

May 11, 2011

To: Joint Finance Committee

From: Ken Taylor, Executive Director, Wisconsin Council on Children and Families
Helen Marks Dicks, Advocacy Director – State Issues, AARP Wisconsin
Nino Amato, Executive Director, Coalition of Wisconsin Aging Groups
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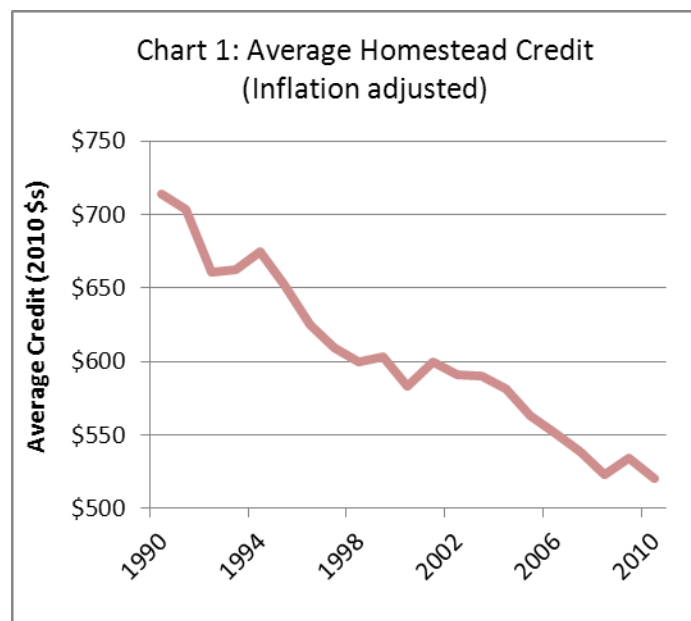
Re: Budget Paper #605 – Homestead Tax Credit Formula: Continue Indexing the Credit

We urge the Joint Finance Committee to retain indexing of the Homestead Tax Credit formula, so the credit formula is adjusted annually for inflation. This credit is an extremely important and well-targeted form of property tax relief, but before indexing was approved in the last biennial budget bill (taking effect in tax year 2010), the maximum size of the credit had not been increased since 1991. During that period from 1991 to 2010, the maximum credit lost 37 percent of its value.

Recommendations: In light of the long erosion of the credit, we strongly recommend alternative 3, which would retain indexing. As Table 1 in the LFB paper shows, that alternative would prevent a drop in the credit of \$3.1 million in 2011-12 and \$10.5 million in 2012-13. The net cost of alternative 3 is \$7.7 million, relative to the Governor’s budget.

We realize that the state’s budget situation makes it difficult to adopt items with a fiscal cost in this biennium, but we are optimistic that new revenue estimates for the current fiscal year and next biennium will provide room for some funding increases. However, if the funding for alternative 3 cannot be found, we recommend that you suspend rather than repeal indexing. Suspending indexing for even a year would lower the program’s cost to a biennial total that is close to the funding level contained in the budget bill.

Discussion: As the chart illustrates, the failure to adjust the Homestead credit for inflation has resulted in a 27 percent drop in the value of the average credit since 1990.



(Source: Wisconsin Budget Project analysis of DOR data)

The Wisconsin Budget Project's analysis of program trends and the effects of inflation on the credit also reveals the following:

- The inflation-adjusted value of the maximum credit has declined by \$689, or 37%, since 1991.
- Despite Wisconsin's growing population, the number of credits is down 22% since 1980 because inflation has made fewer people eligible.
- Inflation-adjusted state spending for the program has dropped by 48 percent since its peak in 1980.

The Homestead credit is one of the only significant parts of the Wisconsin tax code that isn't indexed for inflation. Like the income tax code, **the Homestead Credit formula should be adjusted for inflation to stop future erosion of this very important program.**