



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #318

Homestead Tax Credit -- Current Law Reestimate (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2019-21 Budget Summary: Page 138, #7]

CURRENT LAW

The homestead tax credit is a refundable income tax credit based on a formula that takes into account a tax filer's household income and property tax or rent paid during a tax year. To qualify for the credit, a claimant must be at least 18 years or older, must own or rent his or her residence, and must have household income under the maximum income level of \$24,680. Claimants do not need to have a tax liability or income in order to receive the credit, although claimants must have earned income unless the claimant, or the claimant's spouse, is at least 62 years of age or disabled. For purposes of calculating the credit, household income is adjusted downward by \$500 for each dependent to account for family size.

For claimants with income of \$8,060 or less, a credit is equal to 80% of property taxes or rent constituting property taxes up to a maximum of \$1,460 in property taxes or rent. Rent constituting property taxes is 25% of rent if payment for heat is not included in rent and 20% of rent if payment for heat is included. The maximum credit is \$1,168.

The credit is phased out for claimants with household income between \$8,060 and \$24,680, at which point the credit equals zero. For claimants with less than \$1,460 in allowable rent or property taxes, the credit is reduced at lower income levels. The credit formula can be expressed as a mathematical equation for individuals with income between \$8,060 and \$24,680 as follows:

$$\text{Homestead Credit} = 80\% \times [\text{Property Taxes} - 8.785\% \times (\text{Household Income} - \$8,060)]$$

In 2017-18, homestead tax credit claims totaled \$83,465,017. Because the credit is refundable, it is reflected as a GPR expenditure.

GOVERNOR

Decrease funding by \$6,000,000 in 2019-20 and \$7,500,000 in 2020-21 for the sum sufficient appropriation to reflect anticipated costs of the current law credit in the biennium. With these adjustments, estimated total funding for the credit would decrease from an adjusted base level of \$84,900,000 to \$78,900,000 in 2019-20 and \$77,400,000 in 2020-21. The homestead tax credit appropriation was reestimated by the Department of Administration at \$80,600,000 for 2018-19 in November, 2018, which is lower than the adjusted base level.

MODIFICATION

From the Governor's proposed funding level, decrease funding by \$7,700,000 in 2019-20 and \$6,900,000 in 2020-21 to reflect reduced expenditures. Reestimate the sum sufficient appropriation for the credit under current law provisions at \$71,200,000 in 2019-20 and \$70,500,000 in 2020-21.

Explanation: The downward revision in the credit amounts is due to a lower base year (2018-19) reestimate. Since January, credit claims in each month have been more than 10% below the amounts claimed in the same month last year, and the year-to-date total is 14.4% below the corresponding total through April, 2018. In the last three years, more than 86% of the fiscal year total has been claimed by the end of April. Based on these factors, total credits for 2018-19 are now estimated at \$72.0 million, 13.7% below the actual total for 2017-18. The eligibility modification included in 2017 Act 59 requiring claimants to have earned income, unless disabled or 62 or over, is believed to be partially responsible for the year-to-year reduction, as are a growing economy and the absence of indexing for the credit's formula factors. These latter factors result in total credits continuing to decrease in the coming biennium, but at reduced rates, estimated at 1.1% in 2019-20 and 1.0% in 2020-21.

	Change to	
	Base	Bill
GPR	-\$28,100,000	-\$14,600,000

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