WISCONSIN BUDGET PROJECT

An Initiative of the Wisconsin Council on Children and Families

A Hidden Property Tax Hike for Seniors

Working families and the elderly will be hit with a $14 million property tax increase over the next two years, and see their taxes continue to rise in later years, thanks to the Legislature's decision to effectively freeze the Homestead Credit for modest-income homeowners and renters. The credit will no longer keep pace with the cost of living, reducing its value and driving up property tax bills for thousands of Wisconsinites.

Older men and women will be particularly hard hit, with many facing a 28 percent drop in their credit between tax years 2011 and 2016, and may be driven out of their homes by the change.

At the same time that lawmakers were raising taxes on working-class women and men, they were passing out tax breaks to the better-off. The Legislature budgeted $131 million for the Homestead Credit in 2012 and $129 million in 2013, while approving tax cuts totaling $210 million over the same period that will primarily benefit corporations and upper-income taxpayers.

Seniors — particularly those living solely on income from Social Security — will suffer the most. In 2010, nearly a third of those receiving the credit were 66 years old or older. One out of ten seniors in the state, or more than 75,000 older Wisconsinites, benefit. More than half of all people who use the credit earn less than $15,000 a year, according to the state's Department of Revenue.

Wisconsin has been down this road before, and the consequences were clear. During the period between 1991 and 2009, the maximum credit lost 37 percent of its value, prompting the Legislature to begin adjusting the formula for inflation for the first time in the 2009-2011 budget.

A Formula for Falling Behind

The erosion of the Homestead Credit is an example of how failing to account for even small increases in the cost of living can harm such services in a big way.

The Homestead Credit uses a formula to cap the share of income a person has to pay in property taxes and to determine how large a credit someone gets. By removing inflation from the formula, the Legislature has essentially frozen it again.

As living costs rise, the credit will continue to lose value each year, and the amount of property tax paid by seniors and working-class people will increase. In this two-year budget period alone, the change means they will pay $14 million more in property tax than they would have otherwise.

The Homestead Credit reduces individual income tax liability. If the credit is more than the filer's income tax liability, the state cuts the filer a check for the difference.

Elderly Take a Big Hit

The typical property tax credit for men and women relying on Social Security has already plunged in recent years, and by freezing the formula, the Legislature has locked in property tax increases for future years as well.

Social Security benefits are adjusted to keep up with inflation, meaning recipients receive small increases most years. Due to the way the Homestead Credit is calculated, and because the formula will no longer be adjusted for inflation, those small increases can cause the property tax credit for an individual to drop

Jon Peacock, Project Director • Ken Taylor, Executive Director, WCCF
Supported by the Annie E. Casey Foundation
555 West Washington Avenue, Suite 200 • Madison, WI 53703 • (608) 284-0580
www.wisconsinbudgetproject.org. www.wisconsinbudgetproject.blogspot.com

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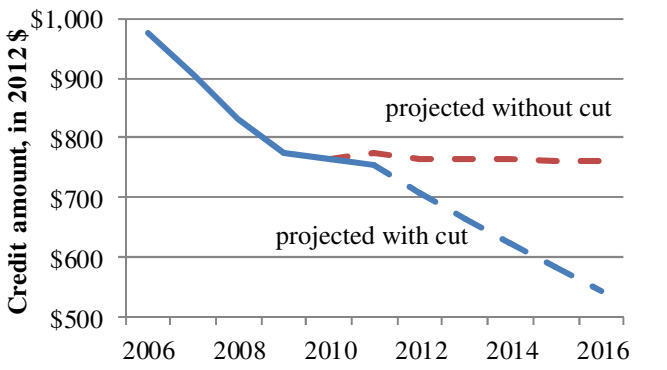
considerably over a few years. For more than half of seniors receiving Social Security, that federal benefit is their main source of cash income, according to the Center on Budget and Policy Priorities. For one in six seniors receiving Social Security, it is their *only* cash income.

If current trends hold, a person relying on Social Security can expect his or her Homestead Credit to be $144 lower in 2016 than in 2011, or $209 lower when measured in 2012 dollars,[1] a decrease of 28 percent. This drop is largely due to the formula freeze (see Chart 1). This translates into a total of $644 more in property taxes he or she will have to pay over the next five years (tax years 2012 through 2016). And for someone mostly or totally reliant on Social Security, every penny counts.

Chart 1: Change by Legislature Means Relief for People Living on Social Security to Continues to Shrink

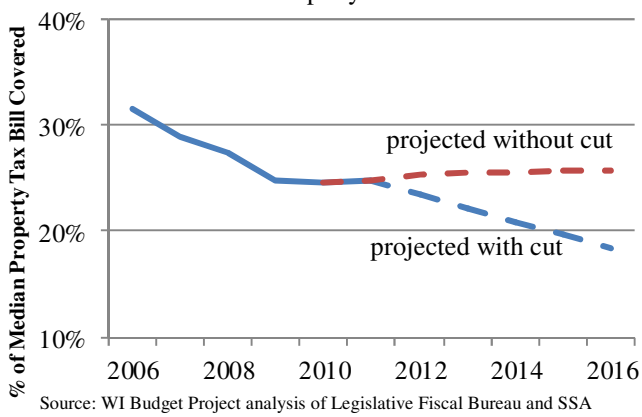


Source: WI Budget Project analysis of Social Security Administration (SSA) figures

Twenty years ago, a person living solely on a Social Security benefit could expect a property tax credit with a value (in current dollars) more than two and a half times as large as the 2011 credit. This decrease means that a person living on Social Security has paid a total of nearly $12,500 more in property taxes over the last 20 years than he or she would if the formula had been adjusted to keep up with the cost of living.

In 1992, a person living on Social Security could expect to have nearly three-fifths of his or her property tax bill covered by the credit. Based on current trends, the share of property tax that the Homestead Credit covers will drop to 18 percent in 2016 from 25 percent in 2011 for a person living only on Social Security and who has a typical property tax bill. Without the freeze, the percentage of property tax covered by the credit would stay constant in the coming years, as shown in Chart 2.

Chart 2: Credit Covers a Diminishing Share of Property Tax Bill



Source: WI Budget Project analysis of Legislative Fiscal Bureau and SSA figures, based on property taxes for a median value home, and average Social

Increase in Property Tax Snowballs with Time

Some legislators claimed that the two-year budget passed last year included no tax increases. But freezing the Homestead Credit means that working class and elderly owners and renters will pay more in property taxes, and some of these individuals will become completely ineligible for the credit.

The cuts to the credit will compound over time. As seniors relying on Social Security receive modest increases in their benefits to keep up with inflation, their property tax credits will drop. The resulting increase in property taxes will mean an increase in their overall taxes and could force many out of their homes.

Tamarine Cornelius
February 1, 2012

[1] Projections are based on an individual who receives the average Social Security benefit, has no other income, and who owns a typically-valued home. Projections for future years assume that Social Security cost of living adjustments, property taxes for a typically-valued home, and inflation will increase at the same rate as the average of the past ten years.