Presentation to NCSL Task Force on State and Local Taxation

AARP State-Level Model Bills on Property Taxes and Caregiver Tax Credit

May 10, 2021

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 Not Directly Related to a Taxpayers Income

- 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.

AARP®

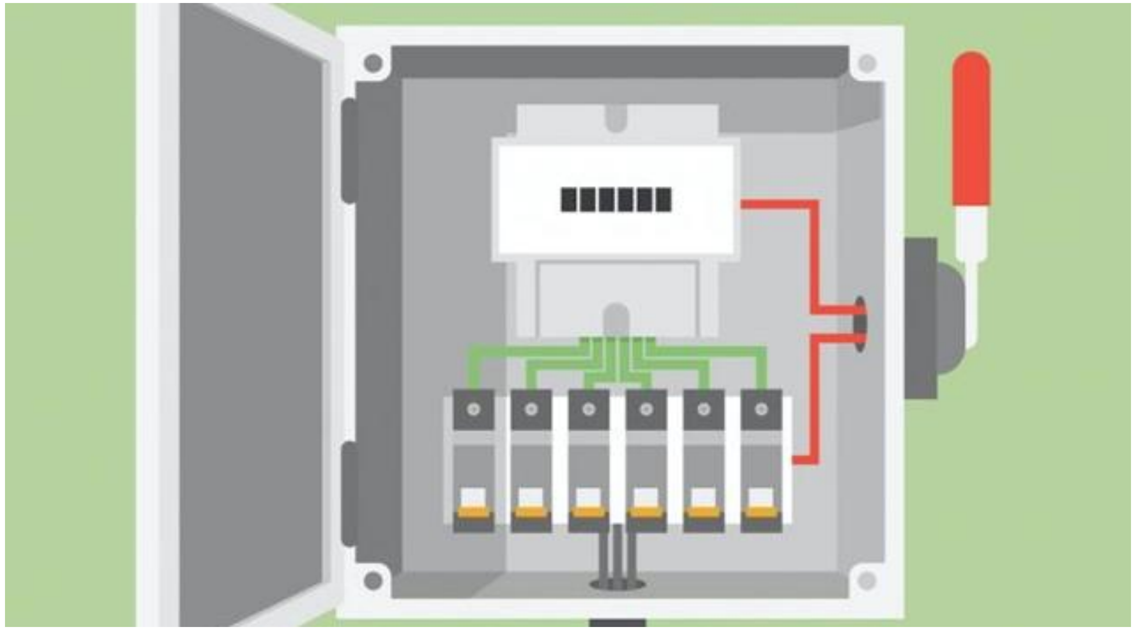
Balancing the Need for Property Tax Revenue and Relief

- 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.

AARP®

Circuit Breaker

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

AARP®

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.

AARP®

Property Tax Deferral

Model Legislation Components

- 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.

Assessed Value	$500,000
Deferral Limit	60%
Maximum Deferral Amount	$300,000

AARP®

Monthly Tax Bill

Overview

- Unlike most bills which are paid monthly, the property tax is paid in one or two large lump sums annually.
- 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.

Monthly Tax Bill

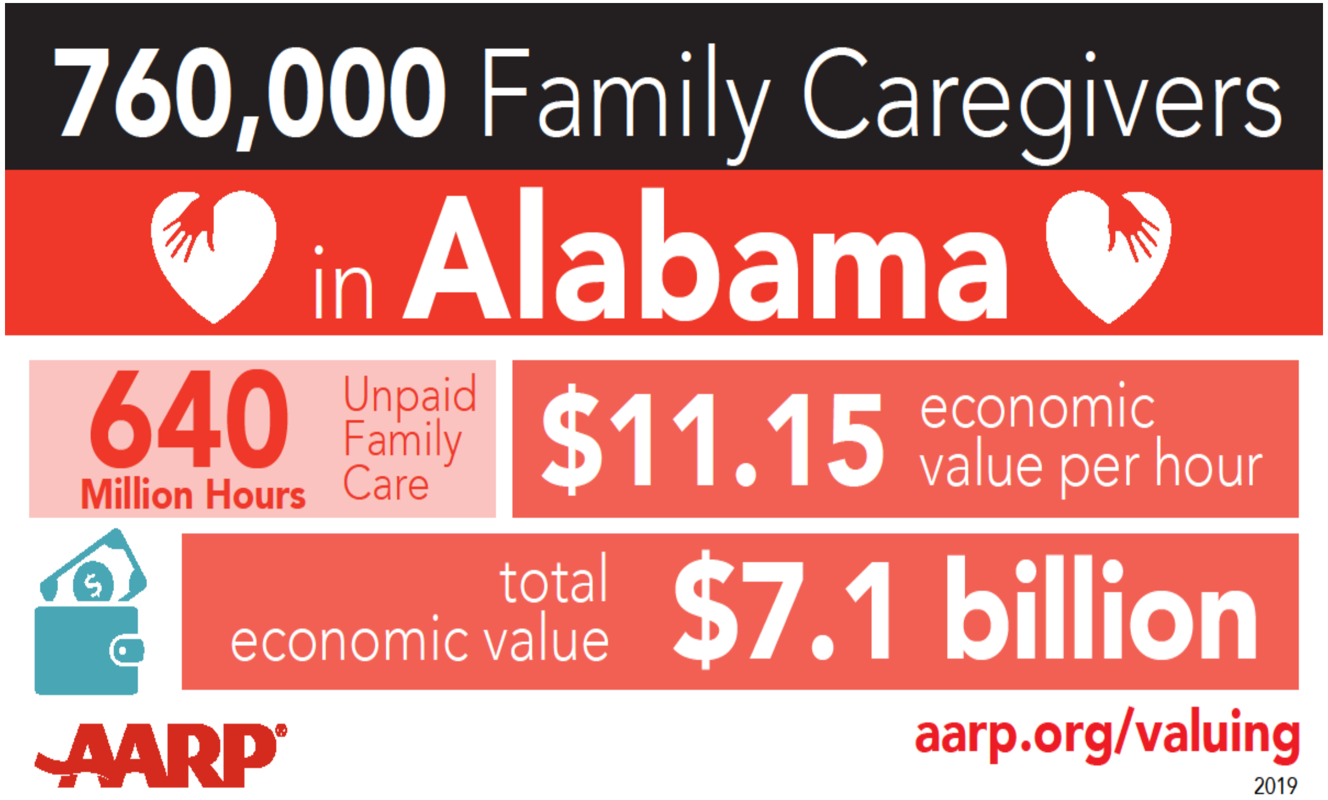
Model Legislation Components

- 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.

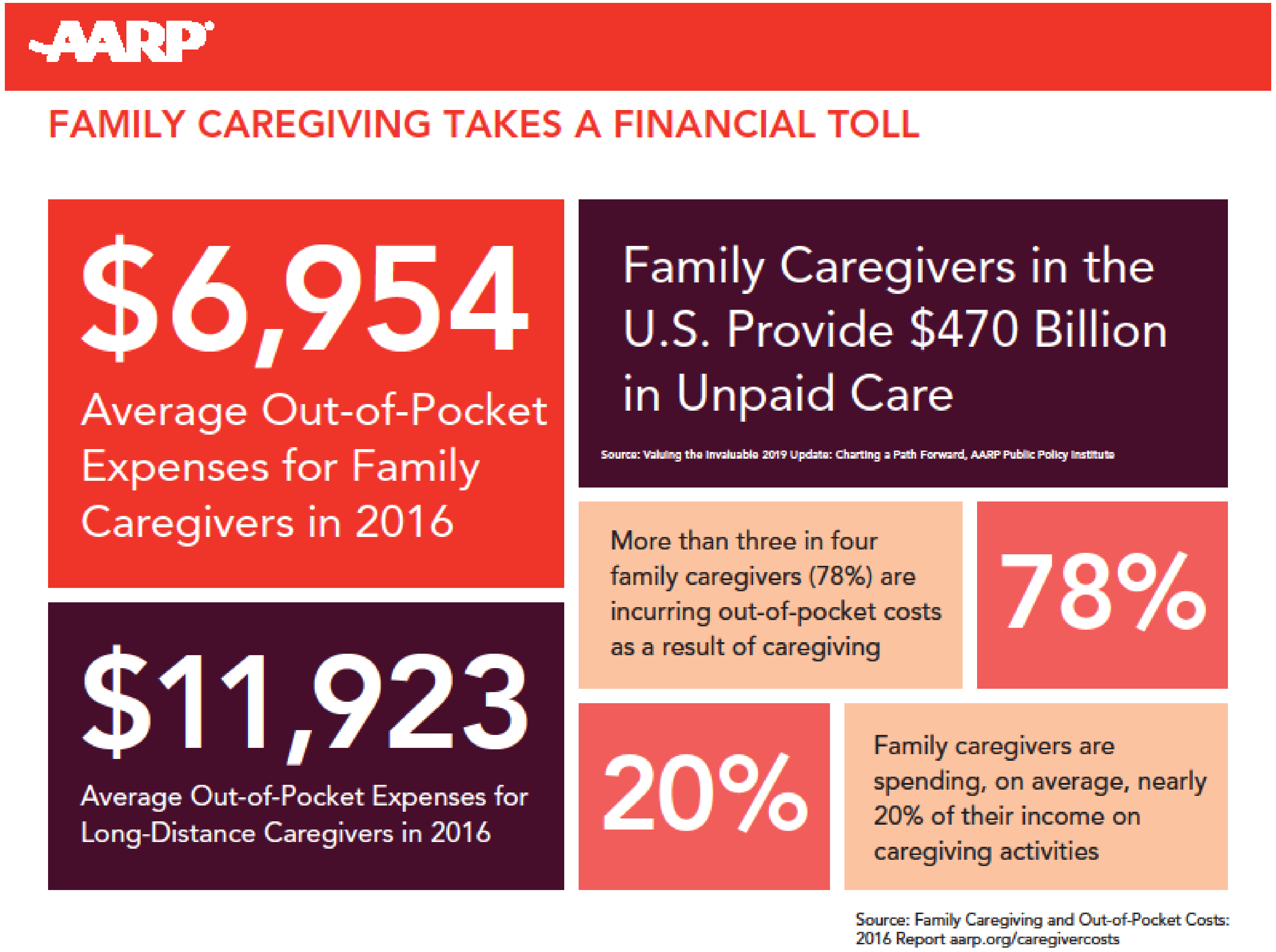
AARP®

Family Caregivers

The Importance of a Family Caregiver Tax Credit



The Importance of a Family Caregiver Tax Credit



Highlights of AARP's Family Caregiver Tax Credit Model Bill

- 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 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

Barrie Tabin Berger
Senior Legislative Representative, AARP
btabin@aarp.org
202-434-3807