Property tax relief for income-qualified homeowners overview

Property taxes are based on property values and so can go up regardless of the taxpayers' ability to pay.\footnote{1} In the case of homeowners, rising property taxes can be an obstacle to housing affordability and stability.\footnote{2}

In changing neighborhoods with rapidly rising property values, long-time homeowners, including those who own their home outright, may face displacement or tax foreclosure due to rising property tax bills. In the case of rental units, rising taxes can also lead landlords to raise rents, again potentially displacing older adults and other households with limited means.

A tool used in a number of jurisdictions for mitigating these effects on those with limited incomes is the property tax "circuit breaker" which caps the amount of property tax that homeowners have to pay as a share of their income, much like the electric circuit breaker which provides protection against overloading an electrical system.\footnote{3} Some jurisdictions also provide relief to lower-income renters by treating some portion of their rent as attributable to property taxes and then providing an income tax credit to offset the imputed "overload." In addition to basing the benefit on income, eligibility for circuit breakers can also be restricted to specific populations such as seniors, disabled persons, and/or veterans.

To provide property tax exemptions localities generally require specific state authorization and in many cases the state also administers and funds these programs. State involvement can also facilitate the determination of the taxpayer’s income, particularly if the state has an income tax. In some cases, localities have some flexibility to adjust eligibility criteria and the amount of the tax relief, but this may also mean that the locality has to pick up some or all of the tab.

- Not covered in this brief are ways to reduce the relative tax burden on residential properties such as by taxing different types of property at different effective tax rates, providing a homestead exemption based simply on a percent of a property’s value, or capping the rate at which a locality can grow its property tax revenue. Unless the state picks up the tab from non-PT revenue, reducing the property tax burden on one type of property necessarily raises the burden on the other types.
A primary concern about property taxes is that, because they are based on property values, they can, in effect, impose a higher effective tax burden on those with lower incomes than on those with higher incomes. A 2015 analysis by the Institute on Taxation and Economic Policy (ITEP) found that nationwide, the poorest twenty percent of Americans paid 3.6 percent of their income in property taxes, compared to 2.6 percent of income for middle-income taxpayers and 0.7 percent of income for the wealthiest 1 percent of Americans. Home values are higher percentage of income for low-income families than for the wealthy. See here. Economists now treat it as a tax on capital and so view it as progressive. See Kenyon, Daphne A., The Property Tax-School Dilemma, Policy Focus Report, Lincoln Institute of Land Policy (2007) p. 35-36.↑

In 2017, 14 states and DC offered property tax circuit breaker programs. Another 15 states provide property tax credits to some low-income families based on their income without taking into account the share of income going to property taxes. See ITEP, “Property Tax Circuit Breakers in 2017,” Policy Brief, September 2017, p.1.↑