



## Why "Circuit Breakers" are the Way to Control Property Taxes

by Dick Lavine

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### What is a property tax circuit breaker?

A circuit breaker is a targeted property tax reduction program that operates like an electric circuit breaker, which cuts off the flow of current before an electrical surge can cause damage. Circuit breaker programs account for our ability to pay when calculating a property tax bill and reduce property taxes that exceed a certain percentage of our income.

Texas has no circuit breaker, which means that the property taxes someone owes on a home can rise faster than the homeowner's ability to pay them. A taxpayer who suddenly becomes unemployed may find that their property tax bill is unchanged, even though their ability to pay it is greatly reduced.

Policymakers can target circuit breakers to people who have the most difficulty paying property taxes and reduce their tax liability to a manageable level. Because of this careful focus, circuit breaker programs cost far less than across-the-board rate reductions or increases in exemptions.

Texas should consider adopting this efficient means of easing property taxes for those who can least afford to pay them.

Many factors should be considered when designing a circuit breaker program. Let's examine variations among several states' thresholds for triggering the circuit breaker and how they administer their programs.

### *Property-Tax Circuit Breakers*



A property-tax circuit breaker reduces property taxes that exceed a certain percentage of someone's income.

Circuit breaker programs account for people's ability to pay when calculating a property tax bill and cost far less than across-the-board rate reductions or increases in exemptions.

### How does a circuit breaker work?

Most states offer some form of circuit breaker. Each state's design varies among these elements:

Threshold percentage of income. Policymakers must set the percentage of household income over which circuit breaker protection takes effect. According to the Comptroller's tax incidence study, the average Texas household pays about 2.4 percent of its income in school property taxes, accounting for about half of total property taxes. Therefore, a cut-off level of five percent of annual income might be reasonable.

Absorption over limit. Although some states forgive the total amount by which property taxes exceed the income threshold, others reduce the tax bill by only a percentage of the excess. The absorption percentage can be done on a sliding scale, with a greater portion absorbed if the tax bill is much greater than the threshold percentage.

Maximum income level. Some states limit participation in circuit breaker programs to households with very low incomes. Others, like Michigan and Maryland, cover homeowners with incomes up to \$60,000. Some states index the income cut-off for inflation, to avoid having eligibility for the program erode over time.

Maximum credit. The maximum credit varies widely: \$2,770 in Minnesota and \$650 in Pennsylvania.

Renters. Most states with circuit breakers offer protection to both homeowners and renters. Renters pay property taxes indirectly. Their landlords initially pay the taxes on the property, then pass the cost of the taxes on to their tenants through higher rents. Many states estimate that 15 percent to 25 percent of rent is actually passed-on property taxes.

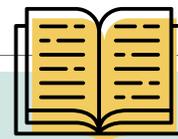
Percentage of total tax collections returned. States vary widely in their fiscal commitments to circuit breaker programs. Some states have rebated as much as six percent of property tax collections.

## How to administer a circuit breaker

Half of the states with circuit breakers administer them as part of their income tax or property tax systems, while the other half operate a separate, stand-alone rebate process. With the stand-alone program, people must apply for a rebate check, administered separately from any tax collection system. The disadvantage of this procedure is that only a portion of eligible residents participate.

Because Texas lacks a state personal income tax, a circuit breaker program here must operate as a rebate program or a credit against future property tax bills. Applicants would attach a copy of their federal income tax returns or other income-related document, along with an affidavit affirming that their income information is true and correct, subject to perjury penalties.

A circuit breaker program is an efficient way to target property tax reductions. The Legislature would benefit from a comprehensive study of alternative ways to best structure such a program to fit Texas.



### For more information:

- <https://itep.sfo2.digitaloceanspaces.com/092619-Property-Tax-Circuit-Breakers.pdf>
- <https://www.lincolnst.edu/publications/articles/property-tax-relief>
- <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs>