Importance of the Property Tax

The property tax is an important source of revenue for local government. The property tax:

- Generates approximately one-third of local revenues nationwide, and more than half of revenue in 5 states;
- Funds services most important and visible to most taxpayers – schools, police, fire, EMTs, parks, etc.

Demands for local services have increased as the result of COVID, placing additional strain on local budgets.
Property taxes are based on the value of the home and are not directly related to a taxpayer’s current income and ability to pay.

This is different from other taxes:
- Decreases in income result in a proportionate reduction in income taxes.
- Taxpayers can curb their purchases to avoid paying sales taxes.
- Property tax bills remains the same regardless of changes in the taxpayer’s income.

This issue is likely to be magnified as many taxpayer’s struggle with the economic impact of COVID.
To preserve revenue for essential services, property tax relief measures must:
- Target relief to those most in need;
- Specifically address the financial challenges faced by taxpayers.

AARP's model property tax relief measures were designed with these objectives in mind:
- **Circuit breaker** - directs relief to seniors with the highest tax burden relative to their incomes;
- **Tax deferral** - allows seniors to defer paying some portion of their property taxes until they sell their home or die;
- **Monthly tax bills** - eliminates the large, lump sum payments for property taxes while providing a more consistent cash flow for local governments.
Circuit Breakers

Overview

- Circuit breakers are “tripped” when the level of property taxes exceeds a set percentage of income.
- Relief is targeted to households with highest tax burdens relative to income.
- **Cost-effective** because they only provide relief to households with the lowest ability to pay.
- Over 30 states have circuit breaker programs.
Circuit Breaker

Model Legislation Components

- Qualification
  - Age 65 or older
  - Owns or rents property as their principal residence

- Threshold
  - Property taxes exceed 10% of income
  - For renters, property taxes are set at 25% of total rent

- Copayment
  - Tax credit is equal to 75% amount above threshold

- Protections
  - Limits the value of the home that qualifies
  - Limits relief to one residence per taxpayer
  - Excludes any rental assistance or subsidies from the property tax component of rent
Property Tax Deferral

Overview

- Tax deferrals allow seniors to use the equity in their home to defer paying their property taxes until they sell their home or die.
- No long-term cost to other taxpayers since the tax is repaid when the property is sold or transferred.
- Precludes the possibility of long-time homeowners being forced out of their home due to rising taxes.
- Over 20 states have deferral programs.
- Participation in deferral programs can be increased by:
  - raising public awareness through outreach and advertising;
  - streamlining application processes;
  - and offering low interest rates.
Model Legislation Components

Property Tax Deferral

- Qualification
  - Age 65 or over
  - Own a home for 5 or more years and use it for their principal residence
- Local Option, not a requirement
- Deferral Mechanism Deferred taxes accrue interest at a rate of 4% a year, or at different rate set by the jurisdiction at their option.
  - Deferred taxes are repaid when:
    - The taxpayer dies;
    - Some person other than the taxpayer becomes owner;
    - The taxpayer no longer occupies the property.
- Taxes may be deferred until the deferred amount plus any mortgage balance reaches 60% of the property’s value.

<table>
<thead>
<tr>
<th>Assessed Value</th>
<th>$500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferral Limit</td>
<td>60%</td>
</tr>
<tr>
<td>Maximum Deferral Amount</td>
<td>$300,000</td>
</tr>
</tbody>
</table>
Overview

▪ Lump sum property tax payments create several issues, including:
  - Many homeowners can’t afford to pay an annual or semiannual property tax bill out of their monthly cash flow.
  - Increases property tax delinquency.
  - Feeds political opposition to the property tax and erodes municipal fiscal health.

▪ Unlike most bills which are paid monthly, the property tax is paid in one or two large lump sums annually.
Allows tax bills to include an option to either pay in full or in monthly installments.

Automatically enrolls taxpayers in the monthly installment plan when they make their first monthly payment. *No application is required.*

Maintains collection rates by making the entire tax due when a taxpayer misses two monthly payments.

Encourages convenience of automated monthly transfers from taxpayer’s checking or savings account by allowing government to absorb transaction fees.

Local option – not a requirement.
Family Caregivers

The Importance of a Family Caregiver Tax Credit

760,000 Family Caregivers in Alabama

640 Million Hours Unpaid Family Care

$11.15 economic value per hour

$7.1 billion total economic value

aarp.org/valuing 2019
The Importance of a Family Caregiver Tax Credit

FAMILY CAREGIVING TAKES A FINANCIAL TOLL

$6,954
Average Out-of-Pocket Expenses for Family Caregivers in 2016

$11,923
Average Out-of-Pocket Expenses for Long-Distance Caregivers in 2016

Family Caregivers in the U.S. Provide $470 Billion in Unpaid Care

More than three in four family caregivers (78%) are incurring out-of-pocket costs as a result of caregiving

78%

Family caregivers are spending, on average, nearly 20% of their income on caregiving activities

20%

Source: Family Caregiving and Out-of-Pocket Costs: 2016 Report aarp.org/caregivercosts
Non-refundable credit of 50% of eligible expenses, up to a $1,000 maximum credit. Can be taken yearly.

Broad definition of eligible expenses such as home improvements, assistive equipment, home care aides, respite care, assistive technology, etc.

Broad definition of care recipient, including a spouse, parent, in-laws, or other relation by blood or marriage.

Eligible family caregivers must earn less than $75,000 for an individual or $150,000 for a couple.

Details of legislation can be changed to fit the needs of an individual state.
QUESTIONS

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