



A Tale of Two Tax Credits: Lawmakers' Priorities for Property Tax Cuts Favor Wealthy

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If state lawmakers want to cut property taxes, they should prioritize tax cuts aimed at Wisconsin residents who pay high property taxes relative to their incomes. Instead, Governor Walker has asked the Legislature to increase a property tax credit whose beneficiaries include profitable corporations, wealthy individuals, and Wisconsin property owners who live out of state.

That proposal stands in contrast with the Legislature's reduction of another property tax credit, this one designed to keep taxes affordable for people with low incomes. To deliver effective tax relief to those who need it the most, lawmakers should reverse that decision and reject the governor's proposal.

GOVERNOR PROPOSES A BOOST TO A PROPERTY TAX CUT THAT DISREGARDS NEED

The Governor has proposed cutting property taxes in the next budget period by increasing state spending on the School Levy Credit by \$211 million over two years. Money for this tax credit goes to municipalities and is then passed through to individuals and businesses as a credit on their property tax bills.

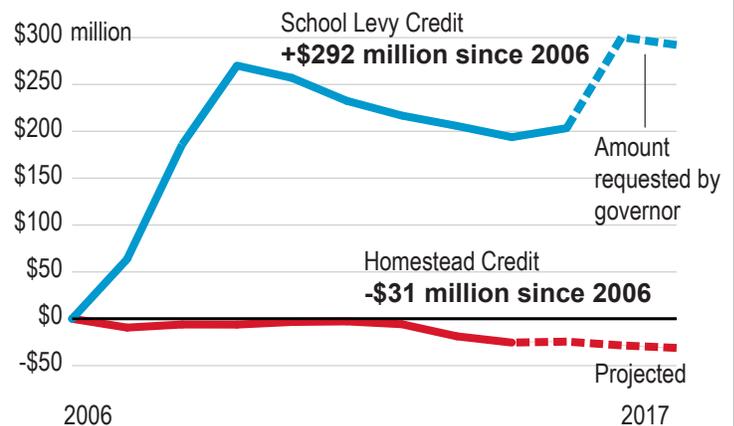
Spending for the School Levy Credit has risen significantly over the last decade. If lawmakers follow Governor Walker's recommendation, they will have increased the School Levy Credit by \$283 million over its 2006 level when inflation is taken into account. That's an increase of 52%.

The School Levy Credit reduces property taxes for all owners of Wisconsin property, without regard to need. Owners who live out of state benefit, as do owners of commercial and industrial property. In fact, just 51% of the School Levy Credit goes to reduce property taxes for Wisconsin homeowners on their primary residences, according to University of Wisconsin Professor Andrew Reschovsky. That means that approximately \$103 million of the governor's proposed increase in the credit would go to boosting the bottom line of businesses and corporations, reducing property taxes for owners of second homes, cutting taxes for people who live outside of Wisconsin, and other purposes that wouldn't help keep property taxes affordable for most Wisconsin homeowners.

Among the homeowners who benefit from the School Levy Credit, the largest credits go to the owners of the most expensive properties within a municipality. And on a per-student basis, the credits enjoyed by the property owners in the wealthiest school districts are almost seven times larger than the ones received by property owners in the poorest districts, according to Professor Reschovsky.

Lawmakers Increased One Property Tax Credit While Allowing Another to Shrink

Changes in spending on the School Levy Credit and Homestead Credit, compared to 2006 and adjusted for inflation.



WISCONSIN BUDGET PROJECT

LAWMAKERS SHRINK A PROPERTY TAX CUT TARGETED TO NEEDIEST

Meanwhile, lawmakers have allowed a more targeted property tax credit to shrink. The Homestead Credit benefits people who struggle with high property taxes relative to their incomes, like seniors who depend mainly on Social Security to make ends meet. The credit is paid directly to residents, and is calculated using a formula that takes account of the person's income and property tax amount. In contrast to the School Levy Credit, the Homestead Credit cuts taxes for people with incomes of less than about \$25,000, providing targeted property tax relief for people with low incomes.

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. The formula is not adjusted for inflation. That means as food prices, utility charges, and other living costs rise, the credit continues to lose value each year, and the amount of property tax paid by seniors and working-class families and individuals increases. In addition, slow increases in income push more and more people above the eligibility ceiling.

The Legislature has acknowledged in the past that the Homestead Credit should be adjusted for inflation. In the 2009-11 budget, the Legislature changed the credit's formula to do so. But in the 2011-13 budget, the Legislature reverted to freezing the credit for subsequent years.

The value of the Homestead Credit has declined in recent years – by \$32 million between 2006 and the projected amount for 2017. That's a decrease of 23% from the credit's 2006 value. And partly because the income ceiling for qualifying for the Homestead Credit is frozen, the number of people with low incomes who benefit from the property tax cut has decreased. In fiscal year 2013, the number of Wisconsin residents who benefited from the Homestead Credit was the lowest in a decade: 223,000.

A Comparison of Two Property Tax Credits

CHARACTERISTIC	SCHOOL LEVY CREDIT	HOMESTEAD CREDIT
Type of taxpayer eligible	Owners of property, including industrial or commercial property	Homeowners and renters
Upper income limit for eligibility	No upper limit	\$24,680
Maximum credit amount	No maximum	\$1,168
Residency status	All owners of property are eligible, regardless of where they live	Only Wisconsin residents benefit
Proposed amount for fiscal year 2017	\$959 million	\$113 million
Change in amount, since 2006	+52%	-23%

Source: Legislative Fiscal Bureau. Beginning in fiscal year 2018, the annual cost for the School Levy Credit will decrease to \$853 million.

WISCONSIN BUDGET PROJECT

EFFICIENTLY DELIVERING PROPERTY TAX CUTS

Rather than increasing a property tax credit that provides larger benefits to the wealthy and to profitable companies, lawmakers should prioritize tax cuts aimed at Wisconsin residents who struggle to pay high property tax bills relative to their incomes. Lawmakers should remove the freeze from the formula that calculates the value of the Homestead Credit for individuals, and allow the value of the credit to keep pace with changes in the cost of living. By scaling back increases in the School Levy Credit and instead fully funding the Homestead Credit, lawmakers could help make sure that property tax relief is going to the people who need it.

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