reported
- Property tax data are categorical
- ACS unit of analysis=household; tax data unit=filer



Estimating Participation in the D.C. Circuit Breaker Program

Eligible Universe – ACS			
Household Income	Owners	Renters	TOTAL
<= \$20,000	8,054	38,722	46,776
Actual Participation – D.C. Schedule H			
Household Income	Owners	Renters	TOTAL
<= \$20,000	1,143	6,066	7,209
Implied Take-Up	14.2%	15.7%	15.4%

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Modeling Changes Using the ACS

Options for the D.C. Circuit Breaker Program

- Baseline assumptions for options:
 - Calculation of “excess” burden is 3.0% of income
 - Credit is 100% of excess above 3.0% of income
 - Property tax rent equivalent is 15%
 - Participation rate is conservatively estimated at 25%
 - Credit is same for all ages and disability status
- Options:
 - Increase income limit
 - Increase maximum credit

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Estimating Costs in the D.C. Circuit Breaker Program

Income Limit	Maximum Credit	Eligible Households	Estimated Total Cost	Estimated Incremental Cost
\$30,000	\$750	62,596	\$8.6 million	\$4.8 million
\$30,000	\$1,000	62,596	\$10.4 million	\$6.6 million
\$40,000	\$750	80,200	\$10.9 million	\$7.1 million
\$40,000	\$1,000	80,200	\$13.2 million	\$9.4 million
\$50,000	\$750	92,216	\$12.4 million	\$8.6 million
\$50,000	\$1,000	92,216	\$14.8 million	\$11.0 million

